

Economic Trends – October 2011

Beaumont / Port Arthur / Orange

The South Hampton refinery in Silsbee will be the location for a hydrocarbon processing demonstration plant. Gevo has contracted with Arabian American Development Co. to build the facility that will result in the processing of up to 10,000 gallons of isobutanol per month into a variety of renewable hydrocarbon biomaterials including jet fuel, isooctane for gasoline, isooctene and paraxylene for polyethylene terephthalate (PET). The demonstration plant should be complete by the end of this year.

Jefferson County Commissioner's Court voted to create a reinvestment zone in order that tax abatements may be granted to Pandora Methanol. This week, Pandora made a presentation to the court with no one in the public speaking against the proposed zone. The project consists of refurbishing the old facility with an anticipated cost of \$45 million and investing an additional \$100 million in machinery and equipment, including \$2 million in pollution control devices. Local workers will fill most of the new 120 permanent jobs to be created with an annual payroll of \$10.8 million. The property tax valuation during the proposed term of the abatement will be \$145 million.

Local industry was affected by two corporate buyouts. Kentucky based Ashland Oil (which manufactures Havoline Oil) purchased ISP, which had a rubber manufacturing plant in Port Neches. The transaction was completed in early September. International Paper announced its planned buyout of Temple Inland which includes the liner-board mill in Orange, Texas. Closure on this deal is expected in Q1 of 2012, pending approval from Department of Justice following routine antitrust review.

GT Logistics is preparing their Port Arthur site for a rail car repair and clean up facility. They have begun hiring workers and have plans to add 75 workers in the next 12-18 months.

Zilkha Biomass Energy, a wood pellet manufacturer, is currently off loading and storing their product at the Port of Beaumont. This Houston-based company operates a mill in Crockett that uses wood waste from saw mills, including saw dust, and converts it into pellets. These pellets are then used as fuel to replace coal in European power plants. The Port will store the pellets, as they arrive from Crockett, and ship to Europe as needed.

Chem32, a startup chemical company, plans to be in operation by January blending inorganic chemicals (those that do not have carbon as the principal element) for specialty customers. The company will employ 20 people in jobs similar to petrochemical plant operators. The company acquired 30 acres and a 43,000 sq. ft. building outside of West Orange.

TOTAL's Deep Conversion Project which was commissioned in May of this year is fully integrated within the refinery. This was an extremely successful project for TOTAL. Eleven operators were hired recently and probably another nine will be hired next year.

The Valero Port Arthur Hydrocracker project is roughly 70% complete overall with construction being approximately 40% complete. Currently, 1000 construction workers are onsite. Project completion is targeted for Q3 2012.

ZEEP, which bought the Eastman gasification project, is beginning to show some progress. The company is planning a scaled down version of Eastman's original project.

Public hearings were held recently in Port Arthur related to the proposed \$13 billion Keystone XL crude oil pipeline to run from Alberta, Canada to Port Arthur and Houston carrying 700,000 barrels of crude per day. The majority of the speakers were in favor of the project. The U.S. State Department issued its final environmental impact statement prior to the hearings stating there would be no significant impact on the environment along the 1,700 mile pipeline. The project would create 20,000 high-wage manufacturing and construction jobs along the entire path of the pipeline. A study by well-known Texas economist Ray Perryman states that the proposed pipeline project should improve U.S. energy security with the ongoing benefit to the U.S. economy of a more stable source of consistent energy supply over an extended period of time.

OTHER DEVELOPMENTS

Construction began on Orange County's \$10.5 million "shelter of last resort and emergency operations center." The facility is designed to tornado standards so as to withstand 200 mph winds. It will stand 24 feet above sea level to avoid storm surge inundation. Funding for the facility is being provided through a grant, insurance money and private donations.

A new community health center, funded from a settlement agreement between the EPA and Valero's Port Arthur refinery, will be established on the West Side of Port Arthur. The \$750,000 clinic will provide treatment of asthma along with other atriopulmonary and respiratory diseases that may be exacerbated by air pollutants. Although built with Valero funds, the facility will be owned and operated by the Gulf Coast Health Center. The clinic will be located in an area of Port Arthur in great need of revitalization such as this.

INFRASTRUCTURE IMPROVEMENTS

The Port of Beaumont is moving forward with a project to build a railroad loop around the port's Orange County property. Federal funds in the form of an Economic Development Administration grant will pay for \$4 million of the total \$8.4 million project cost. The remaining costs will be paid through the port's capital improvement program. Plans for improved road access to the same property are also in the works by the Texas Department of Transportation to the tune of \$3.4 million, financed through the U.S. Department of Transportation.

The port's property on the Jefferson County side is undergoing a rail yard relocation project worth \$15 million. The project will increase the number of railcars the port can hold from 100 to about 400. It also increases security because all cars will be inside port property.

Work is underway to establish a Beaumont Enterprise Zone which will allow business applicants to receive state sales tax refunds for eligible projects.

REAL ESTATE

Though the number of homes sold in Beaumont was down by 8% in August as compared to a year ago, the average price was up by 7.4% and the median price by 5.7%.

For Port Arthur, the number of homes sold was down by 5.2% while the average price was up by 20.1% and the median price was down by 5.6%.

In Montgomery County, the number of homes sold was up by 30%; average price was up by 3% and median price was up by 6.3%. Construction permits were up by 8.2%.

EXPORTS

Grain exports for the Port of Beaumont for the fiscal year ending in August were unusually high due to a strong U.S. wheat crop and less exporting by other countries. Expectations are that grain exports for the year ahead will return to more usual levels.

SALES TAX

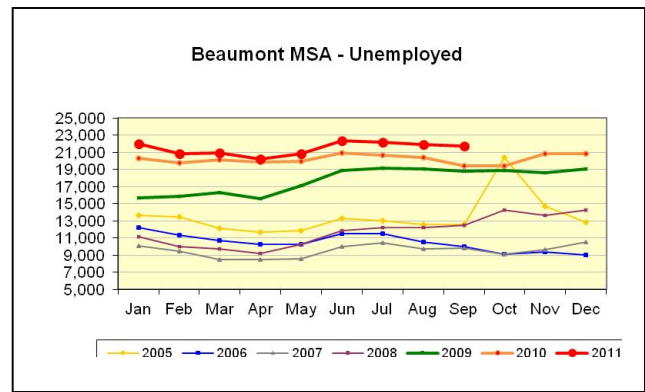
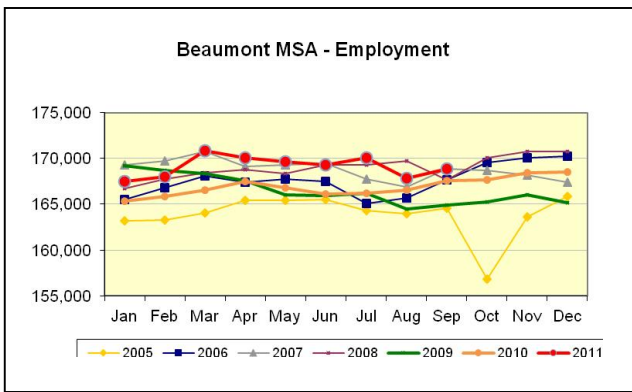
| City | Aug-11 | Aug-10 | % chg |
|--|--------------------|--------------------|--------------|
| Beaumont | \$2,855,058 | \$2,488,606 | 14.7% |
| Port Arthur | \$1,522,126 | \$869,084 | 75.1% |
| Orange (city) | \$246,971 | \$256,761 | -3.8% |
| Nederland | \$328,832 | \$262,917 | 25.1% |
| Cleveland | \$207,883 | \$198,000 | 5.0% |
| Silsbee | \$186,800 | \$189,218 | -1.3% |
| Lumberton | \$196,587 | \$194,008 | 1.3% |
| Vidor | \$143,866 | \$141,995 | 1.3% |
| Port Neches | \$85,568 | \$82,684 | 3.5% |
| Dayton | \$78,768 | \$87,324 | -9.8% |
| Bridge City | \$89,120 | \$81,771 | 9.0% |
| West Orange | \$74,795 | \$75,173 | -0.5% |
| Pinehurst | \$52,983 | \$51,572 | 2.7% |
| Kountze | \$30,516 | \$32,456 | -6.0% |
| TOTAL | \$6,099,873 | \$5,011,570 | 21.7% |
| Source: Texas State Comptroller | | | |

Port Arthur's numbers are exceptionally high because of unusually high audit collections for the month. Taking out that exception, Port Arthur's increase would have been 26.8% and the total for all of the cities listed would have shown a 13.3% increase – which is very encouraging results for the region. Note that the numbers reported are for payments to the taxing entities in October for sales made in August.

EMPLOYMENT

| | Unemployment Rate | | |
|--------------|-------------------|--------|---------|
| | 11-Sept | 11-Aug | 10-Sept |
| Beaumont MSA | 11.4% | 11.6% | 10.5% |
| Texas | 8.4% | 8.4% | 8.0% |
| US | 8.8% | 9.1% | 9.2% |

For the last seven months, Beaumont MSA's employment has been at or near peak levels since 2000 (the earliest year of available online data). Unfortunately, unemployment has also been at peak levels. From August to September, the government sector increased by 1700 jobs. The trade, transportation, and utilities sector decreased by 300. Average weekly wages for the first quarter of 2011 (latest data available) reached an all time Q1 peak at \$891. The increase over first quarter of 2010 was 8.8%. Breakdown by county in the Beaumont MSA is as follows: Jefferson - \$920, Orange - \$855, and Hardin - \$670. Looking at just the construction sector, the Q1 average wage was \$1031. For manufacturing, the average wage was \$1818. For the entire state of Texas, the average Q1 weekly wage was \$945 – a 5.9% increase over Q1 of 2010.



TEXAS DROUGHT

With current drought conditions Toledo Bend Reservoir is recording historic low lake levels, which could get worse if the predictions for a dry fall and winter come to pass. Drought contingency plans are in place to encourage limited non-essential water usage and water conservation measures. Low lake levels have halted power generation at Toledo Bend Reservoir, but the Sabine River Authority still has multiple years of water supply for Orange County industries along Chemical Row. The recreation industry at Toledo Bend Reservoir is suffering due to drought conditions for boaters and fishermen.

Drought conditions in the Neches River Basin have prompted the Lower Neches Valley Authority (LNVA) to implement its Drought Contingency Plan. The plan encourages conservation by all water user groups. LNVA is the non-Federal sponsor on Sam Rayburn Reservoir and Lake BA Steinhagen. Sam Rayburn is the primary water supply for the cities, industry and agricultural interest in Jefferson, Chambers and Liberty Counties. Presently the hydropower generation capacity is unaffected by the drought; however, if these conditions persist as forecasted, generation at Rayburn may be curtailed. The US Army Corps of Engineers, the Federal agency responsible for operation of the reservoirs, is working with the LNVA to ensure an uninterrupted water supply to LNVA's customers even if power generation ceases. As with other lakes across Texas affected by the drought, the low levels at Rayburn have adversely impacted recreational interest. In an effort to mitigate the recreational impact of the drought LNVA has provided assistance to the Corps of Engineers in cleaning sediment from boat ramps in Jasper, Angelina and San Augustine Counties.

The Texas Legislature doesn't meet again until 2013, but state Senate committees will soon begin studying the impact of the record-breaking drought on power generation, agriculture and the economy, and also how to improve Texas' response to wildfires, Lt. Gov. David Dewhurst announced Tuesday. "The drought has had a devastating and far-reaching impact across the entire state," Dewhurst said in a statement, "and the Legislature must use all of the resources at our disposal to prepare and respond in the event these severe drought conditions persist." On November 8th Texans will have the opportunity to vote on Proposition 2, a constitutional amendment which would provide a funding stream for water infrastructure projects throughout the State.

TEXAS WINDSTORM

A coalition from the 14 counties (including Jefferson, Orange, Chambers, and the Bolivar Peninsula) covered by the Texas Windstorm Insurance Association are seeking reforms in the next legislative session to encourage private sector insurance markets.

HURRICANE IKE FUNDING

A public meeting was held on Oct. 13th to gather public input about issues related to housing and community development needs resulting from Hurricane Ike that have not been addressed in the three years since the storm. The total amount available in funding in round 2.2 is \$270.2 million. Most of the money is earmarked for housing; however, \$80.1 million is available for non-housing which includes a variety of eligible activities including economic development.

Nearly half of the speakers at the meeting spoke in support of \$11 million being used to support the Lamar University Innovation and Commercialization Center which will serve as an incubator for emerging technology under development at the university. The center's purpose is to bring newly developed technologies out of research and prepare them for the marketplace leveraging expertise from Lamar's colleges of engineering, science, and business. One of the long term benefits of the Center will be diversification of the area's economy.

Round 1 Ike funds amounted to \$190 million and round 2.1 funds amounted to \$47 million. Funds from both of these rounds have already been distributed.

ENTERGY / MISO

Earlier this year, Entergy announced its plans to join the Midwest Independent Transmission System Operator, a move that has earned support from key community leaders in Southeast Texas. MISO is an Indiana-based regional transmission organization that manages the high-voltage transmission lines powering all or part of 12 states. Entergy studies found that joining MISO would give Entergy access to an extensive and efficient marketplace, one that offered important net benefits to customers as well as good generation diversity and reliability.

Texas customers alone are expected to see net benefits of between \$170 million and \$225 million from 2013 to 2022, primarily from reduced production costs.

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