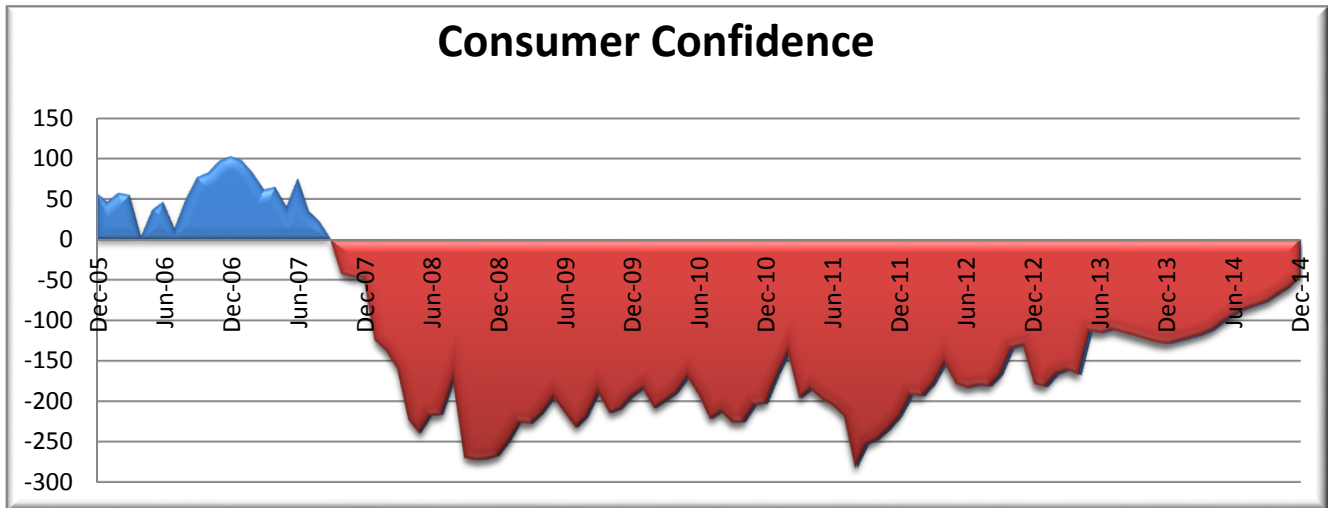


Economic Environment

National Economy

The United States economy has rebounded well since this 2008-09 recession. Federal budget deficits and the continued growth in federal debt, ongoing military conflicts, and uncertainties related to the health care industry continue to be concerns for our economic future.

Consumer confidence in the economy has shown improvement and while the index remains slightly negative, it is approaching an overall positive outlook for the first time in 7 years.

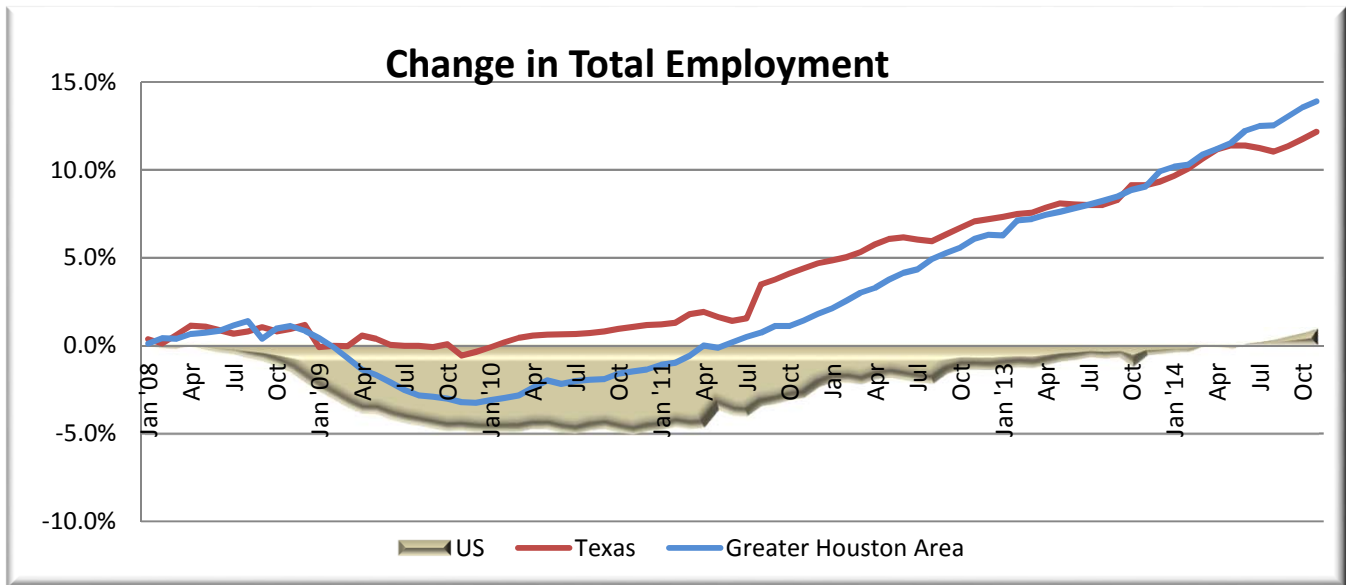


The national unemployment rate has improved significantly dropped below 6% for the first time since 2008. The state and local unemployment rates remain 1% lower than the national rate dropping to 4.5% locally and 4.6% statewide in November 2014.



Employment

Job growth in the Greater Houston Area and the State of Texas continues to be strong. Since Houston area adding 360,000 jobs since January 2008, and the state adding 1.3 million jobs during the same period. The U.S. job growth is also 1.3 million thanks to several months of strong growth during 2014.



Construction

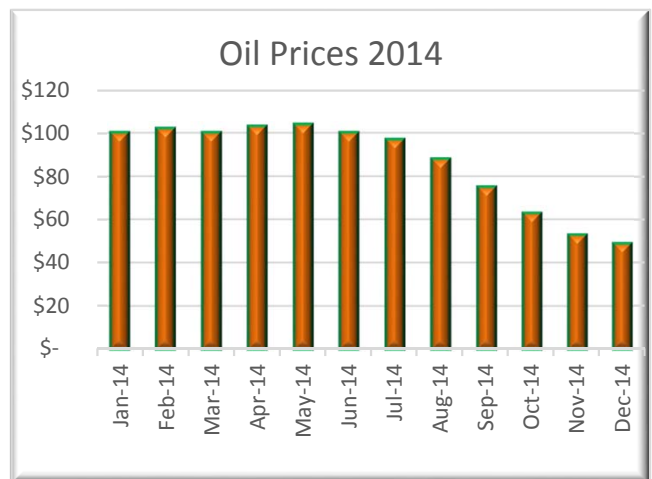
The total value of building contracts in the Greater Houston Area for the first 11 months of 2014 is \$28.7 billion up 148% from the same period in 2013 of \$11.5 billion. Nonresidential contracts are up 449% from \$3.6 billion last year to \$19.6 billion for the first '11 months of 2014. Residential building contracts are up 13.6% compared to the first 11 months of last year. Most of the new non-residential construction is occurring in the unincorporated area of Harris County and surrounding counties though projects within the City of Houston are up 45.8%.

Home Sales and Values

The median sales price for a single family detached home was \$196,000 in October 2014, up from \$182,000 a year earlier. The inventory of homes available for sale in October 2014 was 11% less than it was a year ago.

Energy Prices

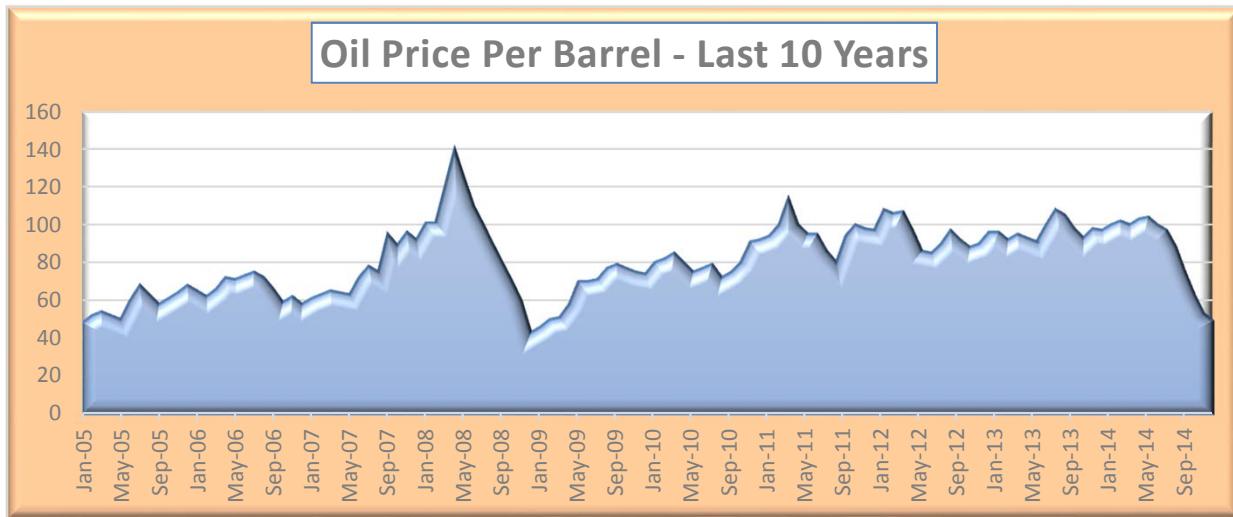
Recent significant drops in oil and natural gas prices could have an impact on the local economy. Oil prices per barrel dropped from a high over \$100 this summer to \$60.23 by the end of December. The price dropped continued in January falling below \$50 per barrel. Natural gas prices have also dropped but at a slower pace.



The next page shows oil prices over the last 10 years and discusses the potential impact this could have on the local economy.

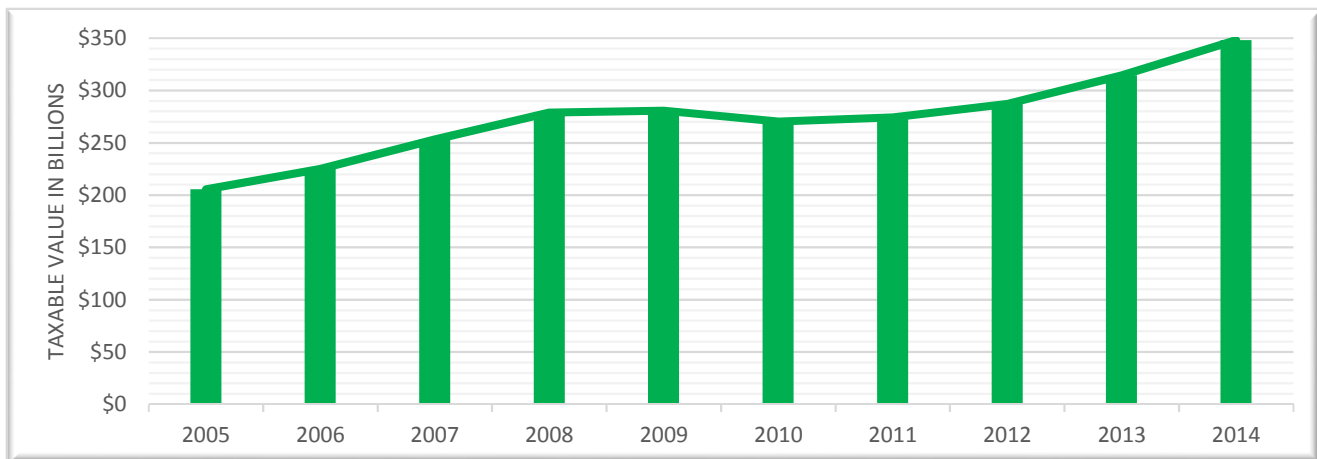
Oil Prices

The following chart shows oil prices per barrel for West Texas Intermediate over the last ten years. The last time oil dropped below \$50 was at the end of 2008, although it quickly rebounded last time. While it is difficult to predict what will happen over the next several months, should the price remain in the \$40 to \$60 per barrel range or decline further, it could have an impact on the local economy.



Property taxes are the engine that provides funding for county government to meet the growing demand for infrastructure, law enforcement and county services to the expanding population. If oil prices remain below \$50 per barrel for an extended period of time or decline further, the taxable value of real estate and business property likely will stop growing or decline which would impact property tax revenue.

Property taxes were impacted following the 2008 price drop as illustrated in the following chart showing the total Harris County tax levy from 2005 through 2014.



Taxable values declined from \$281 billion in 2009 to \$271 billion in 2010 and didn't go back up above the \$281 billion amount until 2012. While the population continued to grow during this period, the county had to reduce operating budgets during this period. The decline in 2015 could cause similar events and will be monitored during the year.