



# Chapter 313 Annual Eligibility Report Form

Form 50-772  
(May 2010)

2009

Tax Year covered in this report

Port Arthur ISD  
School district name

.306  
I&S Tax Rate

1.04  
M&O Tax Rate

Motiva Hydrogen Plant  
Project Name

PRAXAIR, INC.  
Company Name

39 Old Ridgebury Rd, Newbury CT 06810  
Company Address

Don McLean - 203-837-2219  
Company Contact Information

NOTE: This form must be completed by an authorized representative of each approved applicant and each entity with property subject to the limitation agreement. It must be submitted to the school district by May 15th of every year using information from the previous tax (calendar) year. For limitation agreements where there are multiple company entities that receive a part of the limitation provided by the agreement: 1) each business entity not having a full interest in the agreement should complete a separate form for their proportionate share of required employment and investment information; and, 2) separately, the school district is required to complete an Annual Eligibility Report that provides for each question in this form a sum of the individual answers from reports submitted by each entity so that there is a cumulative Annual Eligibility Report reflecting the entire agreement.

10612490507  
Texas Taxpayer ID of Applicant

Texas Taxpayer ID Reporting Entity (if appropriate)

11/18/2003  
Date of Agreement Approval

PRAXAIR, INC.  
Original Applicant Name

2004  
First complete tax year of the qualifying time period

2005  
Last tax year of the qualifying time period

2006  
First tax year of the limitation

\$30,000,000  
Amount of the limitation at the time of application approval

## QUALIFIED PROPERTY INFORMATION

82,323,900  
Market Value

82,323,900  
I&S Taxable Value

30,000,000  
M&O Taxable Value

Is the business entity in good standing with respect to Tax Code, Chapter 171?  
(Attach printout from Comptroller Web site: <http://www.window.state.tx.us/taxinfo/coasintr.html>) .....  Yes  No

Is the business entity current on all taxes due to the State of Texas? .....  Yes  No

Is the business activity of the project an eligible business activity under Section 313.024(b)? .....  Yes  No

Please identify business activity: Chemical Mfg.

What was the application review start date for your application (the date your application was determined to be complete)? ..... 8/15/2003  
(This question must only be answered for projects with applications approved after June 1, 2010.)

How many new jobs were based on the qualified property in the year covered by this report? (See note on page 3.) ..... 16

What is the number of new jobs required for a project in this school district according to 313.021(2)(A)(iv)(b), 313.051(b), as appropriate? ..... 10

If the applicant requested a waiver of minimum jobs requirement, how many new jobs must the approved applicant create under the waiver? ..... N/A

80 percent of New Jobs (0.80 x number of new jobs based on the qualified property in the year covered by this report.) ..... 12

What is the minimum required annual wage for each qualifying job in the year covered by the report? ..... 57480.50

For agreements executed prior to June 19, 2009, please identify which of the two Tax Code sections is used to determine the wage standard required by the agreement: §313.021(5)(A) or §313.051(b). For agreements executed after June 19, 2009, please identify which of the four Tax Code sections is used to determine the wage standard required by the agreement: §313.021(5)(A), §313.021(5)(B), §313.021(3)(E)(ii), or §313.051(b). ..... 313.051(b)

Attach calculations and cite (or attach) exact Texas Workforce Commission data sources. .... attached

How many qualifying jobs (employees of this entity and employees of a contractor with this entity) were based on the qualified property in the year covered by the report? ..... 16

Of the qualifying job-holders last year, how many were employees of the approved applicant? ..... 16

Of the qualifying job-holders last year, how many were employees of an entity contracting with the approved applicant? ..... 0

If any qualifying job-holders were employees of an entity contracting with the applicant, does the approved applicant or assignee have documentation from the contractor supporting the conclusion that those jobs are qualifying jobs? .....  NA  Yes  No

**THE FOLLOWING QUESTIONS APPLY ONLY TO APPROVED APPLICANTS WITH AGREEMENTS THAT REQUIRE THE APPROVED APPLICANT TO PROVIDE A SPECIFIED NUMBER OF JOBS AT A SPECIFIED WAGE.**

How many qualifying jobs did the approved applicant commit to create in the year covered by the report? ..... N/A

At what annual wage? .....

How many qualifying jobs were created at the specified wage? .....

**ENTITIES ARE NOT REQUIRED TO ANSWER THE FOLLOWING FIVE QUESTIONS IF THE YEAR COVERED BY THE REPORT IS AFTER THE QUALIFYING TIME PERIOD OF THEIR AGREEMENT.**

What is the qualified investment expended by this entity from the beginning of the qualifying time period through the end of the year covered by this report? ..... N/A

Was any of the land classified as qualified investment? .....  Yes  No

Was any of the qualified investment leased under a capitalized lease? .....  Yes  No

Was any of the qualified investment leased under and operating lease? .....  Yes  No

Was any property not owned by the applicant part of the qualified investment? .....  Yes  No

**THE FOLLOWING QUESTIONS MUST BE ANSWERED BY ENTITIES HAVING A PARTIAL INTEREST IN AN AGREEMENT.**

What was your limitation amount (or portion of original limitation amount) during the year covered by this report? ..... N/A

Please describe your interest in the agreement and identify all the documents creating that interest.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
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NOTE: For job definitions see TAC §9.1051(14) and Tax Code, §313.021(3). If the agreement includes a definition of "new job" other than TAC §9.1051(14)(C), then please provide the definition "new job" as used in the agreement. Notwithstanding any waiver by the district of the requirement for the creation of a minimum number of new jobs, or any other job commitment in the agreement, Tax Code 313.024(d) requires that 80 percent of all new jobs be qualifying jobs.

**APPROVAL**

*"I am the authorized representative for the Company submitting this Annual Eligibility Report. I understand that this Report is a government record as defined in Chapter 37 of the Texas Penal Code. The information I am providing on this Report is true and correct to the best of my knowledge and belief."*

*Donald C McLean*  
Signature

Donald C McLean  
Printed name of authorized company representative

Manager, Tax  
Title

6/15/10  
Date

**CONTACT INFORMATION FOR AUTHORIZED REPRESENTATIVE**

39 Old Ridgebury Rd, Danbury CT 06810  
Address

203-837-2219  
Phone

Don-McLean@praxair.com  
E-mail

**Port Arthur ISD-Praxair, Inc.-Attachment to Form 50-772-2004-June 15, 2010**

In 2003, the year that Praxair, Inc. applied to the Port Arthur ISD, Tex. Tax Code 313.051(b) stated a qualifying job paid 110% of the county average manufacturing wage. The average county manufacturing wages were not available in 2003, when Praxair, Inc. applied. The data available to the Company and the District was the 2000 average manufacturing wage. The average manufacturing wage for Jefferson County was \$ 52,255. See attached, *Economic Analysis of the Impact of the Praxair, Inc. Hydrogen Production Plant on Jefferson County and Port Arthur ISD*, prepared by Texas Economic Perspectives. The required wage is \$57,480.50 ( $\$52,255 * 1.1$ ).

**Economic Analysis of the Impact of the Praxair, Inc.  
Hydrogen Production Plant on Jefferson County and  
Port Arthur ISD**

## Introduction

In 2001, the 77th Regular Session of the Texas Legislature addressed the disproportionate burden placed on capital-intensive industries. Of concern was the competitive disadvantage that Texas communities faced when competing for economic development projects. Specifically, more aggressive incentive programs and investment tax credits offered by other states made investment in Texas too costly. The *Texas Strategic Economic Development Plan 1998-2008*<sup>1</sup> (Texas ED Plan) found that the lack of research and development (R&D) and investment tax credits and relatively high property tax rates "place Texas at a significant disadvantage when competing with other states for high capital-intensive projects." The Texas Economic Development Act (House Bill 1200) amended the Texas Tax Code to allow businesses to apply for a reduction in local school district property taxes; making the state more attractive for large-scale projects. As part of the Texas Economic Development Act, school districts considering a business's application for a reduction of taxes should engage a third party to perform an economic impact analysis.

Texas Perspectives, Inc. (TXP) was retained as part of a team with Moak, Casey & Associates in October 2003 to assist the Port Arthur Independent School District (Port Arthur I.S.D.) with its evaluation of Praxair, Inc.'s (Praxair) expansion. For this report, TXP has focused on the economic impact of Praxair's proposed Hydrogen Plant. TXP has spent the past two months collecting data on the Jefferson County area, researching the petroleum and refining industries, and building econometric models to simulate the regional economy. The result is a detailed report that will assist Port Arthur I.S.D. leaders in determining the short and long-term economic benefits generated by Praxair.

This report has been divided into five sections:

- Section 1 – Oil, Gas, & Chemicals Industries & the Texas Economy
- Section 2 – Jefferson County Economic Climate
- Section 3 – Praxair's Investment in the Port Arthur I.S.D.
- Section 4 – Praxair's Economic Impact on the Port Arthur I.S.D. and Jefferson County
- Section 5 – Conclusions

The first two sections of the report focus on the historic role of the oil and chemical industries on the State of Texas and the Jefferson County region. A thorough economic and fiscal impact analysis, Sections 3 and 4, details the benefits gained by the Praxair project. The report closes with a review of the competitive economic development landscape when it comes to recruiting capital-intensive industries, followed by the report's conclusions.

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<sup>1</sup> Texas Strategic Economic Development Planning Commission. *Texas Strategic Economic Development Plan: 1998-2008*. Austin: State of Texas, 1998.



## Oil, Gas, & Chemicals Industries & the Texas Economy

Over the past 100 years, an abundance of oil and natural gas reserves fueled the growth of the Texas economy. Broadly defined, the oil, gas, and chemicals industries fall into three Standard Industry Classification (SIC) sectors: SIC 13 Oil and Gas Extraction, SIC 28 Chemicals and Allied Products, and SIC 29 Petroleum and Coal Products<sup>2</sup>. According to the *Federal Reserve Bank of Dallas*<sup>3</sup>, the agricultural sector was losing its momentum at the beginning of the 20<sup>th</sup> Century, but the Spindletop discovery in January 1901 led to unprecedented economic prosperity in Texas for decades to come. The exploration of oil fields throughout East Texas drove the growth of Houston, Beaumont, and Port Arthur. Close proximity to the oil fields promoted the growth of related industries such as chemical manufacturing and petroleum refineries along Texas' coastline. Tax revenues and royalties generated from these sectors subsidized public higher education and social programs throughout the state.

The highly cyclical nature of oil prices, international competition, and the oil embargoes of the 1970s resulted in significant layoffs in the state's natural resource and related industries. For example, employment in Texas' petroleum refining sector (SIC 29/NAICS 324) dropped from approximately 40,000 in 1979 to roughly 25,000 in 2001 – a 38 percent decrease. Regional headquarters operations were closed in Midland and Odessa in favor of consolidation in the Houston area.

Clearly, the Texas oil and gas industry experienced tremendous difficulty in the 1970s and 1980s.

The petroleum-refining sector, however, is not in imminent danger of becoming extinct. According to a 2000 Texas Workforce Commission (TWC) report<sup>4</sup>, "Over the past 20 years, employment levels in the petroleum refineries have been on the decline. While this may at first glance indicate a dying industry, closer inspection suggests that this conclusion is far from reality. For example, increasing international competition has forced the petroleum refining industry to reduce overall operating costs. One strategy has been to reduce the level of employment by increasing the use of contractors for lower-skilled jobs. As a consequence of this approach, employment in the refining sector has declined while employment in the business services sector has increased."

At the same time, implementing state-of-the-art technology is critical to the long-term success of the oil and gas industry. The TWC report states, "Integrating new technology into the refining process has reduced the cost of production...refineries use technology to produce

Employment in the Oil, Gas, & Refining Industries - 2002			
	US	Texas	TX % U.S.
NAICS 211 Oil and Gas Extraction	121,143	64,137	52.9%
NAICS 325 Chemicals Manufacturing	925,051	77,915	8.4%
NAICS 324 Petroleum and Coal Products	118,801	24,248	20.4%
Total	1,164,995	166,300	14.3%

Source: U.S. Department of Labor

<sup>2</sup> The North American Industry Classification has replaced the SIC classification, however, limited data sets exist for this new classification.

<sup>3</sup> Federal Reserve Bank of Dallas. "Houston In 1900 Part 2. Houston and the Texas Oil Industry," *Houston Business* July 2002: p. 1.

<sup>4</sup> Crawley, Robert, and Sanchez, Rachel Tello. "Petroleum Refining in Texas." *Texas Labor Market Review* January 2000.



## Economic & Fiscal Impacts of Praxair's Jefferson County Expansion

more efficiently and increase capacity output without adding refinery space or employees...Refinery work is becoming a more highly skilled job...."

Similar trends exist for Texas' other leading fossil fuel-related sector, the petrochemicals industry (SIC 28/NAICS 325). Employment in the state's petrochemicals sector has steadily declined from 85,000 workers in 1997 to roughly 81,000 in July 2002. Even with this decline, the "downstream" petrochemical and refining industries still dominate the manufacturing base of many Gulf Coast cities. Historically, when falling oil prices reduce the profitability of oil and gas exploration ("upstream" operations), downstream businesses are able to produce goods more cheaply because raw material prices have declined. Despite the loss of employment over the past few years, a number of new petrochemical facilities were built between 1990 and 1998. The recent global recession, however, has dramatically slowed industry expansion.

Similar to the oil sector, the future of chemicals manufacturing is directly linked to the implementation of new technologies. In a November 2001 study, the *Federal Reserve Bank of Dallas*<sup>5</sup> highlights the importance of utilizing new technologies: "Poor profits will make routine maintenance decisions difficult for older and inefficient plants. In the Houston-Galveston and Beaumont-Port Arthur areas, plant closures are likely to be accelerated by the recent adoption of a state implementation plan to comply with air quality standards....With some companies facing bills well in excess of \$100 million to bring their southeast Texas plants into compliance, hard decisions are likely to be made and plants closed."

Technology utilization will continue to play an important role in the development and profitability of Texas natural resource industries. As petroleum and chemical refineries invest in newer technologies, the demand for highly trained workers will only increase. Even though automation has reduced total employment, wages paid have increased 62 percent between 1979 and 1998. As a result, the oil, gas, and chemical sectors pay nearly double the national and state averages.

Texas Oil, Gas, & Refining Industry Salaries - 2002				
Texas Average Wage	U.S. Average Wage	NAICS 211 Oil and Gas Extraction	NAICS 325 Chemicals Manufacturing	NAICS 324 Petroleum & Coal
\$36,235	\$36,219	\$110,528	\$67,919	\$78,054

*Source: U.S. Department of Labor*

Given the reduction in overall employment and the focus of economic development leaders on fostering technology-based businesses, does Texas have a future in the oil, chemicals, and refining industries? Does Praxair's industry sector and proposed investment match the long-term economic growth plan of Texas as set forth in the Texas ED Plan? The answer to these questions is clearly, "Yes."

The overarching theme of the Texas ED Plan centers on attracting and developing industries using emerging technologies – "In the broadest sense, Texas must build a knowledge-based economy." These businesses will require highly skilled workers, pay above-average wages, and invest millions of dollars in physical facilities and R&D activities. Clearly, Praxair's proposed investment in state-of-the-art technologies coupled with the need for highly skilled

<sup>5</sup> Eramo, Mark, Gilmer, Robert W., and Teleki, Arved. "Petrochemical Outlook Still Bleak for 2002." *Houston Business* November 2001: p. 3.



## Economic & Fiscal Impacts of Praxair's Jefferson County Expansion

workers meets these criteria. Praxair anticipates paying an average annual salary of nearly \$84,000 over the next 14 years, well above the state average of \$35,681. Praxair's investment of \$80 million in the Port Arthur I.S.D. will make it one of the largest facility expansions in the area.

In addition, the Texas ED Plan identifies opportunities for a number of existing Texas industries. For the oil and gas sector, the Texas ED Plan argues that future opportunities will be found by recruiting businesses that use technology to "...reduce costs at all levels of the exploration, production, and refining..." Praxair's proposed facility is designed to maximize profits by utilizing the most efficient manufacturing equipment and processes. Without continually recruiting new operations, the entire Jefferson County regional economy will be at risk.

The state's oil, gas, and refining industries are constantly in a state of change. This pattern is similar to the cyclical nature of other Texas industries, such as Austin's semiconductor manufacturers and Dallas' telecommunications businesses. For example, global competition, new manufacturing techniques, and the growing commodity status of microprocessors have cost Austin's electronics industry thousands of jobs over the past few years. In spite of this downsizing, communities across the nation are offering millions of dollars in public subsidies to recruit the new 300mm wafer manufacturing facilities. The Texas ED Plan places special emphasis on "...enhancing business development through targeted tax incentives..." to attract these knowledge-based companies. House Bill 1200 was also designed to ensure that qualifying companies such as Praxair continue their investment in Texas.

While the Jefferson County area is not strong in semiconductors or software development, the area has historically attracted significant levels of technology investment. The oil, gas, and refining industries invest as much in R&D and technological innovation as any computer, telecommunications, or software company. However, the Jefferson area has not kept pace with other metropolitan areas in terms of attracting venture capital funding for technology start-ups. Therefore, it becomes more important that Gulf Coast communities continue to exploit their dominance in industries that require large-scale technology investments and highly trained workers. The Texas ED Plan recognizes the need for communities to train workers and then to attract industries that require their unique skills – "The demand for technically skilled workers will increase. Within ten years, almost all Texas jobs will require technical skills." Praxair's investment strategy for Jefferson County and the Port Arthur I.S.D. fits this profile.

Technological innovations and internal competition will continue to reduce total employment in traditional manufacturing businesses. Whatever the industry, petroleum refining, chemicals, or microprocessor manufacturing, it is vitally important that communities continue to recruit these businesses. The TWC<sup>3</sup> offers valuable insight into the petroleum industry: "Over the past 20 years, the Petroleum Refining industry in Texas has been in a state of change rather than an industry destined for extinction."



## The Jefferson County Economic Climate

With a population of just over 730,000 persons, the Southeast Texas region<sup>6</sup> accounts for 3.6 percent of Texas' population. Jefferson County is the anchor community of the Southeast Texas region, accounting for 35 percent of total population. Defined by its proximity to the Gulf of Mexico, large oil, gas, and refining operations, and limited population growth, Southeast Texas is struggling with economic changes not experienced in much of Texas. The region as a whole lags state averages in income levels, employment growth, and wage rates. These differences are being exacerbated by the slow growth of the state's economy. Southeast Texas faces a number of challenges, including the need to upgrade the skills level of its workforce, and to diversify its economy beyond its traditionally dependency on lower-wage industries.

Over the past 30 years, Southeast Texas' role in the Texas economy has been on the decline. The region only accounts for 2.9 percent of the state's total employment base, compared to 4.2 percent in 1970. The Texas Comptroller of Public Accounts (Comptroller) forecasts<sup>7</sup> Southeast Texas' employment base will grow 1.5 percent per annum over the next five years. Total employment for the region will approach 386,000 workers.

In spite of the fact that the pace of expansion is slower than other parts of the state, Southeast Texas' gross regional product now surpasses \$16 billion, a 3.6 percent annual growth rate since 1970. Slower population growth coupled with productivity gains has dramatically increased Southeast Texas' per capita income levels. The Southeast region is projected to have positive growth over the next five years, but still below the state as a whole. The Comptroller anticipates that gross region product will grow to \$17.9 billion by 2005.

### *Jefferson County's Economic Base*

Jefferson County's employment base declined 1.6 percent in 2001, losing 1,730 jobs. Unfortunately, this downward employment trend has been occurring since 1998. Over the past three years, Jefferson County's employment base has lost 3,800 jobs. This trend is concerning since the state as a whole gained approximately 350,000 new jobs over this same time period, a growth rate of 3.6 percent. In the short-term, Jefferson County's employment growth will remain flat or slightly decline as employers remain cautious regarding the national economy.

The Trade, Transportation & Utilities (T.T.U.) and Manufacturing sectors have traditionally played a large role in the Jefferson County economy. The T.T.U. and Manufacturing sectors accounted for more than 31.6 percent of Jefferson County's total employment in the first quarter of 2002, consistent with the state average of 34.3 percent. Of Jefferson County's 14,500 manufacturing jobs in 2001, nearly 30 percent were in petroleum refining. In 2001, Jefferson County's petroleum refining sector ranked in the top five for employment when compared to other Texas counties; accounting for 17.3 percent of total Texas employment in NAICS 324. Jefferson County's petroleum refining facilities currently employ approximately 4,300 workers.

The current national recession has also had an impact on Jefferson County. The County's construction industry, for example, lost 1,400 jobs over the past year. Nearly half of Jefferson's industry sectors experienced modest employment declines. Only the Professional & Business

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<sup>6</sup> The Texas Comptroller of Public Accounts defines the Southeast Texas region as a 15-county region stretching from the Beaumont-Port Arthur MSA northward to Nacogdoches.

<sup>7</sup> *Texas Regional Outlook: The Southeast Texas Region*. Austin: Texas Comptroller of Public Accounts, July 2002.



## Economic & Fiscal Impacts of Praxair's Jefferson County Expansion

Services and Education & Health Services sectors had significant employment gains. Jefferson County's economy has shown signs of continued weakness during the first quarter of 2002. Total employment in the County has decreased by 137 jobs, well below the employment levels experienced in previous first quarters.

Jefferson County Employment Trends (NAICS) - 2000-2001				
Description	Employment 2000	Employment 2001	Change	% Change
Natural Resources & Mining	546	487	(59)	-11%
Construction	13,967	12,545	(1,422)	-10%
Manufacturing	15,666	15,214	(451)	-3%
Trade, Transportation & Utilities	23,321	22,892	(429)	-2%
Information	2,392	2,450	57	2%
Financial Activities	4,704	4,593	(111)	-2%
Professional & Business Services	10,265	10,634	369	4%
Education & Health Services	16,616	16,938	323	2%
Leisure & Hospitality	10,112	9,771	(342)	-3%
Other Services	3,650	3,674	24	1%
Nonclassifiable	18	27	9	51%
Federal Government	2,658	2,679	22	1%
State Government	4,778	4,606	(173)	-4%
Local Government	12,061	12,244	183	2%
Total Employment	120,752	118,752	(2,000)	-2%
<i>Source: Texas Workforce Commission</i>				

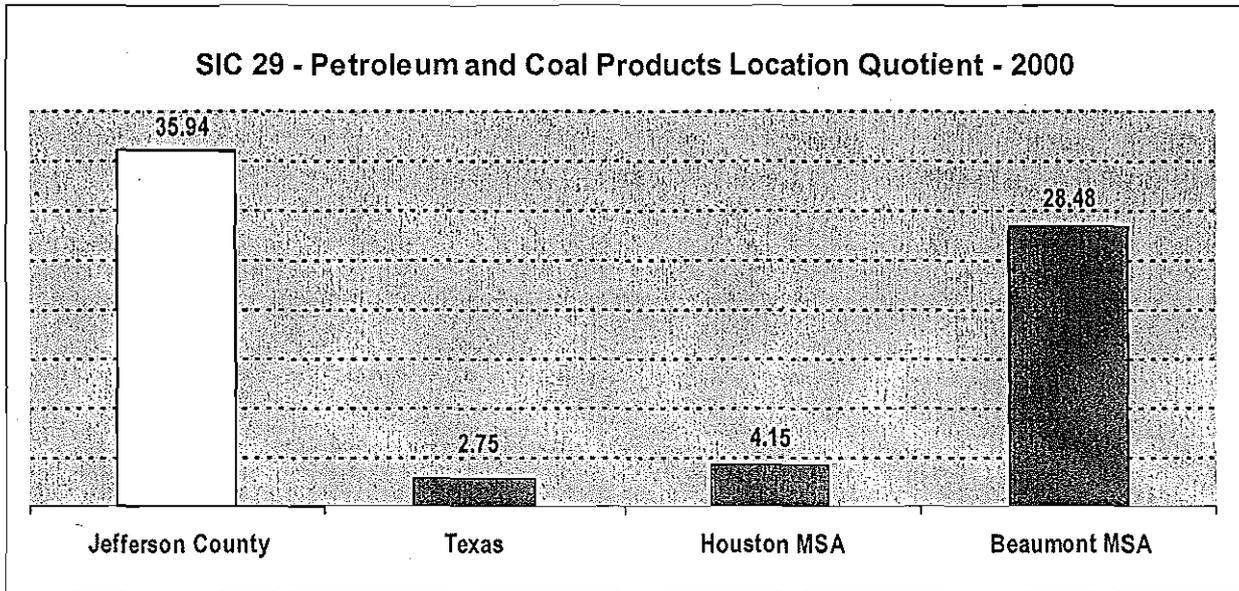
The dominance of the oil, gas, and refining industries in Jefferson is further revealed when performing a cluster analysis on the region. Economic clusters are defined as geographic concentrations of interrelated industries. The idea is that related businesses, whether supplier or competitor, tend to locate in close proximity to each to take advantage of natural resources, skilled labor, and general infrastructure. Communities with location quotients significantly



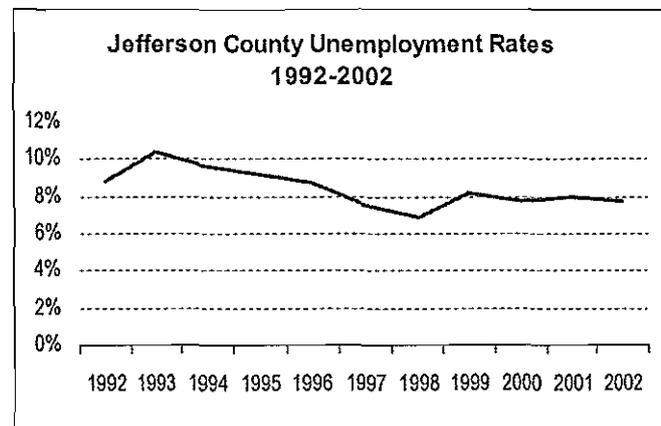
## Economic & Fiscal Impacts of Praxair's Jefferson County Expansion

above the national average (1.00) are believed to have a comparative advantage in a given industry. While industry concentrations do not forecast the growth of the industries, these statistics can provide guidance on which industries should be recruited as part of an overall economic development plan.

Jefferson County's Petroleum Industry (SIC 29) registers a location quotient of 35.9, indicating that the county is a dominant force in this sector. Jefferson County's cluster ratio has been steadily increasing over the past few years. What is unclear, however, is whether or not Jefferson County will continue to remain a major player in the petroleum refining industry over the next few decades. Jefferson County has lost over 250 petroleum refining jobs since 1997, a 4 percent decrease. Competition for new facilities will only increase as communities along the Gulf Coast offer substantial inducements to attract new projects.

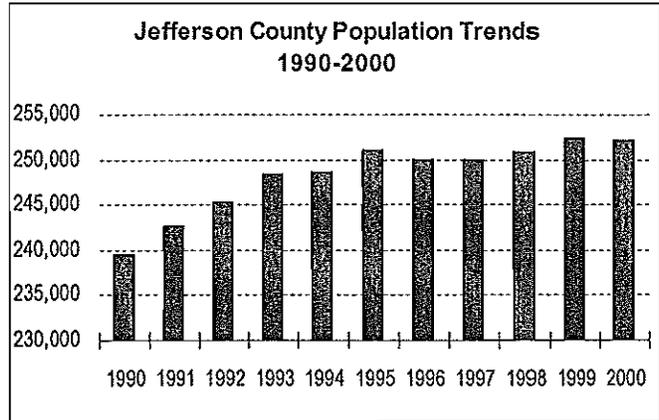


Even with the economic slowdown, the County has not experienced a dramatic rise in unemployment. In 2002, unemployment in Jefferson County reached 7.8 percent, a decrease of .1 percent from the previous year. Unfortunately, the unemployment rate has risen from its lows in 1998. Jefferson County's unemployment rate in September 2003 was 9.0 percent, significantly above the annual unemployment rate for 2002. Two important observations, however, should be made: 1) Jefferson County's labor force is rapidly shrinking. From its high of 121,000 labor force participants in 1992, this pool of workers has gradually decreased. In 2002, the County's labor force totaled 116,000 people; and 2) Jefferson County's unemployment rate remains significantly above the state average.



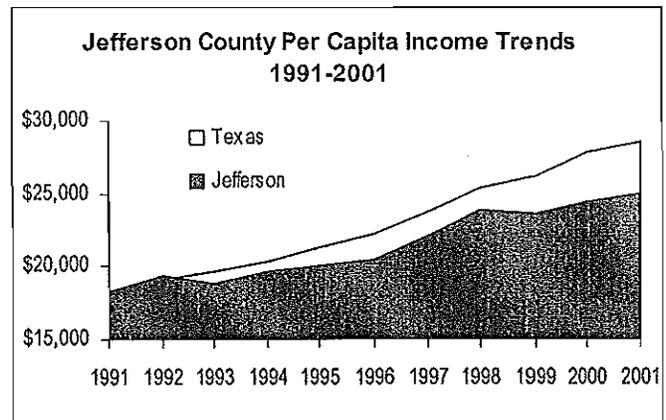
**Population & Income**

Population growth in Jefferson County has been noticeably slow over the past decade. Since 1990, the County has added roughly 12,500 residents, a growth rate of 5.2 percent. Jefferson's growth is well below Texas' significant population growth rate of 22.6 percent over this same period. Regional employment opportunities and an aging population are the main contributors to this trend. The Comptroller predicts the entire Southeast Texas region will only grow by 3 percent over the next five years.



While Jefferson County's population growth during the 1990s has been slow when compared to the state as a whole, its residents' income has fallen behind at a faster pace. Jefferson County's per capita personal income is now just 88 percent of the Texas average, falling steadily from 98 percent in 1990. This trend will only continue as Jefferson County's employment levels decline while the population continues to grow.

Wages paid to area workers are also lagging state levels. During the early 1990s, Jefferson County's workers earned slightly more than the state average. In 2001, a full-time employee earned \$32,026 or 25 percent more than a decade ago. Since 1996, however, the County's wage growth rate has not kept pace with the state as a whole. Full-time wages are now just 91 percent of the Texas average, falling steadily from 99 percent in 1997. It is important to note that Jefferson County's oil, gas, and chemical industry workers

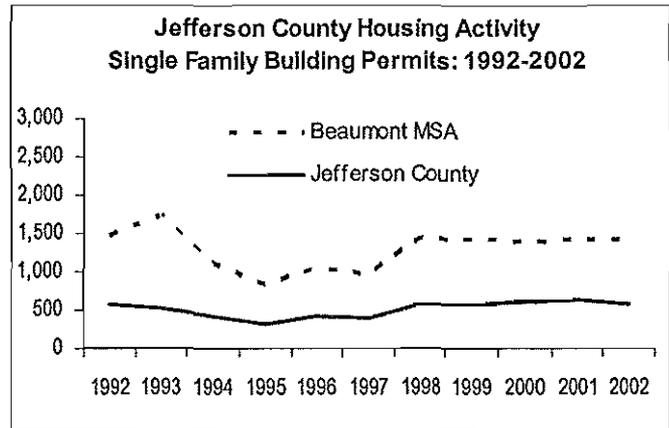


earn nearly double the county average. In 2000, workers employed in Jefferson County's petroleum industries earned approximately \$72,000, well above the average county wage of \$30,479. Even with Jefferson County's modest decline in petroleum industry employment, industry wages have risen nearly 10 percent over the past 5 years.



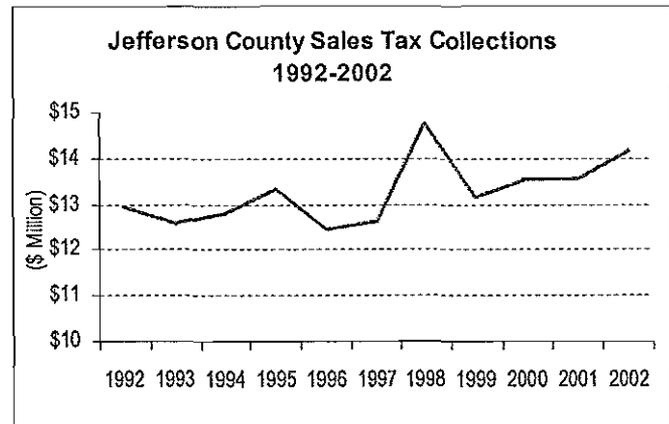
**Construction & the Housing Market**

Southeast Texas has experienced an upturn in home construction since the dip of the late 1980's, and Jefferson County has clearly benefited from this trend. Nearly 5,600 new homes have been built in Jefferson County since 1992 – 19 percent more new homes than in the 1980s. Historically, Jefferson County accounts for approximately 60 percent of new home construction in the Beaumont-Port Arthur MSA. New home values have been rising steadily throughout the Southeast region. The average new single-family home built in Jefferson County cost nearly \$120,700 in 2002. New home prices in the County are about 30 percent higher than prices five years ago. The average new home in Jefferson County, however, sells for nearly \$2,000 less than the state average.



**Sales Tax Collections**

Total retail sales tax collections in Jefferson County reached \$14.1 million in 2002. Retail sales tax collections, however, have been volatile over the past ten years. In 1996, the County collected \$12.4 million or 6 percent less than the previous year. In 1998, sales tax collections surpassed \$14.7 million, 5 percent above the 2002 level.



## Praxair's Investment in the Port Arthur I.S.D.

For this study, TXP has calculated the economic impact of Praxair's proposed Hydrogen Plant based on annual investment and employment levels provided by the company. The economic assumptions underlying the analysis are summarized in the tables below.

Year	Employment	Annual Output	Personnel & Real Property	Pollution Control Investment	Total Taxable Investment
2004	21	\$36,500,000	\$30,000,000	\$0	\$30,000,000
2005	21	\$73,000,000	\$80,000,000	\$6,000,000	\$80,000,000
2006	21	\$74,460,000	\$77,600,000	\$6,000,000	\$77,600,000
2007	21	\$75,949,200	\$75,272,000	\$6,000,000	\$75,272,000
2008	21	\$77,468,184	\$73,013,840	\$6,000,000	\$73,013,840
2009	21	\$79,017,548	\$70,823,425	\$6,000,000	\$70,823,425
2010	21	\$80,597,899	\$68,698,722	\$6,000,000	\$68,698,722
2011	21	\$82,209,857	\$66,637,760	\$6,000,000	\$66,637,760
2012	21	\$83,854,054	\$64,638,628	\$6,000,000	\$64,638,628
2013	21	\$85,531,135	\$62,699,469	\$6,000,000	\$62,699,469
2014	21	\$87,241,758	\$60,818,485	\$6,000,000	\$60,818,485
2015	21	\$88,986,593	\$58,993,930	\$6,000,000	\$58,993,930
2016	21	\$90,766,325	\$57,224,112	\$6,000,000	\$57,224,112
2017	21	\$92,581,651	\$55,507,389	\$6,000,000	\$55,507,389

Year	Employment	Annual Payroll	Average Salary Per Job	Real & Personal Property Per Job	Taxable Investment Per Job
2004	21	\$1,575,000	\$75,000	\$1,428,571	\$1,428,571
2005	21	\$1,575,000	\$75,000	\$3,809,524	\$3,809,524
2006	21	\$1,606,500	\$76,500	\$3,695,238	\$3,695,238
2007	21	\$1,638,630	\$78,030	\$3,584,381	\$3,584,381
2008	21	\$1,671,403	\$79,591	\$3,476,850	\$3,476,850
2009	21	\$1,704,831	\$81,182	\$3,372,544	\$3,372,544
2010	21	\$1,738,927	\$82,806	\$3,271,368	\$3,271,368
2011	21	\$1,773,706	\$84,462	\$3,173,227	\$3,173,227
2012	21	\$1,809,180	\$86,151	\$3,078,030	\$3,078,030
2013	21	\$1,845,364	\$87,874	\$2,985,689	\$2,985,689
2014	21	\$1,882,271	\$89,632	\$2,896,118	\$2,896,118
2015	21	\$1,919,916	\$91,425	\$2,809,235	\$2,809,235
2016	21	\$1,958,315	\$93,253	\$2,724,958	\$2,724,958
2017	21	\$1,997,481	\$95,118	\$2,643,209	\$2,643,209

## Praxair's Economic Impact on the Port Arthur I.S.D. and Jefferson County

The benefits of Praxair to the Port Arthur I.S.D., Port Arthur, and the Jefferson County economy consist of the day-to-day operation of the Hydrogen Plant, normal operating expenditures, purchases from local vendors, and spending of people employed by these businesses. In the final analysis, the economic benefits of this spending materialize in the form of increased Port Arthur and Jefferson County area employment and income. In addition, there are significant tax benefits to the Port Arthur I.S.D., cities in the region, and the county.

There are also intangible benefits associated with having a major petrochemical refiner in the area. These benefits include factors such as increased regional, national, and international exposure for the area, as well as a certain prestige associated with being home to Praxair. These intangible benefits can easily result in increased business activity for the local community, which in turn results in the creation of even more jobs and income. These benefits are difficult, if not impossible to measure, and no attempt is made here to estimate them.

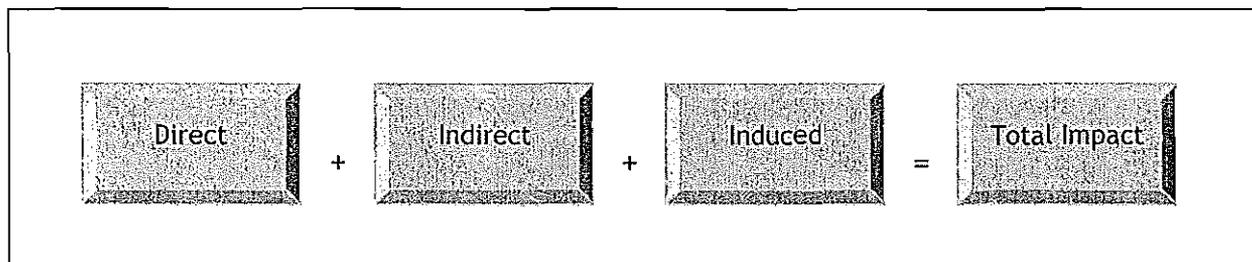
### *Economic Impact Methodology*

For this study, TXP has calculated the economic impact of business activity of Praxair based on annual investment and employment levels. The economic assumptions underlying the analysis are summarized in Section 4. This analysis measures the anticipated economic impacts of Praxair's new Hydrogen Plant in Jefferson County using the IMPLAN input-output economic system.

In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced. Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator is an example of a direct effect, as would be the taxi fare that visitor paid to be transported into town from the airport.

Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services, for example, and the taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic status of other local merchants and workers.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, for example, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which this increased income is in turn spent by them in the local economy.



## Economic & Fiscal Impacts of Praxair's Jefferson County Expansion

An economy can be measured in a number of ways. Two of the most common are "Output," which describes total economic activity, and is equivalent to a firm's gross sales, and "Employment," which refers to permanent jobs that have been created in the local economy. In order to provide an accurate basis of comparison, all dollar-denominated results are expressed in constant 2003 figures.

The interdependence between different sectors of the economy is reflected in the concept of a "multiplier." An output multiplier, for example, divides the total (direct, indirect and induced) effects of an initial spending injection by the value of that injection – i.e., the direct effect. The higher the multiplier, the greater the interdependence among different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, another \$400 in output is produced in all sectors.

### ***Economic Impact Results***

Upon successful construction of the facility, Praxair's full-time employment is projected to remain constant over the next 14 years. Therefore, the direct and indirect impact on regional employment will remain constant as well. TXP believes that each year, Praxair's expansion will support an additional 74 jobs in the Jefferson region. If employment or output at Praxair's facility increase significantly, regional employment would increase as well.

<b>Table 3: Construction Employment Impact of Praxair: 2004</b>				
<b>Year</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
2004	21	34	19	74

The tables on the following pages detail the real (inflation-adjusted) output and value-added impact of Praxair's expansion plans. To enable reviewers to compare Praxair's impact over a period of time, 14 years, TXP has used 2004 as the base year.



## Economic & Fiscal Impacts of Praxair's Jefferson County Expansion

**Table 4: Real Output Impact of Praxair: 2004 – 2017**

Year	Direct	Indirect	Induced	Total
2004	\$36,500,000	\$6,413,847	\$1,332,259	\$44,246,106
2005	\$72,492,552	\$12,738,524	\$2,664,518	\$87,877,072
2006	\$73,431,953	\$12,903,598	\$2,717,808	\$89,015,835
2007	\$74,387,071	\$13,071,433	\$2,772,165	\$90,173,651
2008	\$75,358,156	\$13,242,073	\$2,827,608	\$91,350,820
2009	\$76,345,457	\$13,415,564	\$2,884,160	\$92,547,648
2010	\$77,349,231	\$13,591,949	\$2,941,843	\$93,764,446
2011	\$78,369,739	\$13,771,274	\$3,000,680	\$95,001,529
2012	\$79,407,248	\$13,953,587	\$3,060,694	\$96,259,219
2013	\$80,462,027	\$14,138,935	\$3,121,908	\$97,537,846
2014	\$81,534,353	\$14,327,366	\$3,184,346	\$98,837,743
2015	\$82,624,506	\$14,518,930	\$3,248,033	\$100,159,250
2016	\$83,732,772	\$14,713,676	\$3,312,993	\$101,502,715
2017	\$84,859,442	\$14,911,657	\$3,379,253	\$102,868,489

**Table 5: Real Employee Compensation Impact of Praxair: 2004 – 2017**

Year	Direct	Indirect	Induced	Total
2004	\$1,575,000	\$1,109,050	\$352,655	\$3,036,705
2005	\$1,564,052	\$1,101,340	\$352,655	\$3,015,596
2006	\$1,584,320	\$1,115,612	\$359,709	\$3,054,674
2007	\$1,604,927	\$1,130,123	\$366,903	\$3,094,405
2008	\$1,625,878	\$1,144,876	\$374,241	\$3,134,801
2009	\$1,647,179	\$1,159,875	\$381,726	\$3,175,872
2010	\$1,668,836	\$1,175,125	\$389,360	\$3,217,627
2011	\$1,690,854	\$1,190,629	\$397,147	\$3,260,079
2012	\$1,713,239	\$1,206,392	\$405,090	\$3,303,238
2013	\$1,735,996	\$1,222,416	\$413,192	\$3,347,116
2014	\$1,759,132	\$1,238,707	\$421,456	\$3,391,723
2015	\$1,782,652	\$1,255,270	\$429,885	\$3,437,072
2016	\$1,806,563	\$1,272,107	\$438,483	\$3,483,174
2017	\$1,830,872	\$1,289,224	\$447,252	\$3,530,042



**Regional Tax Revenue Impact**

Beyond the direct, indirect, and induced economic impacts detailed above, Praxair's expansion will generate a tremendous amount of tax revenue for local taxing jurisdictions. All levels of government – school districts, city, county, and special taxing authorities – would be positively impacted by the attraction of Praxair. In fact, the biggest winner would be the Port Arthur I.S.D. even with the abatement, given the caveat that increased property value is offset with reduced state aid under the current school finance system. In this section, TXP has quantified the amount of direct and indirect tax revenue attributable to the Praxair development project.

For this study, TXP paid special attention to collecting accurate information to ensure a thorough and statistically valid analysis of Praxair's impact on the local economy. Tax rates for 2002 were obtained from the Jefferson County Tax Office. Note, tax abatements with local jurisdictions are not considered.

A number of important considerations should be taken into account when reviewing the economic impacts of Praxair's expansion. One issue, for example, is that part of Praxair's economic impact transcends local taxing jurisdictions. Port Arthur and Jefferson County are part of the much larger Beaumont-Port Arthur MSA economy that extends beyond their immediate borders. It is not unreasonable to expect workers at Praxair to commute from surrounding counties, shop in neighboring cities, and spend dollars outside of Port Arthur and Jefferson County. It is difficult, if not impossible, to accurately determine the amount of tax revenue that individual communities will receive from increased retail sales activity. In addition, employees at the Praxair facility will commute from cities throughout Jefferson County. Therefore, TXP has focused its efforts on determining the amount of ad valorem tax revenue the Port Arthur I.S.D., Port Arthur, and Jefferson County will receive. TXP has also conservatively projected the total amount of increased sales tax revenue that Port Arthur and Jefferson County will receive. In addition, TXP has forecast the total amount of ad valorem tax revenue that will be generated for Port Arthur and Jefferson County as a result of increased regional employment.

To put this project's economic impact into perspective, the following table compares Praxair's salary and investment projections per job with Jefferson County. Clearly, Praxair's wages and investment levels are far greater than the Jefferson County averages.

<b>Table 6: Praxair's Expansion vs. Jefferson County</b>				
<b>Direct</b>	<b>Jefferson County (2000)</b>	<b>Texas (2000)</b>	<b>Praxair Expansion (Average)</b>	<b>% Difference vs. Jefferson</b>
Average Salary Per Manufacturing Job	\$52,255	\$45,070	\$84,002	+61%
Investment Per Job	\$111,087	-	\$3,067,781	+2662%

*\* Investment per job for Jefferson County = Total Jefferson County Taxable Value / Total Employment*





## TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

SUSAN COMBS • COMPTROLLER • AUSTIN, TEXAS 78774

July 29, 2010

### CERTIFICATE OF ACCOUNT STATUS

THE STATE OF TEXAS  
COUNTY OF TRAVIS

I, Susan Combs, Comptroller of Public Accounts of the State of Texas, DO  
HEREBY CERTIFY that according to the records of this office

**PRAXAIR, INC.**

is, as of this date, in good standing with this office having no franchise  
tax reports or payments due at this time. This certificate is valid through  
the date that the next franchise tax report will be due August 16, 2010.

This certificate does not make a representation as to the status of the  
entity's registration, if any, with the Texas Secretary of State.

This certificate is valid for the purpose of conversion when the converted  
entity is subject to franchise tax as required by law. This certificate is  
not valid for any other filing with the Texas Secretary of State.

GIVEN UNDER MY HAND AND  
SEAL OF OFFICE in the City of  
Austin, this 29th day of  
July 2010 A.D.

Susan Combs  
Texas Comptroller

Taxpayer number: 10612490507  
File number: 0007853006

Form 05-304 (Rev. 12-07/17)