

**Summary of the District's Financial Impact
of Chapter 313 Agreement
with Cargill Incorporated**

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Bovina ISD Financial Impact of Chapter 313 Agreement

Summary of Bovina ISD Financial Impact of the Limited Appraised Value Application from Cargill Incorporated

Introduction

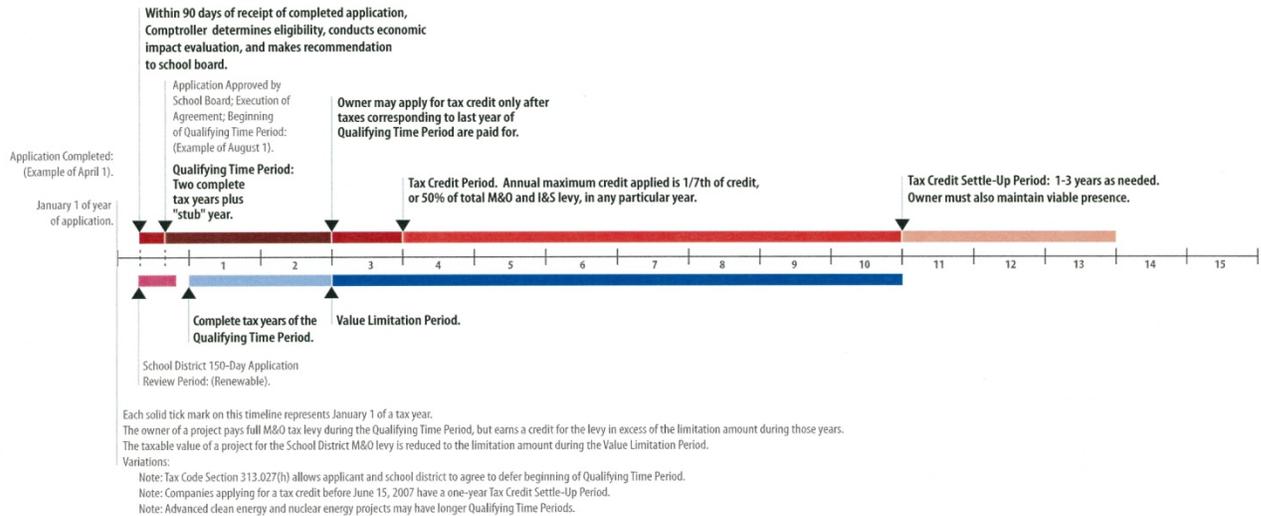
Cargill Incorporated, applied for a property value limitation from Bovina Independent School District under Chapter 313 of the Tax Code. The application was submitted on October 8, 2012 and subsequently approved for consideration by the Bovina ISD Board of Trustees. Cargill Incorporated (“Cargill Inc”), is requesting the property value limitation as a “manufacturing” company as listed in Sec. 313.024.(b) of the Tax Code.

“The Economic Development Act “, Tax Code Chapter 313, was created by House Bill 1200 of the 77th Texas Legislature in 2001. Further amendments were made to Chapter 313 as a result of House Bill 1470 from the 80th Texas Legislative Session in 2007.

The Economic Development Act was created to attract qualifying businesses to Texas by allowing school districts the option of approving a property value limitation to these qualifying entities. The purpose of the property value limitation is to reduce the maintenance and operations taxes paid by the company, to a school district during the applicable years as displayed below.

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Appraised Value Limitation and Credit under Tax Code Chapter 313 for School District Maintenance & Operations (M&O) Tax



The company must file an application with the school district to qualify for consideration of a Limited Appraised Value Agreement (“LAVA” or “Agreement”) to begin the following tax year or a later year if agreed upon by the District and the Company. The first two years of the agreement are considered the qualifying time period and the company’s school district taxes will be levied at one-hundred percent of the appraised value. The applicant may then file a separate application with the school district to request tax credits (for taxes paid during the qualifying time period) to be applied during years four through ten of the LAVA, but not to exceed 50% of their tax levy for those years. Any tax credit balance remaining after this period can then be applied during years eleven through thirteen of the agreement, but cannot exceed the actual amount of taxes paid to the school district during the Settle-Up Period. After year thirteen, any leftover credits will not be applied and will expire.

During years three through ten of the LAVA, the qualifying entity’s taxable value will be reduced to the minimum qualified investment for the applicable school district as determined by the State Comptroller’s Office. Bovina ISD is considered a Rural category 3 District as categorized with total taxable value of industrial property of at least \$1 million and less than \$90 million, thus Bovina ISD has a

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minimum qualified investment amount of \$10 million. A qualifying entity’s taxable value would be reduced to \$10 million during years three through ten of the agreement for the purposes of computing the tax levy for the maintenance and operations (M&O) tax of Bovina ISD. The entire appraised value will be used for computing the interest and sinking (I&S) tax levy.

Taxable Value Impact from LAVA

The “Additional Value from Cargill Inc” represents the values that the company estimated as their taxable values in the application that was filed with the district. During years three through ten, the company’s taxable value will be limited to the \$10,000,000 minimum qualified investment of Bovina ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value from Cargill Inc	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	34,309,750	n/a	0	34,309,750
Jan. 1, 2015	31,539,328	n/a	0	31,539,328
Jan. 1, 2016	28,769,633	(10,000,000)	18,769,633	10,000,000
Jan. 1, 2017	26,000,659	(10,000,000)	16,000,659	10,000,000
Jan. 1, 2018	23,232,400	(10,000,000)	13,232,400	10,000,000
Jan. 1, 2019	20,464,848	(10,000,000)	10,464,848	10,000,000
Jan. 1, 2020	17,697,998	(10,000,000)	7,697,998	10,000,000
Jan. 1, 2021	16,283,443	(10,000,000)	6,283,443	10,000,000
Jan. 1, 2022	16,221,176	(10,000,000)	6,221,176	10,000,000
Jan. 1, 2023	16,159,592	(10,000,000)	6,159,592	10,000,000
Jan. 1, 2024	16,098,683	n/a	0	16,098,683
Jan. 1, 2025	16,038,445	n/a	0	16,038,445
Jan. 1, 2026	15,978,870	n/a	0	15,978,870

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Cargill Incorporated's Tax Benefit from Agreement

The projected amount of the net tax savings for Cargill Inc. is \$1.268 million over the life of the Agreement. This net savings is after all tax credits have been applied and after estimated payments have been made to the district to offset their revenue losses that were a direct result of entering into this Agreement.

TABLE II- Computation of Net Tax Savings:

Fiscal Year	Taxes w/o Agreement	Tax Savings with Agreement	Tax Credits	Payment of District's Revenue Losses	Net Tax Savings
2014-2015	356,821	0	n/a	0	0
2015-2016	328,009	0	n/a	0	0
2016-2017	299,204	195,204	n/a	(90,452)	104,752
2017-2018	270,407	166,407	52,000	0	218,407
2018-2019	241,617	137,617	52,000	0	189,617
2019-2020	212,834	108,834	52,000	0	160,834
2020-2021	184,059	80,059	52,000	0	132,059
2021-2022	169,348	65,348	52,000	0	117,348
2022-2023	168,700	64,700	52,000	0	116,700
2023-2024	168,060	64,060	52,000	0	116,060
2024-2025	167,426	0	112,830	0	112,830
2025-2026	166,800	0	0	0	0
2026-2027	166,180	0	0	0	0
Totals	2,899,466	882,229	476,830	(90,452)	1,268,607

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Financial Impact Study

This Financial Impact Study was performed to determine the financial impact of the Limited Appraised Value Agreement on Bovina ISD. First, a thirteen year financial forecast was prepared to establish a baseline without the added values of the manufacturing company. Second, a thirteen year financial forecast was prepared that incorporated the additional taxable value of the company without a LAVA in effect. Third, a thirteen year financial forecast was prepared that incorporates the additional taxable value of the company with an approved LAVA. These three forecasts are detailed in the “Calculation of LAVA Impact on District’s Finances” section. The following assumptions were used to compare the financial impact of the LAVA:

- The current state funding formulas (in effect for 2012-2013 fiscal year) were used for state aid and recapture calculation purposes
 - Level 2 of Tier II yield - \$59.97 per weighted student in average daily attendance (WADA) per penny of tax effort
- The district’s tax rate for maintenance & operations (M&O) will remain at the same rate as for tax year 2012.
- A tax collection rate of 100% on current year tax levy with no projected delinquent taxes
- An annual taxable value increase of .5% was used to project the district’s taxable value, except as it related to the requested LAVA. The district’s 2012 taxable value was used as a baseline for all projections
- The district’s enrollment is projected to decrease slightly; therefore, the projected ADA and WADA for school year 2012-2013 was decreased by .25% per year for the life of the agreement.

Although these assumptions were used to develop a baseline scenario for comparison purposes, many of these factors will not remain constant for the thirteen years of this proposed agreement. Also, Legislative changes to the school finance formulas are likely during the near future and almost certain during the life of this agreement.

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Calculation of LAVA Impact on District's Finances

The tables displayed below (Table III, IV, V) show the different impacts on the school district's finances. These scenarios were computed to compare the District's revenue without the additional taxable value of Cargill Inc. (Table III), the addition of Cargill Inc's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Cargill Inc's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues without Cargill Inc:

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Total District Revenue
		Compressed Rate	State Revenue				
2014-2015	78,080,049	676,720	2,492,335	0	3,169,055	534,518	3,703,574
2015-2016	78,470,449	680,103	2,481,029	0	3,161,132	534,132	3,695,264
2016-2017	78,862,801	683,504	2,469,726	0	3,153,230	532,797	3,686,026
2017-2018	79,257,115	686,921	2,458,425	0	3,145,347	531,465	3,676,811
2018-2019	79,653,401	690,356	2,447,127	0	3,137,483	530,136	3,667,619
2019-2020	80,051,668	693,808	2,435,832	0	3,129,639	528,811	3,658,450
2020-2021	80,451,926	697,277	2,424,539	0	3,121,815	527,489	3,649,304
2021-2022	80,854,186	700,763	2,413,248	0	3,114,011	526,170	3,640,181
2022-2023	81,258,457	704,267	2,401,959	0	3,106,226	524,854	3,631,080
2023-2024	81,664,749	707,788	2,390,672	0	3,098,460	523,542	3,622,003
2024-2025	82,073,073	711,327	2,379,387	0	3,090,714	522,234	3,612,948
2025-2026	82,483,438	714,884	2,368,103	0	3,082,987	520,928	3,603,915
2026-2027	82,895,856	718,458	2,356,821	0	3,075,280	519,626	3,594,905

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TABLE IV- District Revenues with Cargill Inc without Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes			Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Total District Revenue
		Compressed Rate	State Revenue	State Revenue				
2014-2015	112,389,799	974,082	2,194,973	0	3,169,055	769,395	3,938,450	
2015-2016	110,009,777	953,455	2,207,678	0	3,161,132	520,220	3,681,352	
2016-2017	107,632,434	932,850	2,220,379	0	3,153,230	518,689	3,671,919	
2017-2018	105,257,774	912,269	2,233,077	0	3,145,347	517,153	3,662,500	
2018-2019	102,885,801	891,711	2,245,772	0	3,137,483	515,611	3,653,095	
2019-2020	100,516,516	871,177	2,258,463	0	3,129,639	514,063	3,643,702	
2020-2021	98,149,924	850,665	2,271,150	0	3,121,815	512,507	3,634,322	
2021-2022	97,137,629	841,892	2,272,119	0	3,114,011	518,152	3,632,163	
2022-2023	97,479,633	844,856	2,261,370	0	3,106,226	524,082	3,630,308	
2023-2024	97,824,341	847,844	2,250,617	0	3,098,460	522,780	3,621,240	
2024-2025	98,171,756	850,855	2,239,859	0	3,090,714	521,481	3,612,195	
2025-2026	98,521,883	853,889	2,229,098	0	3,082,987	520,185	3,603,172	
2026-2027	98,874,726	856,947	2,218,333	0	3,075,280	518,892	3,594,172	

TABLE V – District Revenues with Cargill Inc with Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes			Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Payment for District Losses	Total District Revenue
		Taxes Comp Rate	State Revenue	State Revenue					
2014-2015	112,389,799	974,082	2,194,973	0	3,169,055	769,395	0	3,938,450	
2015-2016	110,009,777	953,455	2,207,678	0	3,161,132	520,220	0	3,681,352	
2016-2017	88,862,801	770,174	2,383,056	0	3,153,230	428,237	90,452	3,671,919	
2017-2018	89,257,115	773,591	2,371,755	0	3,145,347	531,167	0	3,676,514	
2018-2019	89,653,401	777,026	2,360,457	0	3,137,483	529,841	0	3,667,324	
2019-2020	90,051,668	780,478	2,349,162	0	3,129,639	528,517	0	3,658,157	
2020-2021	90,451,926	783,947	2,337,869	0	3,121,815	527,197	0	3,649,013	
2021-2022	90,854,186	787,433	2,326,578	0	3,114,011	525,881	0	3,639,891	
2022-2023	91,258,457	790,937	2,315,289	0	3,106,226	524,567	0	3,630,793	
2023-2024	91,664,749	794,458	2,304,002	0	3,098,460	523,257	0	3,621,717	
2024-2025	98,171,756	850,855	2,239,859	0	3,090,714	556,523	0	3,647,237	
2025-2026	98,521,883	853,889	2,229,098	0	3,082,987	520,185	0	3,603,172	
2026-2027	98,874,726	856,947	2,218,333	0	3,075,280	518,892	0	3,594,172	

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Current School Finance Law

A major overhaul of the school finance formulas was implemented as a result of House Bill 1 of the 79th Legislative Session and became effective for the 2006-2007 school year. These formula changes have had an effect on the district's financial impact from granting a property value limitation. Due to the district's "Hold Harmless" provision that was enacted in the new funding formulas, it is presumed that the majority of the district's revenue losses in year three of the LAVA will be offset with additional state funding or a reduction of recapture payments made to the State. Prior to these recent formula changes, school districts felt a significant loss in revenues in year three because the state funding formulas considered the district more property wealthy based on their prior year taxable value. However, districts were only able to tax on the lower value that was a result of the LAVA. Districts are currently "held harmless" for the majority amount of loss in year three; however, it is possible that a future legislative session could eliminate this provision. If the "hold harmless" provision is eliminated, then the company would be required to offset the district's losses as computed in Article III of the Agreement.

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Payments in Lieu of Taxes

Assuming that the District and Cargill Incorporated mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Bovina ISD by Cargill Incorporated, the projected amount of these payments over the life of the agreement is \$564,367 of the \$1.268 million net tax savings amount. This amount will be computed annually according to Section IV of the Agreement.

TABLE VI - Calculation of the Payment in Lieu of Taxes:

Fiscal Year	Net Tax Savings	Bovina ISD Share \$100/ADA	Cargill Incorporated Share
2014-2015	0	44,068	(44,068)
2015-2016	0	43,958	(43,958)
2016-2017	104,752	43,848	60,904
2017-2018	218,407	43,738	174,669
2018-2019	189,617	43,629	145,988
2019-2020	160,834	43,520	117,315
2020-2021	132,059	43,411	88,648
2021-2022	117,348	43,302	74,045
2022-2023	116,700	43,194	73,506
2023-2024	116,060	43,086	72,974
2024-2025	112,830	42,978	69,852
2025-2026	0	42,871	(42,871)
2026-2027	0	42,764	(42,764)
Totals	1,268,607	564,367	704,240

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Impact of Projected Student Growth

On District Facilities

TABLE VII – Campus Capacity and Available Growth

Grade Level	# of Regular Classrooms	Building Capacity	Current Enrollment	Enrollment Growth Available
K thru 5	17	374	233	141
6-8	6	120	101	19
9-12	19	380	121	259
Total	42	874	455	419

The building capacities are based on 22 students per classroom for the elementary campuses, 20 students for the Jr. High and high school. Bovina ISD is a kindergarten through 12th grade district.

Cargill Incorporated provided supplemental information with their application that projected the number of full-time employees that are expected for permanent employment after construction of the project is completed. They projected that twenty five full-time employees are expected. It is not known whether these would be new employees to the Bovina ISD, or if current residents would occupy these positions; however, it is assumed that these employees would be new residents to the district.

Based on average statewide figures provided by a demographer, it is projected that each new household would produce .5 students. Thus, the new twenty five positions equates to 13 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Bovina ISD as displayed in Table VII above.

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Conclusion

This Financial Impact Study displays that entering into a Limited Appraised Value Agreement with Cargill Incorporated, would be beneficial to both Cargill Inc. and Bovina ISD under the current school finance system.

Cargill Inc. would benefit from reduced property taxes during years three through ten of the LAVA. Although some of the tax savings would be used to offset district's revenue losses and payments in lieu of taxes to the District, Cargill Inc. is projected to benefit from a 53% tax savings over the eleven year period of this agreement. Cargill Inc. also has the option of terminating the Agreement if the amount paid to the District during a tax year is greater than the amount of taxes that would have been paid without the agreement; therefore, there is no inherent risk for the company from entering into the Agreement.

Bovina ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Cargill Inc. to offset any district losses caused by the LAVA. An annual calculation will be performed each year to determine if a loss to the District has been incurred. The revenue impact to the District will be computed by comparing the District's revenues with and without the LAVA in effect.