

**Summary of the District's Financial Impact  
of Chapter 313 Agreement  
with Pullman Road Wind Power, LLC**

Prepared by

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# Claude ISD Financial Impact of Chapter 313 Agreement

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## **Summary of Claude ISD Financial Impact of the Limited Appraised Value Application from Pullman Road Wind Power, LLC**

### **Introduction**

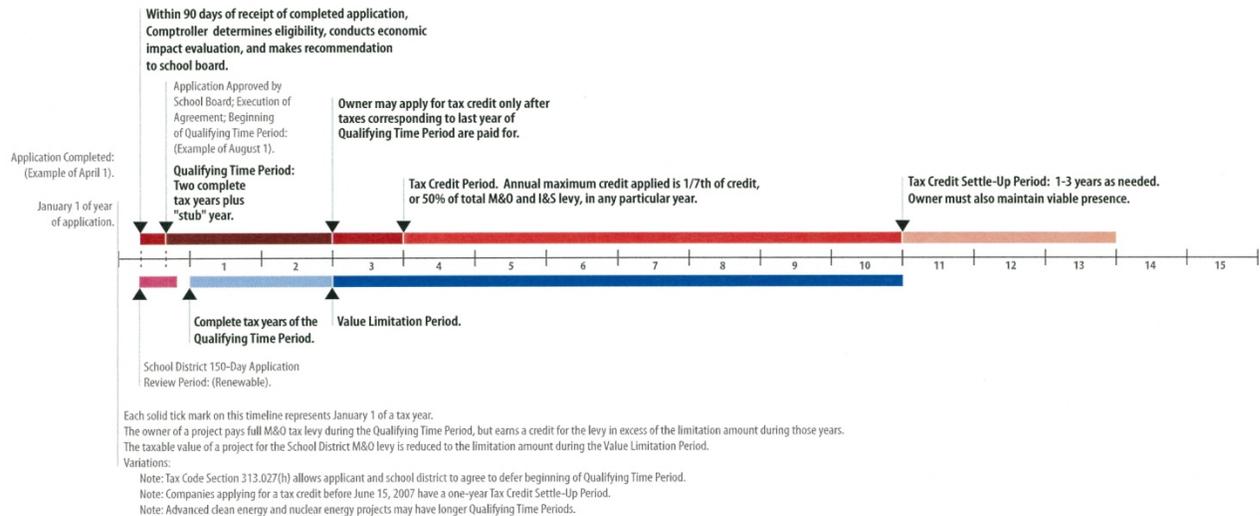
Pullman Road Wind Power, LLC applied for a property value limitation from Claude Independent School District under Chapter 313 of the Tax Code. The application was submitted on December 6, 2013 and subsequently approved for consideration by the Claude ISD Board of Trustees. Pullman Road Wind Power, LLC (“Pullman Road Wind”), is requesting the property value limitation as a “renewable energy electric generation” project 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 77<sup>th</sup> Texas Legislature in 2001. Further amendments were made to Chapter 313 as a result of House Bill 1470 from the 80<sup>th</sup> 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. Claude ISD is considered a Rural category 3 District as categorized with total taxable value of industrial property of at least \$1 million but less than \$90 million, thus Claude ISD

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has a 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 Claude 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 Pullman Road Wind” 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 Claude ISD.

**TABLE I- Calculation of Taxable Value:**

Tax Year	Additional Value From Pullman Road Wind	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2015	0	n/a	0	0
Jan. 1, 2016	230,382,000	n/a	0	230,382,000
Jan. 1, 2017	214,286,150	(10,000,000)	204,286,150	10,000,000
Jan. 1, 2018	199,316,200	(10,000,000)	189,316,200	10,000,000
Jan. 1, 2019	185,393,400	(10,000,000)	175,393,400	10,000,000
Jan. 1, 2020	172,435,000	(10,000,000)	162,435,000	10,000,000
Jan. 1, 2021	160,379,800	(10,000,000)	150,379,800	10,000,000
Jan. 1, 2022	149,167,800	(10,000,000)	139,167,800	10,000,000
Jan. 1, 2023	138,739,900	(10,000,000)	128,739,900	10,000,000
Jan. 1, 2024	129,041,400	(10,000,000)	119,041,400	10,000,000
Jan. 1, 2025	120,021,200	n/a	0	120,021,200
Jan. 1, 2026	111,631,900	n/a	0	111,631,900
Jan. 1, 2027	103,829,300	n/a	0	103,829,300

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## Pullman Road Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Pullman Road Wind is \$13.367 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. Tax credits during years four through ten are limited to the lesser of 1/7 of the total tax credit or 50% of the total taxes paid for that tax year. Any tax credits not refunded to the company during those years will be refunded up to 100% of the taxes paid in years eleven through thirteen.

Claude ISD's projected tax rates for maintenance & operations (M&O) and interest & sinking (I&S) are based on the following assumptions:

- The District has not held a tax ratification election that would approve a M&O tax rate in excess of \$1.04; therefore, the study assumes that they will maintain a M&O tax rate of \$1.04. The M&O rate for 2016-2017 & 2025-2026 is projected to drop to \$.9467 due to the rollback tax rate calculations.
- The district has outstanding bonds that are scheduled to payoff in 2030 and currently have a \$.16 I&S tax rate. The district has annual debt payments of just over \$170,000 per year through 2030 and the debt rates below are the calculated rates using the projected taxable values with the addition of Pullman Road Wind's estimated taxable values. The district could pursue a bond election and issue additional bonded debt during the life of this agreement.

**TABLE II- Computation of Net Tax Savings:**

Fiscal Year	Projected M&O Tax Rate	Projected I&S Tax Rate	Taxes w/o Agreement	Tax Savings with Agreement	Tax Credits	Payment of District's Revenue Losses	Net Tax Savings
2015-2016	1.0400	0.131	0	0	n/a	0	0
2016-2017	0.9467	0.047	2,181,026	0	n/a	0	0
2017-2018	1.0400	0.049	2,228,576	2,124,576	n/a	(1,913,771)	210,805
2018-2019	1.0400	0.051	2,072,888	1,968,888	102,826	0	2,071,714
2019-2020	1.0400	0.053	1,928,091	1,824,091	101,129	0	1,925,221
2020-2021	1.0400	0.055	1,793,324	1,689,324	99,420	0	1,788,744
2021-2022	1.0400	0.057	1,667,950	1,563,950	97,708	0	1,661,658
2022-2023	1.0400	0.059	1,551,345	1,447,345	96,005	0	1,543,350
2023-2024	1.0400	0.061	1,442,895	1,338,895	94,316	0	1,433,211
2024-2025	1.0400	0.063	1,342,031	1,238,031	92,648	0	1,330,679
2025-2026	0.9467	0.064	1,136,241	0	1,213,054	0	1,213,054
2026-2027	1.0400	0.066	1,160,972	0	189,251	0	189,251
2027-2028	1.0400	0.068	1,079,825	0	0	0	0
<b>Totals</b>			<b>19,585,164</b>	<b>13,195,100</b>	<b>2,086,356</b>	<b>(1,913,771)</b>	<b>13,367,686</b>

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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 Claude ISD. First, a thirteen year financial forecast was prepared to establish a baseline without the added values of the renewable energy electric generation 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 2013-2014 fiscal year) were used for state aid and recapture calculation purposes
  - Level 2 of Tier II yield - \$61.86 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 2013.
- A tax collection rate of 100% on current year tax levy with no projected delinquent taxes
- An annual taxable value increase of 1.0% was used to project the district’s taxable value, except as it related to the requested LAVA. The district’s 2013 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 2013-2014 was increased 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 Pullman Road Wind (Table III), the addition of Pullman Road Wind's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Pullman Road Wind's taxable values with a Chapter 313 Agreement (Table V).

**TABLE III – District Revenues *without* Pullman Road Wind:**

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Hold	M&O	Total District Revenue
		Compressed Rate	State Revenue		Harmless Revenue	Taxes > Comp Rate	
2015-2016	132,854,182	1,204,589	1,989,610	0	3,194,199	403,461	3,597,661
2016-2017	134,182,724	1,216,635	1,989,125	0	3,205,759	405,879	3,611,639
2017-2018	135,524,551	1,228,801	1,981,239	0	3,210,040	406,749	3,616,789
2018-2019	136,879,797	1,241,089	1,977,882	0	3,218,971	407,622	3,626,593
2019-2020	138,248,595	1,253,500	1,974,394	0	3,227,894	408,498	3,636,393
2020-2021	139,631,081	1,266,035	1,966,134	0	3,232,169	409,378	3,641,546
2021-2022	141,027,392	1,278,695	1,959,764	0	3,238,459	410,261	3,648,720
2022-2023	142,437,665	1,291,482	1,958,516	0	3,249,998	411,147	3,661,145
2023-2024	143,862,042	1,304,397	1,949,865	0	3,254,262	412,036	3,666,297
2024-2025	145,300,663	1,317,441	1,945,725	0	3,263,166	412,928	3,676,094
2025-2026	146,753,669	1,330,616	1,941,452	0	3,272,068	413,824	3,685,892
2026-2027	148,221,206	1,343,922	1,932,397	0	3,276,318	414,723	3,691,042
2027-2028	149,703,418	1,357,361	1,926,860	0	3,284,220	415,625	3,699,846

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**TABLE IV- District Revenues *with Pullman Road Wind 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				
2015-2016	132,854,182	1,204,589	1,989,610	0	3,194,199	403,461	3,597,661
2016-2017	364,564,724	3,305,508	1,909,866	0	5,215,374	441,090	5,656,464
2017-2018	349,810,701	3,171,734	86,631	341,837	2,916,528	481,434	3,397,962
2018-2019	336,195,997	3,048,289	87,232	196,054	2,939,466	472,942	3,412,408
2019-2020	323,641,995	2,934,462	99,956	80,652	2,953,766	465,206	3,418,972
2020-2021	312,066,081	2,829,503	222,634	71,812	2,980,325	458,162	3,438,486
2021-2022	301,407,192	2,732,859	338,129	63,609	3,007,379	451,775	3,459,154
2022-2023	291,605,465	2,643,987	450,253	56,004	3,038,235	445,999	3,484,234
2023-2024	282,601,942	2,562,352	547,041	48,958	3,060,435	440,789	3,501,223
2024-2025	274,342,063	2,487,459	640,969	42,434	3,085,994	436,105	3,522,098
2025-2026	266,774,869	2,418,848	727,904	36,398	3,110,354	431,908	3,542,262
2026-2027	259,853,106	2,356,088	803,677	30,816	3,128,949	428,163	3,557,113
2027-2028	253,532,718	2,298,781	878,397	25,660	3,151,518	424,839	3,576,357

**TABLE V – District Revenues *with Pullman Road Wind with Chapter 313 Agreement:***

Fiscal Year	Total Taxable Value	M&O Taxes Comp Rate	State Revenue	Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Payment for District Losses	Total District Revenue
2016-2017	364,564,724	3,305,508	1,909,866	0	5,215,374	441,090	0	5,656,464
2017-2018	145,524,551	1,319,471	101,779	141,308	1,279,942	204,250	1,913,771	3,397,962
2018-2019	146,879,797	1,331,759	1,883,585	0	3,215,344	406,366	0	3,621,710
2019-2020	148,248,595	1,344,170	1,880,097	0	3,224,267	407,260	0	3,631,528
2020-2021	149,631,081	1,356,705	1,871,837	0	3,228,542	408,158	0	3,636,699
2021-2022	151,027,392	1,369,365	1,865,468	0	3,234,833	409,058	0	3,643,891
2022-2023	152,437,665	1,382,152	1,864,219	0	3,246,371	409,961	0	3,656,333
2023-2024	153,862,042	1,395,067	1,855,568	0	3,250,635	410,868	0	3,661,503
2024-2025	155,300,663	1,408,111	1,851,428	0	3,259,539	411,777	0	3,671,316
2025-2026	266,774,869	2,418,848	1,811,549	0	4,230,397	283,935	0	4,514,332
2026-2027	259,853,106	2,356,088	803,677	30,816	3,128,949	428,163	0	3,557,113
2027-2028	253,532,718	2,298,781	878,397	25,660	3,151,518	424,839	0	3,576,357

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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 79<sup>th</sup> Legislative Session and became effective for the 2006-2007 school year. Those formula changes 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 funding formulas, some districts had the majority of the district's revenue losses in year three of the LAVA offset with additional state funding. The funding that was available to offset those revenue losses was called Additional State Aid for Tax Reduction (ASATR) and those funds were phased out as a result of legislation in the 82<sup>nd</sup> Legislative Session in 2011. This legislation eliminated the ASATR funding for fiscal year 2017-2018 and thereafter and can have a significant financial impact for LAVA agreements that have a year three in 2017-2018 or later. The loss of ASATR funding can again cause a district to experience a significant loss of funds in year three of the agreement and consequently cause the company to have revenue protection payments during that year that are similar to those experienced prior to 2006-2007.

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## Payments in Lieu of Taxes

Assuming that the District and Pullman Road Wind Power, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Claude ISD by Pullman Road Wind, the projected amount of these payments over the life of the agreement is \$453,394 of the \$13.367 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	Claude ISD Share \$100/ADA	Pullman Road Wind's Share
2015-2016	0	34,356	(34,356)
2016-2017	0	34,442	(34,442)
2017-2018	210,805	34,528	176,277
2018-2019	2,071,714	34,615	2,037,099
2019-2020	1,925,221	34,701	1,890,519
2020-2021	1,788,744	34,788	1,753,956
2021-2022	1,661,658	34,875	1,626,783
2022-2023	1,543,350	34,962	1,508,387
2023-2024	1,433,211	35,050	1,398,161
2024-2025	1,330,679	35,137	1,295,541
2025-2026	1,213,054	35,225	1,177,829
2026-2027	189,251	35,313	153,938
2027-2028	0	35,401	(35,401)
<b>Totals</b>	<b>13,367,686</b>	<b>453,394</b>	<b>12,914,291</b>

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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
PreK thru 5	14	308	164	144
6-12	20	400	196	204
<b>Total</b>	<b>34</b>	<b>708</b>	<b>360</b>	<b>348</b>

The building capacities are based on 22 students per classroom for the elementary campuses, 20 students for the secondary school. Claude ISD is a pre-kindergarten through 12<sup>th</sup> grade district.

Pullman Road Wind Power, LLC 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 seven full-time employees are expected. It is not known whether these would be new employees to the Claude 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 seven positions equates to 4 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Claude 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 Pullman Road Wind Power, LLC, would be beneficial to both Pullman Road Wind and Claude ISD under the current school finance system.

Pullman Road Wind Power, LLC 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, Pullman Road Wind is projected to benefit from an 83% tax savings over the first twelve year period of this agreement. Pullman Road Wind 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.

Claude ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Pullman Road Wind 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.