

Jefferson, Hardin, and Orange Counties

The economy continues to gradually improve after a less than hoped for performance in 2011. Less construction jobs, due to completion or winding down of major expansion projects, will present a challenge for the regional economy in 2012.

INDUSTRIAL UPDATE

Recent and imminent idling and shutdown of refineries in northeastern states will increase the importance of the larger and more efficient refineries along the Gulf Coast. About half of the Northeast's demand for petroleum products is met by Gulf Coast production.¹ The three recent refinery expansions in Port Arthur over the past several years are, therefore, proving to be timely.

- TOTAL's Deep Conversion Project, which was commissioned in May of 2011, included a 50,000 barrel per day (BPD) coker which expands the refinery's ability to process heavy and sour crude oil and produce cleaner transportation fuels, such as ultra-low-sulfur diesel.
- Valero's expansion, to be completed in Q3 of 2012, will increase the processing capacity of heavy gas oil by 50,000 barrels per day (BPD). The oil will be converted to fuels-grade products.
- Motiva's nearly completed expansion will double its capacity to 600,000 BPD to become the largest refinery in the U.S. and one of the ten largest in the world.

Colonial Pipeline has seen growing demand from refiners to ship larger amounts of its products to the northeast. In Q1 of 2013, an estimated 100,000 BPD of additional capacity will be added to Colonial's line that begins in Houston and terminates in Greensboro, N.C., from where shipments to the Northeastern U.S. are made. The expansion represents a 10% increase in Colonial's overall gasoline delivery capacity.

GT Logistics announced a \$95 million crude terminal to be in operation at the first of the year in Port Arthur. The privately owned facility, one of the nation's largest of its kind and scope, will be able to receive up to 100,000 barrels of crude per day and will provide 100 full-time jobs.

ExxonMobil is planning a \$250 million project for machinery and equipment upgrades at its Beaumont Refinery. These upgrades will help in retaining an estimated 1100 permanent jobs at the refinery. City Council nominated the project for Enterprise Zone status, providing eligibility for state sales and use tax refunds on "qualified expenditures" for five years for the company.

Mitsubishi Rayon, new owner of the Lucite plant in Beaumont as of April of 2011, is planning to reopen the plant in Q4 of 2012. Lucite closed the plant in September 2009 due to the recession's effect on worldwide demand for its product - methacrylic acid, a raw material used primarily in paint, adhesives, synthetic rubber and a mixture for concrete. The reopened plant will create 105 jobs paying an annual average of \$82,000. Investment in the facility is expected to be \$97 million, of which \$84 million would receive tax abatements if passed by taxing entities.

¹ Mindi Farber-Deanda, head of the liquid fuels market team for the U.S. Energy Information Administration.

OTHER DEVELOPMENTS

Burrow Global leased an entire floor in Edison Plaza in Beaumont. This relatively new firm, with offices in five locations in Texas, is a global player in providing engineering and construction services for industrial, commercial, and institutional clients. The company, founded in November of 2009, grew quickly to include eight wholly owned subsidiaries and several strategic joint ventures. While acquisitions have played a major role in its success, internal growth has also been impressive – from 80 employees in the spring of 2010 to over 640 employees now with expectations of exceeding 800 in early 2012 and continued growth for the foreseeable future.

Construction for downtown and riverfront improvements in Orange should begin in March and be completed by September or October of this year. The total project costing \$6 million includes the Sabine River shoreline stabilization, a riverfront boardwalk and entry plaza, a performance pavilion, theatrical lighting, and landscape. Funding will be provided from a 20-year bond program by the city's EDC, the city's EDC fund balance, Hotel Occupancy Tax fund balance, and the Stark Foundation.

INFRASTRUCTURE

In recent months, the Port of Beaumont has been developing 200 acres on the Orange County side of the Neches River to include a wharf, a 25,000-foot railroad, and a hardened asphalt access road. Gerdau Ameristeel has already taken advantage of new development and the port expects to attract other customers – particularly exporters.

The Port of Beaumont recently approved a contract for a new holding yard with capacity for 400 railcars. It will replace the smaller yard along Riverfront Park. Four of the five tracks at Riverfront Park will eventually be removed. The entire project will cost \$14.5 million, of which 80% is covered by grants.

The project for the deepening and widening of the Sabine-Neches Waterway to 48 feet from its current 40 feet, received approval from the U.S. Army Corps of Engineers so that the project can now go to the U.S. Congress for approval as part of the Water Resources Development Act.

REAL ESTATE

The drop in “months of inventory” continued in November for the fifth consecutive month in Beaumont. Since the number of homes sold follows a cyclical trend, it is more appropriate to compare one month's sales to the same month in previous years. With that in mind, the number of homes sold in Beaumont in November of this year (124) hasn't been that low since 2002 and before that in 1998. The median price is not as cyclical in nature; therefore, comparisons to all previous months are appropriate. The median price in Beaumont for November was the lowest since August 2006.

SALES TAX

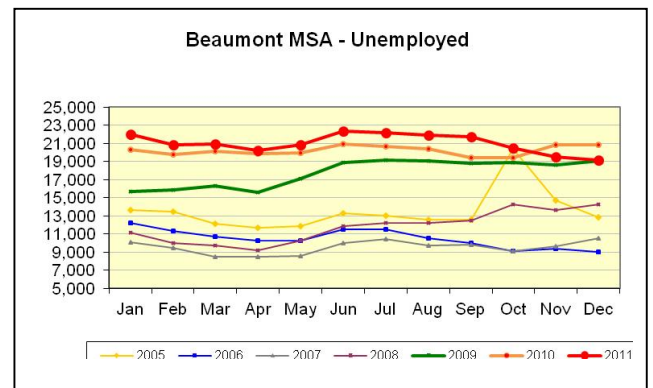
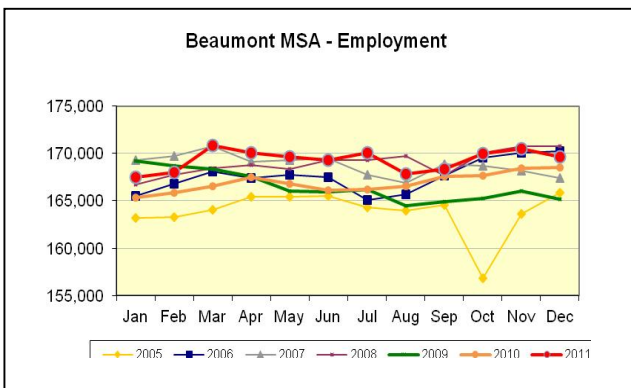
Sales taxes reported in January representing sales in November were extremely good – a 5.8% increase over November of last year for the region’s cities.

| City | Nov-11 | Nov-10 | % change |
|---------------|--------------------|--------------------|-------------|
| Beaumont | \$2,587,247 | \$2,524,447 | 2.5% |
| Port Arthur | \$1,177,801 | \$1,007,144 | 16.9% |
| Orange (city) | \$269,754 | \$266,767 | 1.1% |
| Nederland | \$270,807 | \$253,139 | 7.0% |
| Silsbee | \$197,891 | \$192,376 | 2.9% |
| Lumberton | \$200,126 | \$206,193 | -2.9% |
| Vidor | \$147,268 | \$127,614 | 15.4% |
| Port Neches | \$90,584 | \$77,845 | 16.4% |
| Bridge City | \$85,413 | \$89,452 | -4.5% |
| West Orange | \$87,225 | \$79,242 | 10.1% |
| Pinehurst | \$55,830 | \$61,603 | -9.4% |
| Kountze | \$28,125 | \$27,551 | 2.1% |
| TOTAL | \$5,198,073 | \$4,913,371 | 5.8% |

EMPLOYMENT

The average weekly wage figure for the Beaumont MSA for Q2 of 2011 showed a 5.4% increase over Q2 of 2010. Though the figure was 4.5% less than Q1 of 2011, this follows the quarterly cyclical nature of wages.

| Unemployment Rate | | | |
|-------------------|--------|--------|--------|
| | 11-Dec | 11-Nov | 10-Dec |
| Beaumont MSA | 10.1% | 10.3% | 10.9% |
| Texas | 7.2% | 7.5% | 8.0% |
| US | 8.3% | 8.2% | 9.1% |



State of Texas

CEOs named Texas the “2011 Best State for Business” in Chief Executive Magazine for the seventh consecutive year adding to Texas' distinction as Site Selection's “2011 Top Business Climate” and “2010 Governor’s Cup” award winner for securing the highest number of new projects and expansions in the nation.

Texas accounted for most of the growth in population between April 1, 2010, and July 1, 2011. Texas, California, Florida, Georgia, and North Carolina accounted for slightly more than half the nation's total population growth. The nation's overall growth rate is now at its lowest point since before the baby boom. (Source: U.S. Census Bureau)

Texas ranked highly in the nation for venture capital measures: second in employment and third in revenues, and fourth for investment for venture-backed companies headquartered in the state. In 2010, \$981 million was invested by venture capitalists in Texas companies with the leading recipient industries being energy, software, and medical devices. (Sources: IHS Global Insight and National Venture Capital Association)

Texans narrowly (51.52%) passed a constitutional amendment in the November election providing the Texas Water Development Board additional funding authority. The "evergreen provision" allows the TWDB to authorize bonds - up to \$6 billion at any one time - on an ongoing basis without having to incrementally increase funding through voter elections. TWDB bonds do not depend on or utilize general revenue. They are self-supporting through usage and impact fees paid by the water users. Rising population trends and the Texas drought this year emphasized the need for water infrastructure to meet the demand.

*Information in this report was provided by the named industries or through publicly available sources.
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