



# Chapter 313 Annual Eligibility Report Form

Economic Development  
and Analysis  
**Form 50-772-A**

## SECTION 1: Applicant and District Information

- Tax year covered by this report: 2013  
**NOTE:** This report must be completed and submitted to the school district by May 15 of every year using information from the previous tax (calendar) year.
- Application number: 13  
**NOTE:** You can find your application number and all agreement documents and reports on the website [www.texasahead.org/tax\\_programs/chapter313/applicants](http://www.texasahead.org/tax_programs/chapter313/applicants)
- Name of school district: Port Arthur ISD
- Name of project on original application (or short description of facility): Motiva Hydrogen Plant
- Name of applicant on original application: Praxair, Inc.
- Name the company entering into original agreement with district: Praxair, Inc.
- Amount of limitation at time of application approval: 8 years
- If you are one of two or more companies originally applying for a limitation, list all other applicants here and describe their relationships. (Use attachments if necessary.)

## SECTION 2: Current Agreement Information

- Name of current agreement holder(s) Praxair, Inc.
- Complete mailing address of current agreement holder 39 Old Ridgebury Rd. Danbury, CT 06810
- Company contact person for agreement holder (same as signatory for this form):  

|                      |                               |
|----------------------|-------------------------------|
| <u>Don McLean</u>    | <u>Assoc. Dir., Tax</u>       |
| <small>Name</small>  | <small>Title</small>          |
| <u>203-837-2219</u>  | <u>Don_McLean@praxair.com</u> |
| <small>Phone</small> | <small>Email</small>          |
- Texas franchise tax ID number of current agreement holder: 01-061249050-07
- If the current agreement holder does not report under the franchise tax law, please include name and tax ID of reporting entity:  

|                     |                       |
|---------------------|-----------------------|
| <u></u>             | <u></u>               |
| <small>Name</small> | <small>Tax ID</small> |
- If the authorized company representative is different from the contact person listed above, complete the following:  

|   |                      |
|---|----------------------|
| <u></u>                                 | <u></u>              |
| <small>Name</small>                     | <small>Title</small> |
| <u></u>                                 |                      |
| <small>Complete Mailing Address</small> |                      |
| <u></u>                                 | <u></u>              |
| <small>Phone</small>                    | <small>Email</small> |
- If you are a current agreement holder who was not an original applicant, please list all other current agreement holders. Please describe the chain of ownership from the original applicant to the new entities. (Use attachments if necessary.)

**SECTION 3: Applicant Eligibility Information**

1. Does the business entity have the right to transact business with respect to Tax Code, Chapter 171? (Attach printout from Comptroller Web site: <http://www.window.state.tx.us/taxinfo/coasintr.html>) .....  Yes  No
  2. Is the business entity current on all taxes due to the State of Texas? .....  Yes  No
  3. Is the business activity of the project an eligible business activity under Section 313.024(b)? .....  Yes  No
- 3a. Please identify business activity: Hydrogen Production

**SECTION 4: Qualified Property Information**

1. Market value from previous tax year: ..... \$ 70,851,350.00
2. I&S taxable value from previous tax year: ..... \$ 65,226,600.00
3. M&O taxable value from previous tax year: ..... \$ 30,000,000.00

**SECTION 5A: Wage and Employment Information for Applications Prior to Jan. 1, 2014 (#1 Through 999)**

ONLY COMPLETE THE WAGE SECTION (5A or 5B) THAT APPLIES TO YOUR APPLICATION. You can find your application number on the website at [www.texasahead.org/tax\\_programs/chapter313/applicants](http://www.texasahead.org/tax_programs/chapter313/applicants).

**NOTE:** All statutory references in Section 5A are for statute as it existed prior to Jan. 1, 2014. 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.

1. How many new jobs were based on the qualified property in the year covered by this report? (See note above) ..... 16
2. 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? ..... 12
3. Did the applicant request that the governing body waive the minimum job requirement, as provided under Tax Code §313.025(f-1)? .....  Yes  No
  - 3a. If yes, how many new jobs must the approved applicant create under the waiver? .....
4. Calculate 80 percent of new jobs (0.80 x number of new jobs based on the qualified property in the year covered by this report.) ..... 12.8
5. What is the minimum required annual wage for each qualifying job in the year covered by the report? ..... \$ 73,045.00
6. Identify which of the four Tax Code sections is used to determine the wage standard required by the agreement:
   
 §313.021(5)(A) or  §313.021(5)(B) or  §313.021(3)(E)(ii) or  §313.051(b)
  - 6a. Attach calculations and cite exact Texas Workforce Commission data source as defined in TAC §9.1051.
7. Does the agreement require the applicant to provide a specified number of jobs at a specified wage? .....  Yes  No
  - 7a. If yes, how many qualifying jobs did the approved applicant commit to create in the year covered by the report? ..... 12
  - 7b. If yes, what annual wage did the approved applicant commit to pay in the year covered by the report? ..... \$ 73,045.00
  - 7c. If yes, how many qualifying jobs were created at the specified wage in the year covered by the report? ..... 16
8. 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
  - 8a. Of the qualifying job-holders last year, how many were employees of the approved applicant? ..... 16
  - 8b. Of the qualifying job-holders last year, how many were employees of an entity contracting with the approved applicant? ..... 0
  - 8c. 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? .....  Yes  No  N/A



**SECTION 5B: Wage and Employment Information for Applications After Jan. 1, 2014 (#1000 and Above)**

ONLY COMPLETE THE WAGE SECTION (5A or 5B) THAT APPLIES TO YOUR APPLICATION. You can find your application number on the website at [www.texasahead.org/tax\\_programs/chapter313/applicants](http://www.texasahead.org/tax_programs/chapter313/applicants).

NOTE: For job definitions see TAC §9.1051(14) and Tax Code, §313.021(3).

**QUALIFYING JOBS**

1. What is the number of new qualifying jobs the applicant committed to create in the year covered by this report? . . . . . \_\_\_\_\_
2. Did the applicant request that the governing body waive the minimum qualifying job requirement, as provided under Tax Code §313.025(f-1)? . . . . .  Yes  No
  - 2a. If yes, how many new qualifying jobs must the approved applicant create under the waiver? . . . . . \_\_\_\_\_
3. Which Tax Code section are you using to determine the wage standard required for this project? . . . .  §313.021(5)(A) or  §313.021(5)(B)
  - 3a. Attach calculations and cite exact Texas Workforce Commission data sources as defined in TAC §9.1051.
4. What is the minimum required annual wage for each qualifying job in the year covered by this report? . . . . . \$ \_\_\_\_\_
5. What is the annual wage the applicant committed to pay for each of the qualifying jobs in the year covered by this report? . . . . . \$ \_\_\_\_\_
6. Do the qualifying jobs meet all minimum requirements set out in Tax Code §313.021(3)? . . . . .  Yes  No

**NON-QUALIFYING JOBS**

7. What is the number of non-qualifying jobs the applicant had on Dec. 31 of the year covered by this report? . . . . . \_\_\_\_\_
8. What was the average wage you were paying for non-qualifying jobs on Dec. 31 of the year covered by this report? . . . \$ \_\_\_\_\_
9. What is the county average weekly wage for non-qualifying jobs, as defined in TAC §9.1051? . . . . . \$ \_\_\_\_\_

**MISCELLANEOUS**

10. Did the applicant rely on a determination by the Texas Workforce Commission under the provisions §313.024(3)(F) in meeting the qualifying job requirements? . . . . .  Yes  No
  - 10a. If yes, attach supporting documentation to evidence that the requirements of §313.021(3)(F) were met.
11. Are you part of a Single Unified Project (SUP) and relying on the provisions in Tax Code §313.024(d-2) to meet the qualifying job requirements? . . . . .  Yes  No
  - 11a. If yes, attach supporting documentation from the Texas Economic Development and Tourism Office including a list of the other school district(s) and the qualifying jobs located in each.

**SECTION 6: Qualified Investment During Qualified Time Period**

ENTITIES ARE NOT REQUIRED TO COMPLETE THIS SECTION IF THE YEAR COVERED BY THE REPORT IS AFTER THE QUALIFYING TIME PERIOD OF THEIR AGREEMENT.

1. 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? . . . . . \$ 74,000,000.00
2. Was any of the land classified as qualified investment? . . . . .  Yes  No
3. Was any of the qualified investment leased under a capitalized lease? . . . . .  Yes  No
4. Was any of the qualified investment leased under an operating lease? . . . . .  Yes  No
5. Was any property not owned by the applicant part of the qualified investment? . . . . .  Yes  No

**SECTION 7: Partial Interest**

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

1. What was your limitation amount (or portion of original limitation amount) during the year covered by this report? . . .
2. Please describe your interest in the agreement and identify all the documents creating that interest.

**SECTION 8: 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."*

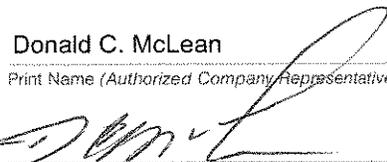
print  
here

Donald C. McLean  
Print Name (Authorized Company Representative)

Assoc. Dir., Tax

Title

sign  
here

  
Signature (Authorized Company Representative)

4/28/2014

Date

print  
here

Print Name of Preparer (Person Who Completed the Form)



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## Franchise Tax Account Status

As of: 05/28/2014 10:50:29 AM

**This Page is Not Sufficient for Filings with the Secretary of State**

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| PRAXAIR, INC.   |   |
|---|---|
| Texas Taxpayer Number   | 10612490507                                     |
| Mailing Address   | 39 OLD RIDGEBURY RD<br>DANBURY, CT 06817-0001   |
|  Right to Transact Business in Texas | ACTIVE  |
| State of Formation  | DE  |
| Effective SOS Registration Date   | 12/08/1988                                      |
| Texas SOS File Number   | 0007853006                                      |
| Registered Agent Name   | PRENTICE HALL CORPORATION SYSTEM                |
| Registered Office Street Address  | 211 E. 7TH STREET SUITE 620<br>AUSTIN, TX 78701 |

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**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<br>Oil and Gas Extraction                      | 121,143   | 64,137  | 52.9%     |
| NAICS 325<br>Chemicals Manufacturing                     | 925,051   | 77,915  | 8.4%      |
| NAICS 324<br>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 Telekl, 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<br>2000 | Employment<br>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>              |                    |                    |         |          |

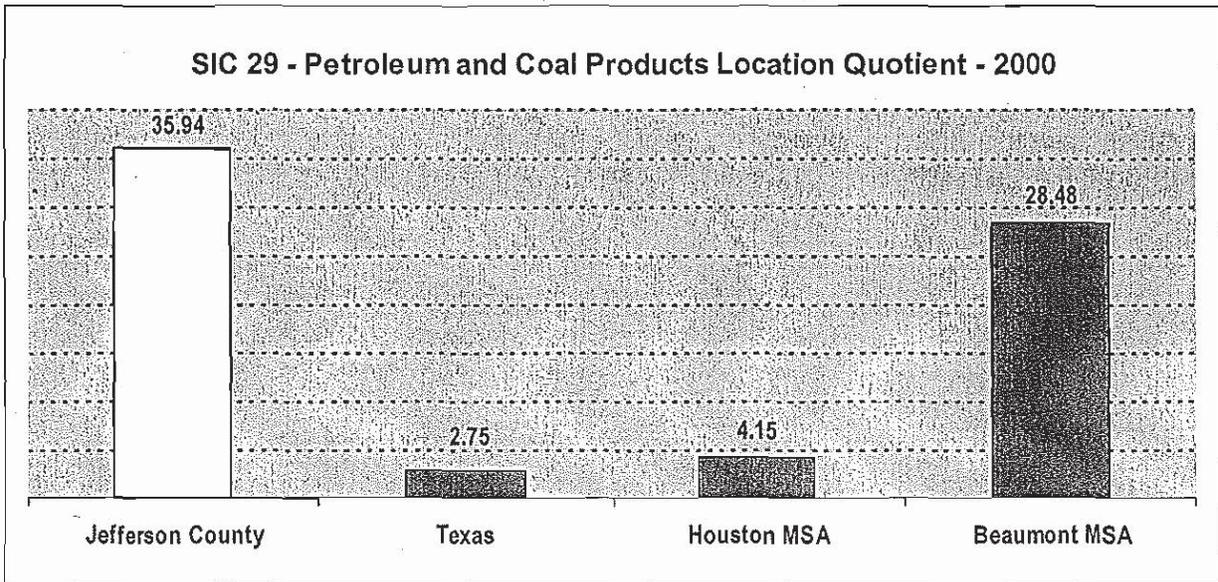
The dominance of the oil, gas, and refining industries in Jefferson is further revealed when performing a cluster analysis on the region. Economic clusters are defined as geographic concentrations of interrelated industries. The idea is that related businesses, whether supplier or competitor, tend to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



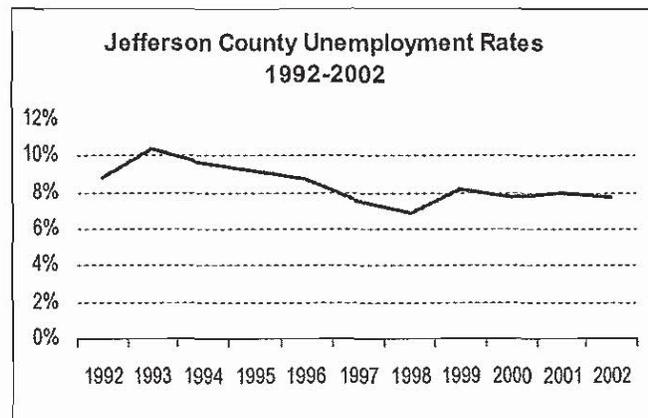
## Economic & Fiscal Impacts of Praxair's Jefferson County Expansion

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.

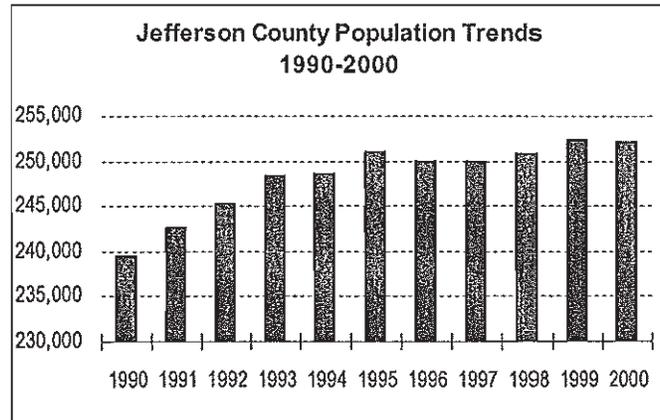


Even with the economic slowdown, the County has not experienced a dramatic rise in unemployment. In 2002, unemployment in Jefferson County reached 7.8 percent, a decrease of .1 percent from the previous year. Unfortunately, the unemployment rate has risen from its lows in 1998. Jefferson County's unemployment 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.



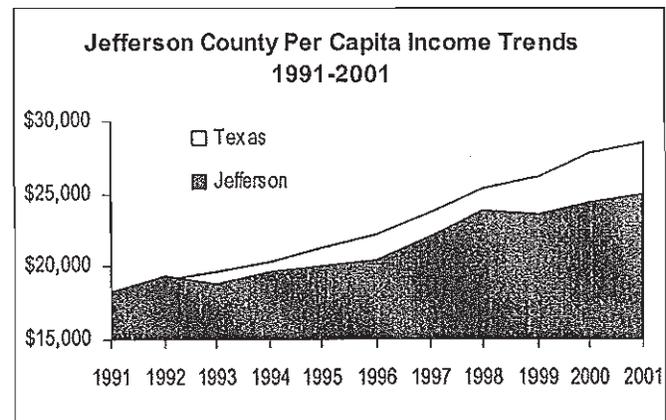
## Population & Income

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



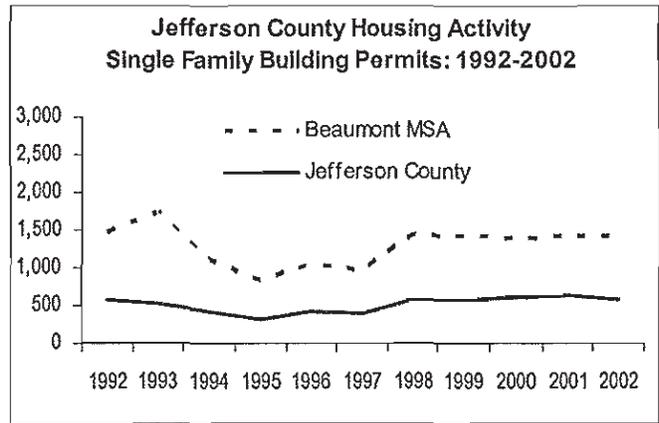
earn nearly double the county average. In 2000, workers employed in Jefferson County's petroleum industries earned approximately \$72,000, well above the average county wage of \$30,479. Even with Jefferson County's modest decline in petroleum industry employment, industry wages have risen nearly 10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



**Construction & the Housing Market**

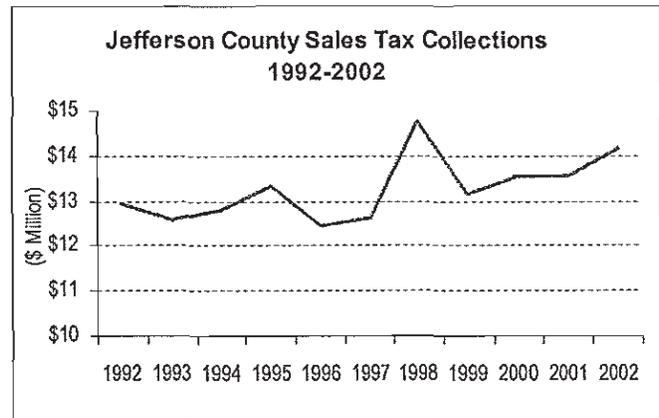
Southeast Texas has experienced an upturn in home construction since the dip of the late 1980's, and Jefferson County has clearly benefited from this trend.

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.

| <b>Table 1: Praxair Investment in Jefferson County: 2004 – 2017</b> |            |               |                           |                              |                          |
|---|------------|---------------|---------------------------|------------------------------|--------------------------|
| 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             |

| <b>Table 2: Direct Impact of Praxair Investment in Jefferson County: 2004 – 2017</b> |            |                |                        |                                  |                            |
|--|------------|----------------|------------------------|----------------------------------|----------------------------|
| 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.

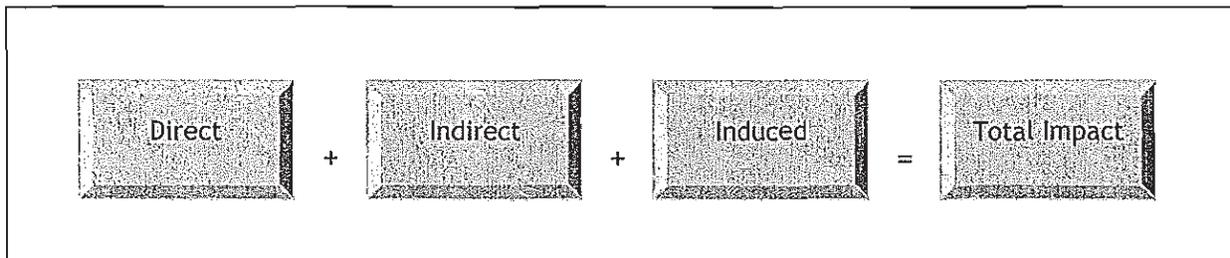
### *Economic Impact Methodology*

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 |



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

### **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> |                            |                 |                                |                               |
|--|----------------------------|-----------------|--------------------------------|-------------------------------|
| Direct   | Jefferson County<br>(2000) | Texas<br>(2000) | Praxair Expansion<br>(Average) | % Difference vs.<br>Jefferson |
| Average Salary Per<br>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*

