Summary of Elgin ISD Financial Impact of the Limited Appraised Value Application from RRE Austin Solar, LLC

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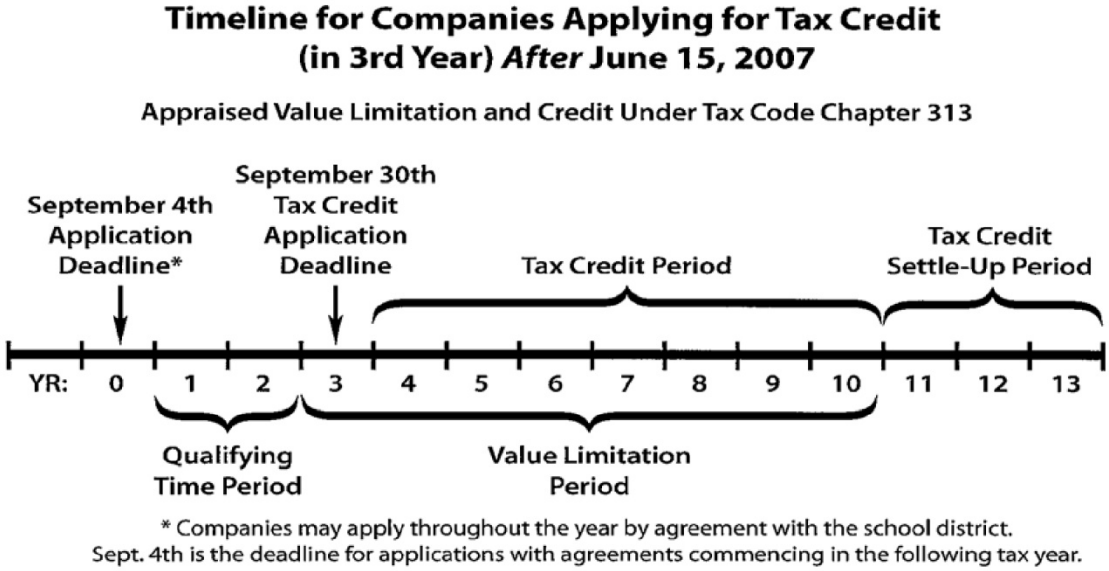
Introduction

RRE Austin Solar, LLC applied for a property value limitation from Elgin Independent School District under Chapter 313 of the Tax Code. The application was submitted on December 3, 2010 and subsequently approved for consideration by the Elgin ISD Board of Trustees. RRE Austin Solar, LLC, is requesting the property value limitation as a "renewable energy electric generation" 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 of 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.



The company must file an application with the school district to qualify for consideration of a Limited Appraised Value Agreement ("LAVA" or "Agreement"). 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. Elgin ISD is considered a Rural category 3 District as categorized with total taxable value of industrial property of greater than $1 million and less than $90 million, thus Elgin ISD 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 Elgin 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 RRE Austin Solar" 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 Elgin ISD.

Table I - Calculation of Taxable Value				
Tax Year	Additional Value from Project	Minimum Qualified Investment	Abated Value	Taxable Value
2012	$ 42,928,000	$ -	$ -	$ 42,928,000
2013	88,727,000	-	-	88,727,000
2014	115,399,000	(10,000,000)	105,399,000	10,000,000
2015	113,261,000	(10,000,000)	103,261,000	10,000,000
2016	110,760,000	(10,000,000)	100,760,000	10,000,000
2017	107,213,000	(10,000,000)	97,213,000	10,000,000
2018	103,576,000	(10,000,000)	93,576,000	10,000,000
2019	99,460,000	(10,000,000)	89,460,000	10,000,000
2020	94,357,000	(10,000,000)	84,357,000	10,000,000
2021	88,644,000	(10,000,000)	78,644,000	10,000,000
2022	82,893,000	-	-	82,893,000
2023	77,721,000	-	-	77,721,000
2024	72,753,000	-	-	72,753,000

RRE Austin Solar, LLC Tax Benefit from Agreement

The projected amount of the net tax savings for RRE Austin Solar, LLC is in excess of $8.5 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					
School Year	Taxes w/o Agreement	Tax Savings w/ Agreement	Tax Credits	Payment of District Revenue Losses	Net Tax Savings
2012-13	$ 661,091	$ -	$ -	$ -	$ -
2013-14	1,366,396	-	-	-	-
2014-15	1,777,145	1,096,150	-	(680,995)	415,155
2015-16	1,744,219	1,073,914	195,602	-	1,269,516
2016-17	1,705,704	1,047,904	195,602	-	1,243,506
2017-18	1,651,080	1,011,015	195,602	-	1,206,617
2018-19	1,595,070	973,190	195,602	-	1,168,792
2019-20	1,531,684	930,384	195,602	-	1,125,986
2020-21	1,453,098	877,313	195,602	-	1,072,915
2021-22	1,365,118	817,898	195,602	-	1,013,499
2022-23	1,276,552	-	-	-	-
2023-24	1,196,903	-	-	-	-
2024-25	1,120,396	-	-	-	-
	$ 18,444,457	$ 7,827,768	$ 1,369,212	$ (680,995)	$ 8,515,985

Financial Impact Study

This Financial Impact Study was performed to determine the financial impact of the Limited Appraised Value Agreement on Elgin 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. The following assumptions were used to compare the financial impact of the LAVA:

- The current state funding formulas (in effect for 2009-2010 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 2009
- A tax collection rate of 100% on current year tax levy with no projected delinquent taxes
- A constant taxable value was used with no projected increase or decrease, except as it related to the requested LAVA. The district's 2009 taxable value was used as a baseline for all projections.
- The district's enrollment is projected to remain constant: therefore, the projected ADA and WADA for school year 2009-2010 was used 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.

The tables displayed below (Table III, IV , V) are provided to show the school's financial impact as a result of the LAVA. These scenarios were computed to compare the District's revenue without the additional taxable value of RRE Austin Solar (Table III), the addition of RRE Austin Solar taxable values without a Chapter 313 Agreement (Table IV), and the addition of RRE Austin Solar taxable values with a Chapter 313 Agreement (Table V).

Table III - District Revenues w/out RRE Austin Solar, LLC

School Year	Total Taxable Value	M&O Taxes Compressed Rate	State Revenue	Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Total District Revenue
2012-13	$ 860,000,000	$ 8,600,000	$ 16,573,084	$ -	$ 25,173,084	$ 344,000	$ 25,517,084
2013-14	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2014-15	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2015-16	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2016-17	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2017-18	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2018-19	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2019-20	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2020-21	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2021-22	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2022-23	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2023-24	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084
2024-25	860,000,000	8,600,000	16,573,084	-	25,173,084	344,000	25,517,084

Table IV - District Revenues w/ RRE Austin Solar, LLC w/out Chapter 313 Agreement

School Year	Total Taxable Value	M&O Taxes Compressed Rate	State Revenue	Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Total District Revenue
2012-13	$ 902,928,000	$ 9,029,280	$ 16,143,804	$ -	$ 25,173,084	$ 361,171	$ 25,534,255
2013-14	948,727,000	9,487,270	15,685,814	-	25,173,084	379,491	25,552,575
2014-15	975,399,000	9,753,990	15,419,094	-	25,173,084	390,160	25,563,244
2015-16	973,261,000	9,732,610	15,440,474	-	25,173,084	389,304	25,562,388
2016-17	970,760,000	9,707,600	15,465,484	-	25,173,084	388,304	25,561,388
2017-18	967,213,000	9,672,130	15,500,954	-	25,173,084	386,885	25,559,969
2018-19	963,576,000	9,635,760	15,537,324	-	25,173,084	385,430	25,558,514
2019-20	959,460,000	9,594,600	15,578,484	-	25,173,084	383,784	25,556,868
2020-21	954,357,000	9,543,570	15,629,514	-	25,173,084	381,743	25,554,827
2021-22	948,644,000	9,486,440	15,686,644	-	25,173,084	379,458	25,552,542
2022-23	942,893,000	9,428,930	15,744,154	-	25,173,084	377,157	25,550,241
2023-24	937,721,000	9,377,210	15,795,874	-	25,173,084	375,088	25,548,172
2024-25	932,753,000	9,327,530	15,845,554	-	25,173,084	373,101	25,546,185

Table V - District Revenues w/ RRE Austin Solar, LLC w/ Chapter 313 Agreement								
School Year	Total Taxable Value	M&O Taxes Compressed Rate	State Revenue	Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Payment For District Losses	Total District Revenue
2012-13	$ 902,928,000	$ 9,029,280	$ 16,143,804	$ -	$ 25,173,084	$ 361,171	$ -	$ 25,534,255
2013-14	948,727,000	9,487,270	15,685,814	-	25,173,084	379,491	-	25,552,575
2014-15	870,000,000	8,700,000	16,473,084	-	25,173,084	348,000	680,995	26,202,079
2015-16	870,000,000	8,700,000	16,473,084	-	25,173,084	348,000	-	25,521,084
2016-17	870,000,000	8,700,000	16,473,084	-	25,173,084	348,000	-	25,521,084
2017-18	870,000,000	8,700,000	16,473,084	-	25,173,084	348,000	-	25,521,084
2018-19	870,000,000	8,700,000	16,473,084	-	25,173,084	348,000	-	25,521,084
2019-20	870,000,000	8,700,000	16,473,084	-	25,173,084	348,000	-	25,521,084
2020-21	870,000,000	8,700,000	16,473,084	-	25,173,084	348,000	-	25,521,084
2021-22	870,000,000	8,700,000	16,473,084	-	25,173,084	348,000	-	25,521,084
2022-23	942,893,000	9,428,930	15,744,154	-	25,173,084	377,157	-	25,550,241
2023-24	937,721,000	9,377,210	15,795,874	-	25,173,084	375,088	-	25,548,172
2024-25	932,753,000	9,327,530	15,845,554	-	25,173,084	373,101	-	25,546,185

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. 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 the 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.

Impact of Projected Student Growth on District Facilities

TABLE VI – Campus Capacity and Available Growth				
Campus	**# of Regular Classrooms**	**Building Capacity**	**Current Enrollment**	**Enrollment Growth Available**
Elgin Elem. N. (PK-2)	29	634	485	149
Elgin Elem. S. (3-5)	38	832	281	551
BTW Elem. (K-5)	28	614	576	38
Neidig Elem. (K-5)	29	653	602	51
Elgin MS (6-8)	45	990	870	120

Elgin HS (9-12)	57	1260	1149	111
Total	**226**	**4983**	**3963**	**1,020**

The building capacities are based on 22 students per classroom as of October 2010.

RRE Austin Solar 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 five full-time employees are expected. It is not known whether these would be new employees to the Elgin 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 state wide figures provided by a demographer, it is projected that each new household would produce 0.5 students. Thus the new five positions equates to 2.5 new students.

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

Conclusion

This Financial Impact Study displays that entering into a Limited Appraised Value Agreement with RRE Austin Solar LLC, would be beneficial to both RRE Austin Solar and Elgin ISD under the current school finance system.

RRE Austin Solar 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, RRE Austin Solar is projected to benefit from $8.5 million in tax savings over the thirteen year period of this agreement. RRE Austin Solar 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.

Elgin ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require RRE Austin Solar 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.