

**Summary of the District's Financial Impact
of Chapter 313 Agreement
with TX Hereford Wind II, LLC**

Prepared by

Randy McDowell, RTSBA

&

Neal Brown

School Finance Consultants

**Summary of Dimmitt ISD Financial Impact
of the
Limited Appraised Value Application
from
TX Hereford Wind II, LLC**

Introduction

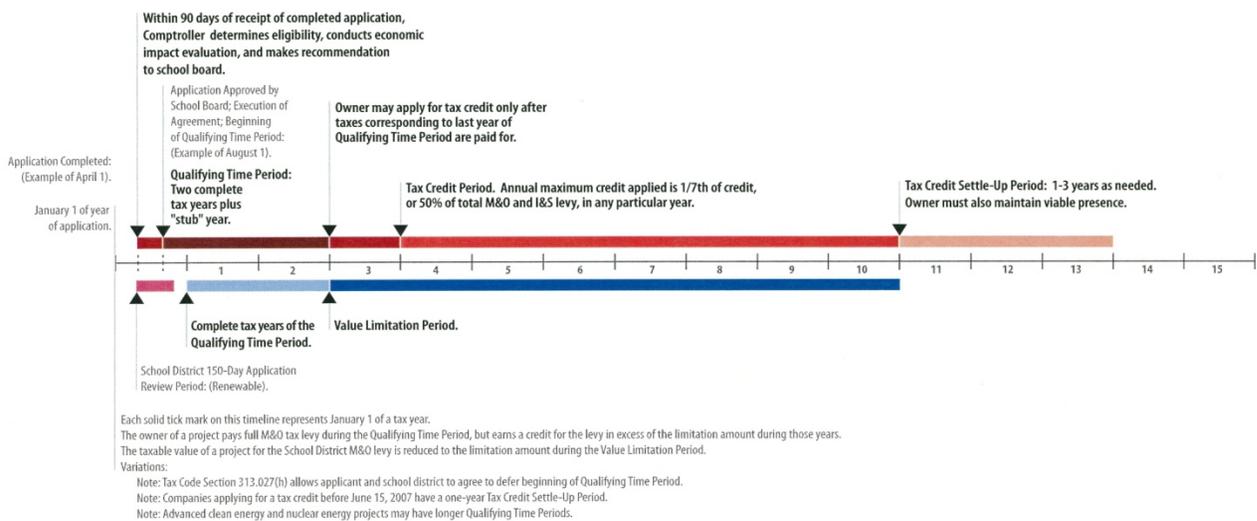
TX Hereford Wind II, LLC applied for a property value limitation from Dimmitt Independent School District under Chapter 313 of the Tax Code. The application was submitted on July 15, 2013 and subsequently approved for consideration by the Dimmitt ISD Board of Trustees. TX Hereford Wind II, LLC (“TX Hereford 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 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.

Dimmitt ISD Financial Impact of Chapter 313 Agreement

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. Dimmitt 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 Dimmitt ISD

Dimmitt ISD Financial Impact of Chapter 313 Agreement

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 Dimmitt 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 TX Hereford 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 Dimmitt ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From TX Hereford Wind	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	4,000,000	n/a	0	4,000,000
Jan. 1, 2015	242,800,000	n/a	0	242,800,000
Jan. 1, 2016	230,660,000	(10,000,000)	220,660,000	10,000,000
Jan. 1, 2017	219,127,000	(10,000,000)	209,127,000	10,000,000
Jan. 1, 2018	208,170,650	(10,000,000)	198,170,650	10,000,000
Jan. 1, 2019	197,762,118	(10,000,000)	187,762,118	10,000,000
Jan. 1, 2020	187,874,012	(10,000,000)	177,874,012	10,000,000
Jan. 1, 2021	178,480,311	(10,000,000)	168,480,311	10,000,000
Jan. 1, 2022	169,556,295	(10,000,000)	159,556,295	10,000,000
Jan. 1, 2023	161,078,481	(10,000,000)	151,078,481	10,000,000
Jan. 1, 2024	153,024,557	n/a	0	153,024,557
Jan. 1, 2025	145,373,329	n/a	0	145,373,329
Jan. 1, 2026	138,104,662	n/a	0	138,104,662

Dimmitt ISD Financial Impact of Chapter 313 Agreement

TX Hereford Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for TX Hereford Wind is \$16.342 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.

Dimmitt 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 and the study projects that it will maintain an M&O tax rate of \$1.04 for the life of this agreement.
- The district currently has outstanding bonded indebtedness that are scheduled to payoff in 2037 and currently has a \$.33 I&S rate. The annual debt payment is approximately \$1,080,000. The additional value of the company will further reduce the I&S tax rate. 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
2014-2015	1.040	0.281	41,600	0	n/a	0	0
2015-2016	1.040	0.218	2,525,120	0	n/a	0	0
2016-2017	1.040	0.220	2,398,864	2,294,864	n/a	(1,394,910)	899,954
2017-2018	1.040	0.223	2,278,921	2,174,921	296,327	0	2,471,247
2018-2019	1.040	0.225	2,164,975	2,060,975	286,192	0	2,347,167
2019-2020	1.040	0.226	2,056,726	1,952,726	275,471	0	2,228,197
2020-2021	1.040	0.228	1,953,890	1,849,890	266,176	0	2,116,066
2021-2022	1.040	0.229	1,856,195	1,752,195	256,360	0	2,008,555
2022-2023	1.040	0.230	1,763,385	1,659,385	246,990	0	1,906,375
2023-2024	1.040	0.231	1,675,216	1,571,216	238,046	0	1,809,262
2024-2025	1.040	0.231	1,591,455	0	555,559	0	555,559
2025-2026	1.040	0.231	1,511,883	0	0	0	0
2026-2027	1.040	0.230	1,436,288	0	0	0	0
Totals			23,254,519	15,316,172	2,421,120	(1,394,910)	16,342,382

Dimmitt ISD Financial Impact of Chapter 313 Agreement

Financial Impact Study

This Financial Impact Study was performed to determine the financial impact of the Limited Appraised Value Agreement on Dimmitt 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 2012.
- A tax collection rate of 100% on current year tax levy with no projected delinquent taxes
- An annual taxable value increase of 2.5% 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 .5% 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.

Dimmitt ISD Financial Impact of Chapter 313 Agreement

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 TX Hereford Wind (Table III), the addition of TX Hereford Wind's taxable values without a Chapter 313 Agreement (Table IV), and the addition of TX Hereford Wind's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues *without* TX Hereford Wind:

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Tier I	Revenue	Total
		Compressed Rate	State Revenue		Total Revenue	Above Comp Rate	District Revenue
2014-2015	245,875,325	2,458,753	6,986,623	0	9,445,376	455,303	9,900,679
2015-2016	252,022,208	2,520,222	6,878,774	0	9,398,996	452,810	9,851,806
2016-2017	258,322,763	2,583,228	6,769,437	0	9,352,664	450,336	9,803,000
2017-2018	264,780,833	2,647,808	6,658,528	0	9,306,336	447,881	9,754,217
2018-2019	271,400,353	2,714,004	6,551,191	0	9,265,195	445,443	9,710,638
2019-2020	278,185,362	2,781,854	6,437,026	0	9,218,880	443,024	9,661,904
2020-2021	285,139,996	2,851,400	6,321,211	0	9,172,611	440,623	9,613,234
2021-2022	292,268,496	2,922,685	6,203,591	0	9,126,276	438,239	9,564,515
2022-2023	299,575,209	2,995,752	6,089,414	0	9,085,166	435,872	9,521,038
2023-2024	307,064,589	3,070,646	5,968,236	0	9,038,882	433,522	9,472,404
2024-2025	314,741,204	3,147,412	5,850,375	0	8,997,787	431,189	9,428,976
2025-2026	322,609,734	3,226,097	5,725,424	0	8,951,521	428,873	9,380,394
2026-2027	330,674,977	3,306,750	5,598,945	0	8,905,695	426,573	9,332,268

Dimmitt ISD Financial Impact of Chapter 313 Agreement

TABLE IV- District Revenues *with* TX Hereford Wind *without* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes			Recapture Amount	Tier I	Revenue	Total
		Compressed	State	Recapture		Total	Above	District
		Rate	Revenue	Amount		Revenue	Comp Rate	Revenue
2014-2015	249,875,325	2,498,753	6,985,823	0	9,484,576	462,565	9,947,141	
2015-2016	494,822,208	4,948,222	6,790,214	0	11,738,436	902,739	12,641,175	
2016-2017	488,982,763	4,889,828	4,295,305	0	9,185,132	430,350	9,615,483	
2017-2018	483,907,833	4,839,078	4,308,103	0	9,147,181	428,860	9,576,041	
2018-2019	479,571,003	4,795,710	4,318,288	0	9,113,998	427,365	9,541,363	
2019-2020	475,947,480	4,759,475	4,315,767	0	9,075,242	425,864	9,501,106	
2020-2021	473,014,008	4,730,140	4,306,016	0	9,036,156	424,356	9,460,512	
2021-2022	470,748,807	4,707,488	4,289,154	0	8,996,642	422,839	9,419,481	
2022-2023	469,131,504	4,691,315	4,270,699	0	8,962,014	421,312	9,383,326	
2023-2024	468,143,070	4,681,431	4,240,457	0	8,921,888	419,774	9,341,662	
2024-2025	467,765,761	4,677,658	4,208,986	0	8,886,644	418,223	9,304,867	
2025-2026	467,983,063	4,679,831	4,166,104	0	8,845,934	416,659	9,262,593	
2026-2027	468,779,639	4,687,796	4,121,570	0	8,809,366	415,081	9,224,448	

TABLE V – District Revenues *with* TX Hereford Wind *with* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes			Recapture Amount	Revenue			Total District Revenue
		State	Recapture	Tier I		Above	Payment	Total	
		Revenue	Amount	Revenue		Comp	for District	Revenue	
	Value	Comp Rate	Revenue	Amount	Revenue	Rate	Losses	Revenue	
2014-2015	249,875,325	2,498,753	6,985,823	0	9,484,576	462,565	0	9,947,141	
2015-2016	494,822,208	4,948,222	6,790,214	0	11,738,436	902,739	0	12,641,175	
2016-2017	268,322,763	2,683,228	5,299,267	0	7,982,494	238,078	1,394,910	9,615,483	
2017-2018	274,780,833	2,747,808	6,556,528	0	9,304,336	447,177	0	9,751,513	
2018-2019	281,400,353	2,814,004	6,449,191	0	9,263,195	444,767	0	9,707,962	
2019-2020	288,185,362	2,881,854	6,335,026	0	9,216,880	442,374	0	9,659,254	
2020-2021	295,139,996	2,951,400	6,219,211	0	9,170,611	439,998	0	9,610,609	
2021-2022	302,268,496	3,022,685	6,101,591	0	9,124,276	437,638	0	9,561,913	
2022-2023	309,575,209	3,095,752	5,987,414	0	9,083,166	435,294	0	9,518,460	
2023-2024	317,064,589	3,170,646	5,866,236	0	9,036,882	432,966	0	9,469,848	
2024-2025	467,765,761	4,677,658	5,719,771	0	10,397,429	617,503	0	11,014,931	
2025-2026	467,983,063	4,679,831	4,166,104	0	8,845,934	416,659	0	9,262,593	
2026-2027	468,779,639	4,687,796	4,121,570	0	8,809,366	415,081	0	9,224,448	

Dimmitt ISD Financial Impact of Chapter 313 Agreement

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.

Dimmitt ISD Financial Impact of Chapter 313 Agreement

Payments in Lieu of Taxes

Assuming that the District and TX Hereford Wind, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Dimmitt ISD by TX Hereford Wind, the projected amount of these payments over the life of the agreement is \$1,372,784 of the \$16.342 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	Dimmitt ISD Share \$100/ADA	TX Hereford Wind's Share
2014-2015	0	108,804	(108,804)
2015-2016	0	108,260	(108,260)
2016-2017	899,954	107,718	792,235
2017-2018	2,471,247	107,180	2,364,068
2018-2019	2,347,167	106,644	2,240,523
2019-2020	2,228,197	106,111	2,122,087
2020-2021	2,116,066	105,580	2,010,486
2021-2022	2,008,555	105,052	1,903,503
2022-2023	1,906,375	104,527	1,801,848
2023-2024	1,809,262	104,004	1,705,257
2024-2025	555,559	103,484	452,075
2025-2026	0	102,967	(102,967)
2026-2027	0	102,452	(102,452)
Totals	16,342,382	1,372,784	14,969,599

Dimmitt ISD Financial Impact of Chapter 313 Agreement

Impact of Projected Student Growth On District Facilities

TABLE VII – Campus Capacity and Available Growth

Campus Name	Grade Level	# of Regular Classrooms	Building Capacity	Current Enrollment	Enrollment Growth Available
Richardson Elem.	EE-4	43	860	558	302
Dimmitt Middle Sch.	5-8	43	774	354	420
Dimmitt High School	9-12	33	594	304	290
Total			2,228	1,216	1,012

The building capacities are based on 20 students per classroom for elementary and 18 students per classroom for secondary. Dimmitt ISD is a early education through 12th grade district.

TX Hereford Wind II, 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 three full-time employees are expected. It is not known whether these would be new employees to the Dimmitt 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 three positions equates to 2 new students.

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

Dimmitt ISD Financial Impact of Chapter 313 Agreement

Conclusion

This Financial Impact Study displays that entering into a Limited Appraised Value Agreement with TX Hereford Wind II, LLC, would be beneficial to both TX Hereford Wind and Dimmitt ISD under the current school finance system.

TX Hereford Wind, 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, TX Hereford Wind is projected to benefit from a 87% tax savings over the first eleven year period of this agreement. TX Hereford 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.

Dimmitt ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require TX Hereford

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.