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**Remarks
Jeff Moseley
President and CEO
Greater Houston Partnership**

"Four Trends That Will Shape Greater Houston's Future"

Thanks very much for having me here this morning. A few weeks ago, Rice Professor Dr. Stephen Klineberg presented his 2008 Houston Area Survey. This report has become a valuable tool for gauging where we are as a region and what issues lie ahead for which the greater Houston business community needs to prepare itself.

It's not lost on me that one of the main themes in Dr. Klineberg's report closely parallels the topic I've been asked to discuss with you today, and that is economic and demographic trends in our region and their relationship to each other. On the whole, I believe the news is good. At the same time, there are some continuing issues and concerns that, while hardly surprising, reinforce the need for action.

It's always a little dangerous for anyone to get too far out on the limb of trends and predictions. For example:

- An internal memo from Western Union in 1876 stated, "This 'telephone' has far too many shortcomings to be seriously considered as a means of communication."
- The English scientist Lord Kelvin concluded, "Radio has no future, heavier-than-air flying machines are impossible, and X-rays will prove to be a hoax."
- And perhaps most famously, Thomas Watson, the founder and president of IBM, said, "There is a world market for about five computers."

So while predicting trends can be hazardous, circumstances often leave us with no choice. Our ability to identify the challenges that linger just beyond the horizon can mean the difference between creating the future...and simply letting it happen.

Slide - Houston Region Rankings

Of course, any discussion of future trends has to start with a baseline – where we are now. And I have to tell you, the Houston region is in a pretty good place:

- *Fortune* magazine has rated us the nation's No. 1 region for fastest-growing companies, with 19 such corporations calling the Houston region home.
- According to the U.S. Bureau of Labor Statistics, we're No. 1 in job growth.
- The city of Houston is headquarters to 25 Fortune 500 companies. This places us second only to New York City and is greater than the number of headquarters in Chicago and Dallas combined.
- The Milliken Institute found that Houston had the third best economic performance among the nation's 25 largest cities.

According to *Demographia*, the 2008 International Affordable Housing Survey, Houston is the second fastest growing world Metro for High Income Earners.

All of this underscores my belief that we live in a region of endless possibility – a place that gives us a chance to not only achieve, but to achieve greatly. Our obligation as business leaders is to ensure we stay that way – a sponsor of progress and innovation, a creator of wealth and prosperity and a champion of growth and opportunity.

At the Partnership, we have a plan to promote that kind of success, and I'll discuss it in a moment. But first, I'd like to share some thoughts on four trends that loom large on the path to tomorrow – trends that demand our attention, advocacy and action.

Slide – Trend #1: Immigration

I'll start with what is probably the most visible: Immigration.

Dr. Klineberg's study of Houston put it best in his study. He said – and I quote – that Houston was once a bi-racial Southern city.

Houston is now a culturally diverse region without a true ethnic majority – no one group consists of more than fifty percent of the population. More than 1 million Houstonians are foreign born, with 1 in 10 identifying Mexico as their country of origin. Every 9 minutes and 20 seconds, an immigrant arrives in this region ready to contribute his or her part in making this the best region in the

country. If you look at what the Census Bureau says America will look like in 2060, you'll pretty much see what we look like now.

And now we find ourselves at a crossroad as we determine how best to address our current immigration issue. Let me share a few numbers with you.

Slide – Immigration Pie Chart

It is estimated that undocumented workers contribute about \$27.3 billion to our Gross Regional Product – that's more than 8 percent of total GRP. They are represented in 16 different economic sectors, including high-growth areas like construction, professional services, accommodation and food services, and health care. Statewide, the Comptroller's office estimates that without these workers, the Texas labor force would shrink by 6.1 percent.

Numbers don't lie. The fact is immigrants are essential to our current and future economy. We cannot afford policies that force them into the shadows or push them underground. And the idea that overnight we can somehow send millions of people back to their country of origin is logistically impossible and economically unsound. But if you listen to the news entertainment community, that's where the trend is heading – and that is absolutely counterproductive.

Slide – Immigration Reform

In an effort to address the immigration issue's impact on the business community, the Partnership formed an immigration reform task force. The task force determined that a broad national coalition – called *Americans for Immigration Reform*SM – should be formed of major employers, professional associations and chambers of commerce, prominent individuals, unions and other workers' rights groups, minority groups, conservative/free market advocates, small- and mid-sized businesses, academics, and many others.

We believe the best means by which to reach a rational solution to the challenge this issue presents is through open dialogue and the development of realistic legislation.

Certainly, this should provide for the safety and security of our borders. But at the same time, it should allow employers to recruit skilled and unskilled immigrant workers when there's a labor shortage and offer legal status for qualified, screened undocumented workers who are already here.

Before leaving this subject, I'd like to say one other thing.

The Houston region is known as an open and "welcoming" region, with a willingness to embrace new people and cultures. We are connected to the world

in ways that go beyond our economy alone. And we have always believed everyone deserves a chance to elevate their life through conscious endeavor. Any policy that substantially erodes this tradition also erodes the core and the character of who we are.

Slide – Trend #2: The Price of Oil

The second trend likely to challenge us should come as no great surprise – it's on the front page of the newspaper just about every day: The high price of oil.

Slide – Energy: (Shows an oil well)

Make no mistake: We benefit greatly from a robust energy sector. Energy companies account for 48 percent of our economic base employment. In the 12 months that ended in September 2007, we had the highest rate of job growth among the country's dozen largest metropolitan areas. A strong performance in the upstream energy and oil and gas extraction segments drove the increase.

But higher oil prices can also have a chilling effect on the economy. They force people to make choices – a tank of gas, for example, over consumables. They can hurt retail spending. There was an article in the *Houston Chronicle* suggesting that as gas prices take a bigger bite out of household budgets, Americans could be forced to fall back on their credit cards...and thus push consumer debt even higher.

It's easy to frame this issue in terms of oil company profits versus people. That's not just simplistic. It's flat wrong. The issue is energy security versus energy uncertainty.

In 2006, the United States produced only 33 percent of the oil we need – down from 45 percent in 1996. Our net imports were bigger than the total combined production of Saudi Arabia and Kuwait. We use 10,000 gallons of oil per second.

This growing reliance on imported oil reduces consumer savings rates, adds to inflation, worsens the trade deficit, and makes it tougher for the Federal Reserve Board to both fight inflation and sustain growth.

Slide – Energy (Shows an Oil Tanker)

What's the solution? I think the best one is probably the most obvious: Recognize that while we can never eliminate uncertainty, we can maximize the opportunities at hand to better control it.

John Hofmeister, the outgoing president of Shell and former chairman of the Greater Houston Partnership, conducted an ambitious 50-city tour in 2007, and he laid out what sounds to me like a pretty good framework for doing just that.

First, he said we all need to get realistic about something. Even with an aggressive strategy over the next 45 or 50 years, the world is only going to get about 20 percent of its energy from alternative sources – biomass, hydrogen, solar, and wind. That’s not to say we shouldn’t pursue those technologies. It is, however, to recognize that fossil fuels will continue to provide the large majority of global energy in the decades to come.

Slide – Show pictures of offshore drilling, oil shale and oil sands

Given that fact, he recommended a strategy that includes more offshore drilling and development of unconventional petroleum deposits. The U.S. Outer Continental Shelf holds an estimated 110 billion barrels of oil – but 85 percent of it is off limits for exploration and production. Canadian oil sands and U.S. shale oil deposits are estimated at the equivalent of 2 trillion barrels. Altogether, that adds up to about 340 years of supply.

I don’t think John is saying oil companies are the only solution; he argued for a “culture of conservation” as well, which includes reducing energy usage and reassessing the efficiency and design of homes, offices and appliances.

The point is this: If we’re going to reverse the growing trend toward dependency on foreign oil, it is going to take a multifaceted approach. But practically speaking, oil should remain the centerpiece of the strategy, and we should pursue policies that encourage rather than impede the goal of energy security.

Slide – Trend #3: Physical Infrastructure

About two weeks ago, Thomas L. Friedman wrote an insightful op-ed piece that made a bold statement on the topic of American sentiment on infrastructure and our country’s involvement in “nation-building” abroad. He said, “People want nation-building. They really do. But they want to do nation-building in America.” When the bridge over the Mississippi River in Minneapolis collapsed in 2007, it put a spotlight on America’s transportation infrastructure. What we saw was not comforting:

Slide – Physical Infrastructure (6 bullets)

- 33 percent of major U.S. roads are in poor or mediocre condition.
- A quarter of our bridges are structurally deficient or functionally obsolete.
- Our interstate system, which handles 240 million vehicles traveling 3 trillion miles annually, has changed very little since its creation in 1956,

when it was designed to serve 65 million vehicles traveling 600 billion miles annually.

But the issue doesn't end with roads and bridges. U.S. airline delays are at their highest level in more than 10 years – and it is estimated that passenger traffic could hit 1 billion annually in the next decade.

There are predictions that by 2020, every major U.S. container port will, at minimum – at **minimum** – double the volume of cargo it was designed to handle.

Railroads will need about \$200 billion over the next 20 years to maintain their existing infrastructure and manage the projected growth in freight.

Clearly, a declining infrastructure – in some cases, a crumbling infrastructure – is a trend that we have to face. Because if we can't get people and products where they need to be, we will put the dream of future prosperity at severe risk.

Slide – Jesse Jones

Most of you probably know of Jesse Jones. He was one of Houston's great businessmen and builders – the man largely responsible for securing funding for the Houston Ship Channel.

A report from the Harvard Business School said he was "responsible for the transformation of Houston into the most important city for international commerce in the South." *The Saturday Evening Post* wrote in 1940 that, "Next to the President, no man in the government and probably the United States wields greater powers."

But Jesse Jones was also responsible for what is widely believed to be one of the greatest infrastructure-building programs in history.

As head of the Reconstruction Finance Corporation, he oversaw a multi-billion-dollar effort from 1933 to 1937 that included construction of:

Slide – Hoover Dam

- the Hoover and Grand Coulee dams; river diversion, flood control, levee, and irrigation projects;

Slide – Golden Gate Bridge

- the Golden Gate Bridge;

Slide – Pennsylvania Turnpike

- and the Pennsylvania Turnpike.

Given the current state of our infrastructure, we need to reinvestigate the RFC model. I'm certainly not advocating direct government involvement in business. Nor am I suggesting we need the kind of massive job-creating public works programs that, by necessity, emerged from the Great Depression.

But let's face it: One of the reasons for the current infrastructure crisis is that the federal government has pretty much removed itself from the process. Here is a stunning fact:

Slide – Infrastructure Investment (shows 3 maps)

China spends 9 percent of its Gross Domestic Product on infrastructure, and India, 5 percent. Since 1980, America has spent, on average, less than 2 percent annually. Meanwhile, states, facing constrained budgets, have been left to their own devices and forced to make priority decisions among competing interests. And the demands of increased capacity keep growing year after year.

We're not immune to these problems here, either.

If current spending levels remain constant, we'll have a \$16 billion shortfall between now and 2025 for new transportation capacity in this region. We'll be able to fund just 40 percent of needed roadway improvements. That can only lead to more congestion, which will impact the operations of companies whose profits depend on continued over-the-road efficiency.

Money spent on transportation is money well spent, too.

For example, U.S. industries save 24 cents on production and distribution costs for every dollar put into non-local road systems. A \$2.75 billion public investment in freight railroad would save \$10 billion in highway costs over the next two decades. And as the gateway to more than \$100 billion per year in foreign trade, I don't need to remind anyone of how far a dollar invested in the Port of Houston goes.

Slide – Below Quote on the Screen

"In short, we need to build a 21st century infrastructure to support a 21st century economy. And we need to start now."

Slide – Trend #4: Power in Washington

The last trend I want to discuss is less controversial than immigration, less global than energy security, and less tangible than infrastructure. But is no less important than any of those issues.

I'm talking about our declining power in Washington.

Slide – Speaker Sam

We often speak of the “good old days,” when Sam Rayburn was speaker of the House, **Slide – LBJ** Lyndon Johnson was majority leader of the Senate, and Texas had more influence over more issues than any other state.

But let's not forget that as recently as 2005, we were in an equally strong position. We had the No. 2 and No. 3 leaders in the House. A Texan chaired the House Ways & Means Committee. And on the Senate side, we had the head of the appropriations subcommittee of the Commerce Committee.

What a difference a decade makes.

A president from Texas will be leaving office this year. We've lost much of our seniority in Congress. And if reports are true, and Sen. Hutchison decides to leave Washington to run for state office, we're going to lose even more.

Let me say quickly that this is in no way a comment on the leadership of Senators Hutchison and Cornyn or our Congressional delegation. They have protected our interests, and ensured that liberty, opportunity and possibility continue to be uniquely American possessions.

But the reality of politics is this: When you lose seniority, you lose clout; and when you lose clout, you lose money. It goes someplace else – to another program, in another district, in another state. So until time and the electoral calendar restore our seniority, we have some uncertain years ahead of us.

Slide – Shuttle Launch

Perhaps nowhere will this have greater regional consequence than in the future of the Johnson Space Center. The April 2nd *Houston Chronicle* rang with an alarming headline - “Shuttle retirement may cost 2,300 jobs in Houston.” The biggest threat to JSC's employment, would be attempts by other NASA installations to wrestle away work that has traditionally been managed in Houston. It's no secret that funding for NASA has been flat in recent years. A debate continues over whether the agency's money is better spent in space exploration or Earth observation.

One report stated flatly, “there is no obvious groundswell to give NASA more money.”

I spoke a moment ago of how a willingness to accept people is part of our tradition. The space program is, too – and it’s essential to our economy. JSC has 17,000 employees, with annual expenditures in the neighborhood of \$4 billion. If we’re going to counteract the trend toward reduced Congressional influence, we’re going to have to do whatever it takes – advocacy, increased awareness, public education, whatever – to make the case for JSC and other programs whose existence depends on a fair share of federal dollars.

Slide – Strategic Plan

In 2005 we adopted a 10-year Strategic Plan for economic development. Its goals, while ambitious, are quite simple:

- To help grow jobs by 600,000;
- To increase capital investment in the region by \$60 billion; and
- To expand foreign trade by \$120 billion.

2007 was a banner year, and we're well on our way. With the numbers available at this time, we have more than 60,000 new jobs in the region. And as the data comes in, we expect to see that capital investment has grown by at least \$6 billion.

Of the advances realized in the Houston region during 2007, Opportunity Houston – our \$40 million fund-raising initiative that supports the strategic plan – is directly responsible for more than 14,000 jobs and over \$500 million in capital investment.

Additionally, through our support of the Port of Houston and the Houston Airport System, foreign trade for the region has increased by an amazing \$15.2 billion. That's more than 125 percent of our annual goal.

Slide – Key Industry Clusters

We plan to reach those goals set forth in our 10-year Strategic Plan by focusing on a number of key industry clusters: aerospace and technology, medical and biotechnology, energy and petrochemical, information technology and nanotechnology.

But beyond creating jobs and opportunities, this plan also commits us to taking a proactive, substantive role in the public policy process.

I'm not talking about just being "a" voice on issues that affect the economy. I'm talking about being "the" voice – **the** leading advocate for legislation, initiatives and programs that foster growth and position our business community as a national and global leader. This will enable us to shape the trends of the future – rather than be shaped by them.

Slide – Partnership Initiatives

In some cases, we're already doing it:

- Our board passed a resolution that calls for a rational, pro-business, pro-growth plan for immigration reform.
- We formed a national coalition – *Americans for Immigration Reform*SM – to advocate the positions of the region's business community.
- We joined in lawsuits seeking to prevent the government from sending "no match" letters that threaten actions against employers who do not resolve workers' mismatched Social Security numbers. These letters amount to a weapon against undocumented workers, while imposing unreasonable regulatory burdens and unfair costs on businesses.
- And on the issue of energy security, we hosted a very successful summit in February that called together the best and the brightest in the field to focus on "America's Energy Future." It worked to move us from being a City of Production to a City of Policy – and further secure our claim as the energy capital of the world.

The world looked a lot different 10 years ago than it does today.

Crude oil prices were down to \$12 per barrel in the wake of the Asian currency crisis. We were in the middle of a dot-com boom. Microsoft bought a \$150 million stake in a financially troubled little computer company called Apple.

It's going to look just as different 10 years from now, too. The issues I've touched upon this evening will have given way to new issues, which in turn will have given way to new trends, new predictions, and new possibilities. That's the natural cycle of events – how things flow.

My daughter is a freshman in high school. She'll be entering the work force in 10 years. I think my job – as a parent, and as someone involved in the business community – is to help make sure she can find her way in that world, and

succeed. And that means doing whatever it takes to minimize the challenges she faces today...because there will be even more challenges tomorrow.

We can all do much the same thing on behalf of this region.

By recognizing some of the current trends – and by helping overcome the difficulties they pose – we can help ensure that the Houston region succeeds in the world that awaits. And by doing so, we will once again prove that our enduring commitment to opportunity will forever have the power to transform us, as a region, as businesses and as people.

Thank you all very much.