Summary of Financial Impact of the Proposed TPCO America Corporation Project on the Finances of the Gregory-Portland Independent School District Under a Requested Chapter 313 Property Value Limitation

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Introduction

TPCO America Corporation (TPCO) has requested that the Gregory-Portland Independent School District (G-PISD) consider granting a property value limitation under Chapter 313 of the Tax Code for a new seamless steel pipe manufacturing mill. An application was submitted to G-PISD on April 18, 2011. TPCO proposes to invest $738 million to construct the new seamless pipe manufacturing project in G-PISD.

The TPCO project is consistent with the state's goal to "encourage large scale capital investments in this state." When enacted as House Bill 1200 in 2001, the original language in Chapter 313 of the Tax Code made companies engaged in manufacturing, research and development, and renewable electric energy production eligible to apply to school districts for property value limitations. Subsequent legislative changes expanded eligibility to clean coal projects, nuclear power generation and data centers, among others. Given that this project is a large manufacturing facility, it is clear that it is consistent with the goals of Chapter 313 as originally passed in 2001 and as amended in later legislative sessions.

School Finance Mechanics

Under the provisions of Chapter 313, G-PISD may offer a minimum value limitation of $20 million. Based on the application, the qualifying time period would begin with the 2012-13 school year. The full taxable value of the investment is expected to reach $738 million in 2014-15, with depreciation expected to reduce the taxable value of the project over the course of the value limitation agreement.

The provisions of Chapter 313 call for the project to be fully taxable in the 2012-13 and 2013-14 school years, unless the District and the Company agree to an extension of the start of the qualifying time period. For the purpose of this analysis, the qualifying time period is assumed to be the 2012-13 and 2013-14 school years. Beginning in 2014-15, the project would go on the local tax roll at $20 million and remain at that level of taxable value for eight years for maintenance and operations (M&O) taxes. The full taxable value of the project would be assessed for debt service taxes on voter-approved bond issues throughout the limitation period and thereafter, with G-PISD currently levying a $0.20 I&S tax rate.

Under the current school finance system, the property values established by the Comptroller's Office that are used to calculate state aid and recapture lag by one year, a practical consequence of the fact that the Comptroller's Office needs this time to conduct their property value study and now the planned audits of appraisal district operations in alternating years. A taxpayer receiving a value limitation pays M&O taxes on the reduced value for the project in years 3-10 and receives a tax bill for I&S taxes based on the full project value throughout the qualifying and value limitation periods (and thereafter). The school funding formulas use the Comptroller's property

values that reflect a reduction due to the property value limitation in years 4-11 as a result of the one-year lag in property values.

For the school finance system that operated prior to the approval of House Bill 1 (HB 1) in the 2006 special session, the third year was typically problematical for a school district that approved a Chapter 313 value limitation. Based on the data provided in the application, TPCO indicates that $264.3 million in taxable value would be in place in the second year under the agreement. In year three (2014-15) of the agreement, the project is expected to go on the tax roll at $20 million or, if applicable, a higher value limitation amount approved by the G-PISD Board of Trustees.

This difference would result in a revenue loss to the school district in the third year of the agreement that would not be reimbursed by the state, but require some type of compensation from the applicant in the revenue protection provisions of the agreement. In years 4-10, smaller revenue losses are anticipated when the state property values are aligned at the minimum value established by the Board on both the local tax roll and the corresponding state property value study.

HB 1 established a "target" revenue system per student that has the effect of largely neutralizing the third-year revenue losses associated with Chapter 313 property value limitations, at least up to a district's compressed M&O tax rate. The initial six of 17 cents of tax effort that a district may levy above the compressed tax rate are subject to an enriched level of equalization (or no recapture in the case of Chapter 41 school district) and operate more like the pre-HB 1 system. A value limitation must be analyzed for any potential revenue loss associated with this component of the M&O tax levy. For tax effort in excess of the compressed plus six cents rate, equalization and recapture occur at the level of $319,500 per weighted student in average daily attendance (WADA).

Under HB 3646—the school finance system changes approved by the Legislature in 2009—the starting point is the target revenue provisions from HB 1, that are then expanded through the addition of a series of school funding provisions that had operated previously outside the basic allotment and the traditional formula structure, as well as an additional $120 per WADA guarantee.

Under the provisions of HB 3646, school districts do have the potential to earn revenue above the $120 per WADA level, up to a maximum of $350 per WADA above current law. Initial estimates indicate that about 800 school districts are funded at the minimum $120 per WADA level, while approximately 200 school districts are expected to generate higher revenue amounts per WADA. This is significant because changes in property values and related tax collections under a Chapter 313 agreement once again have the potential to affect a school district's base revenue, although probably not to the degree experienced prior to the HB 1 target revenue system. There are several years under this analysis where G-PISD becomes a formula district.

The school finance system is the subject of current legislative debate for 2011-12 and subsequent years. To the extent any statutory changes are made prior to Board action on this application, updates will be prepared to reflect any funding changes that are made.

One key element in any analysis of the school finance implications is the provision for revenue protection in the agreement between the school district and the applicant. In the case of the TPCO project, the agreement calls for a calculation of the revenue impact of the value limitation in years 3-10 of the agreement, under whatever school finance and property tax laws are in effect in each

of those years. This meets the statutory requirement under Section 313.027(f) (1) of the Tax Code to provide school district revenue protection language in the agreement.

Underlying Assumptions

There are several approaches that can be used to analyze the future revenue stream of a school district under a value limitation. Whatever method is used, a reasonable analysis requires the use of a multi-year forecasting model that covers the years in which the agreement is in effect. The Chapter 313 application now requires 15 years of data and analysis on the project being considered for a property value limitation.

The approach used here is to maintain static enrollment and property values in order to isolate the effects of the value limitation under the school finance system. While the target revenue system appears to limit the impact of property value changes for a majority of school districts, changes in underlying property value growth have the potential to influence the revenue stream of a number of school districts.

Student enrollment counts are held constant at 4,058 students in average daily attendance (ADA) in analyzing the effects of the TPCO project on the finances of G-PISD. The District's local tax base reached $1.1 billion for the 2010 tax year. The underlying $1.1 billion taxable value for 2010-11 is maintained for the forecast period in order to isolate the effects of the property value limitation. G-PISD is a moderate-wealth district, with wealth per WADA of approximately $214,868 for the 2010-11 school year. These assumptions are summarized in Table 1.

School Finance Impact

A baseline model was prepared for G-PISD under the assumptions outlined above through the 2025-26 school year. Beyond the 2010-11 school year, no attempt was made to forecast the 88th percentile or Austin ISD yield that influence future state funding. In the analyses for other districts and applicants on earlier projects, these changes appear to have little impact on the revenue associated with the implementation of the property value limitation, since the baseline and other models incorporate the same underlying assumptions.

Under the proposed agreement, a second model is established to make a calculation of the "Baseline Revenue" by adding the value of the proposed TPCO facility to the model, but without assuming that a value limitation is approved. The results of the model are shown in Table 2.

A third model is developed which adds the TPCO value, but imposes the proposed property value limitation effective in the third year, which in this case is the 2014-15 school year. The results of this model are identified as "Value Limitation Revenue Model" under the revenue protection provisions of the proposed agreement (see Table 3). An M&O tax rate of $1.1700 is used throughout this analysis.

A summary of the differences between these models is shown in Table 4. The model results show approximately $30 million a year in net General Fund revenue, after recapture and other adjustments have been made, where appropriate.

Under these assumptions, G-PISD would experience a revenue loss as a result of the implementation of the value limitation in the 2014-15 school year (-$5,390,176). The revenue reduction results from the mechanics of tax effort both in the compressed and enrichment tiers, assuming the same adopted M&O tax rate for both models. It appears that much smaller

differences persist between the two models over the course of the agreement, as a result of reductions in tax effort and in part due to deductions made in state property value study that do not sufficiently offset the reduction in M&O taxes resulting from the impact of the value limitation agreement.

One change that has been incorporated into these models is a more precise estimate of the deduction from the property value study conducted by the Comptroller's Office. At the school district level, a taxpayer benefiting from a property value limitation has two property values assigned by the local appraisal district for their property covered by the limitation: (1) a reduced value for M&O taxes, and (2) the full taxable value for I&S taxes. This situation exists for the eight years that the value limitation is in effect.

Under the property value study conducted by the Comptroller's Office, however, only a single deduction amount is calculated for a property value limitation and the same value is assigned for the M&O and I&S calculations under the school funding formulas. A "composite" value for a school district with a Chapter 313 agreement is calculated, by averaging the impact of the value reduction across the M&O and I&S tax levies. The result of the composite deduction calculation is that the amount deducted for the value limitation from the state value study is always less than the tax benefit that has been provided for the taxpayer receiving the value limitation in school districts that levy M&O taxes. This methodology is currently under review by the Comptroller's Office.

Impact on the Taxpayer

Table 5 summarizes the impact of the proposed property value limitation in terms of the potential tax savings under the property value limitation agreement. The focus of this table is on the M&O tax rate only. As noted previously, the property is fully taxable in the first two years under the agreement. A $1.1700 per $100 of taxable value M&O rate is assumed in 2010-11 and thereafter.

Under the assumptions used here, the potential tax savings from the value limitation total $60.4 million over the life of the agreement. In addition, TPCO would be eligible for a tax credit for taxes paid on value in excess of the value limitation in each of the first two years. The credit amount is paid out slowly through years 4-10 due to statutory limits on the scale of these payments over these seven years. The tax credits are expected to total approximately $2.9 million over the life of the agreement, with no unpaid tax credits anticipated. The key G-PISD revenue losses are associated with reduced local tax collections not fully offset by the state funding formulas that are estimated to be approximately $7 million over the course of the agreement, with the school district to be reimbursed by the state for the tax credit payments. These reductions are to be offset through the revenue protection provisions of the value limitation agreement. In total, the potential net tax benefits are estimated to total $56.3 million over the life of the agreement.

Facilities Funding Impact

The TPCO project remains fully taxable for debt services taxes, with G-PISD currently levying a $0.20 I&S rate. The value of the TPCO project is expected to depreciate over the life of the agreement and beyond, but full access to the additional value will add to the District's projected wealth per ADA that is currently below what is provided for through the state's facilities program. The additional value is expected to help reduce the District's current &0.20 I&S tax rate to $0.135 per $100 in 2014-15—a reduction of 6.5 cents of tax effort—with the rate reduction diminishing as the project value depreciates.

The TPCO project anticipates up to 1,200 construction workers will be on site in 2012 and 1,000 in 2,013. When the plant becomes fully operational, 600 employees are anticipated in 2016. The pattern of similar projects appears to be that many of the construction workers commute and do not relocate their families. The Gregory-Portland ISD area is also accessible from much of the greater Corpus Christi metropolitan area, where there are a number of housing options. Currently, G-PISD has capacity for approximately 56 elementary school students and 110 junior and high school students spread across all of its campuses. A large-scale influx of families to the area during construction or, in the longer-term, the operational phase of the project, could create the need for additional school facilities.

Conclusion

The proposed TPCO seamless pipe manufacturing project enhances the tax base of G-PISD. It reflects continued capital investment in manufacturing, a primary goal of Chapter 313 of the Tax Code, also known as the Texas Economic Development Act.

Under the assumptions outlined above, the potential tax benefits under a Chapter 313 agreement could reach an estimated $56.3 million over the course of the agreement. This amount is net of any anticipated revenue losses for the District. The additional taxable value also enhances the tax base of G-PISD in meeting its future debt service obligations.

Table 1 – Base District Information with TPCO America Corporation Project Value and Limitation Values

Year of Agreement	School Year	ADA	WADA	M&O Tax Rate	I&S Tax Rate	CAD Value with Project	CAD Value with Limitation	CPTD with Project	CPTD With Limitation	CPTD Value with Project per WADA	CPTD Value with Limitation per WADA
1	2012-13	4,099.03	5,216.97	$1.1700	$0.1750	$1,112,988,059	$1,112,988,059	$1,120,960,858	$1,120,960,858	$214,868	$214,868
2	2013-14	4,099.03	5,216.97	$1.1700	$0.1450	$1,377,077,183	$1,377,077,183	$1,153,893,805	$1,153,893,805	$221,181	$221,181
3	2014-15	4,099.03	5,216.97	$1.1700	$0.1350	$1,850,785,559	$1,132,735,479	$1,416,438,284	$1,416,438,284	$271,506	$271,506
4	2015-16	4,099.03	5,216.97	$1.1700	$0.1370	$1,833,895,799	$1,132,735,479	$1,889,208,551	$1,245,439,513	$362,128	$238,729
5	2016-17	4,099.03	5,216.97	$1.1700	$0.1390	$1,817,397,269	$1,132,735,479	$1,872,223,129	$1,244,558,574	$358,872	$238,560
6	2017-18	4,099.03	5,216.97	$1.1700	$0.1410	$1,793,167,019	$1,132,735,479	$1,855,627,475	$1,243,668,503	$355,691	$238,389
7	2018-19	4,099.03	5,216.97	$1.1700	$0.1430	$1,769,877,719	$1,132,735,479	$1,831,298,736	$1,241,897,590	$351,027	$238,050
8	2019-20	4,099.03	5,216.97	$1.1700	$0.1450	$1,744,621,199	$1,132,735,479	$1,807,909,676	$1,240,159,165	$346,544	$237,716
9	2020-21	4,099.03	5,216.97	$1.1700	$0.1470	$1,783,789,950	$1,196,153,380	$1,782,552,217	$1,238,136,786	$341,684	$237,329
10	2021-22	4,099.03	5,216.97	$1.1700	$0.1490	$1,758,838,502	$1,194,485,022	$1,814,540,402	$1,292,494,247	$347,815	$247,748
11	2022-23	4,099.03	5,216.97	$1.1700	$0.1510	$1,734,846,611	$1,734,846,611	$1,789,588,954	$1,288,987,308	$343,032	$247,076
12	2023-24	4,099.03	5,216.97	$1.1700	$0.1530	$1,711,775,630	$1,711,775,630	$1,765,597,063	$1,765,597,063	$338,434	$338,434
13	2024-25	4,099.03	5,216.97	$1.1700	$0.1550	$1,689,588,455	$1,689,588,455	$1,742,526,083	$1,742,526,083	$334,011	$334,011
14	2025-26	4,099.03	5,216.97	$1.1700	$0.1570	$1,668,249,615	$1,668,249,615	$1,720,338,907	$1,720,338,907	$329,758	$329,758
15	2026-27	4,099.03	5,216.97	$1.1700	$0.1590	$1,647,725,092	$1,647,725,092	$1,699,000,067	$1,699,000,067	$325,668	$325,668

***Tier II Yield: $47.65; AISD Yield: $59.97; Equalized Wealth: $476,500 per WADA**

Table 2– "Baseline Revenue Model"--Project Value Added with No Value Limitation

Year of Agreement	School Year	M&O Taxes @ Compressed Rate	State Aid	Additional State Aid-Hold Harmless	Excess Formula Reduction	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Total General Fund
1	2012-13	$10,799,100	$14,927,904	$605,433	$0	$0	$1,835,215	$1,738,586	$0	$29,906,239
2	2013-14	$13,417,448	$14,598,558	$0	$0	$0	$2,280,181	$2,033,394	$0	$32,329,582
3	2014-15	$18,195,499	$11,972,982	$0	-$326,536	$0	$3,092,171	$1,673,233	$0	$34,607,348
4	2015-16	$18,025,517	$7,245,043	$1,061,877	$0	$0	$3,063,284	$709,498	-$223,956	$29,881,263
5	2016-17	$17,859,451	$7,414,906	$1,058,080	$0	$0	$3,035,062	$719,060	-$206,805	$29,879,755
6	2017-18	$17,616,066	$7,580,870	$1,135,501	$0	$0	$2,993,701	$725,057	-$189,182	$29,862,013
7	2018-19	$17,382,096	$7,824,170	$1,126,172	$0	$0	$2,953,939	$738,786	-$164,776	$29,860,386
8	2019-20	$17,128,454	$8,058,072	$1,145,911	$0	$0	$2,910,835	$750,718	-$141,084	$29,852,907
9	2020-21	$17,509,919	$8,311,660	$510,859	$0	$0	$2,975,662	$793,299	-$119,988	$29,981,410
10	2021-22	$17,259,577	$7,991,762	$1,081,098	$0	$0	$2,933,118	$749,917	-$148,302	$29,867,171
11	2022-23	$16,940,344	$8,241,289	$1,150,804	$0	$0	$2,878,867	$760,480	-$122,659	$29,849,126
12	2023-24	$16,711,913	$8,481,220	$1,139,304	$0	$0	$2,840,048	$774,044	-$98,680	$29,847,849
13	2024-25	$16,492,196	$8,711,941	$1,128,300	$0	$0	$2,802,709	$787,082	-$75,626	$29,846,602
14	2025-26	$16,280,843	$8,933,824	$1,117,770	$0	$0	$2,766,791	$799,614	-$53,457	$29,845,385
15	2026-27	$16,077,519	$9,147,223	$1,107,695	$0	$0	$2,732,238	$811,660	-$32,140	$29,844,195

Table 3– "Value Limitation Revenue Model"--Project Value Added with Value Limit

Year of Agreement	School Year	M&O Taxes @ Compressed Rate	State Aid	Additional State Aid-Hold Harmless	Excess Formula Reduction	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Total General Fund
1	2012-13	$10,799,100	$14,927,904	$605,433	$0	$0	$1,835,215	$1,738,586	$0	$29,906,239
2	2013-14	$13,417,448	$14,598,558	$0	$0	$0	$2,280,181	$2,033,394	$0	$32,329,582
3	2014-15	$11,014,640	$11,972,982	$3,344,815	$0	$0	$1,871,844	$1,012,891	$0	$29,217,172
4	2015-16	$11,013,563	$13,683,055	$1,635,819	$0	$0	$1,871,662	$1,408,827	$0	$29,612,926
5	2016-17	$11,012,491	$13,691,865	$1,628,081	$0	$0	$1,871,479	$1,411,012	$0	$29,614,928
6	2017-18	$11,011,421	$13,700,766	$1,620,250	$0	$0	$1,871,297	$1,413,224	$0	$29,616,958
7	2018-19	$11,010,355	$13,718,476	$1,603,606	$0	$0	$1,871,116	$1,417,770	$0	$29,621,323
8	2019-20	$11,009,292	$13,735,861	$1,587,285	$0	$0	$1,870,936	$1,422,243	$0	$29,625,616
9	2020-21	$11,633,259	$13,756,086	$943,092	$0	$0	$1,976,974	$1,508,535	$0	$29,817,945
10	2021-22	$11,615,760	$13,212,484	$1,504,194	$0	$0	$1,974,000	$1,359,899	$0	$29,666,335
11	2022-23	$16,940,344	$13,247,555	$0	-$2,029,523	$0	$2,878,867	$1,996,495	$0	$33,033,738
12	2023-24	$16,711,913	$8,481,220	$1,139,304	$0	$0	$2,840,048	$774,044	-$98,680	$29,847,849
13	2024-25	$16,492,196	$8,711,941	$1,128,300	$0	$0	$2,802,709	$787,082	-$75,626	$29,846,602
14	2025-26	$16,280,843	$8,933,824	$1,117,770	$0	$0	$2,766,791	$799,614	-$53,457	$29,845,385
15	2026-27	$16,077,519	$9,147,223	$1,107,695	$0	$0	$2,732,238	$811,660	-$32,140	$29,844,195

Table 4 – Value Limit less Project Value with No Limit

Year of Agreement	School Year	M&O Taxes @ Compressed Rate	State Aid	Additional State Aid-Hold Harmless	Excess Formula Reduction	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Total General Fund
1	2012-13	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	2013-14	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	2014-15	-$7,180,860	$0	$3,344,815	$326,536	$0	-$1,220,326	-$660,342	$0	-$5,390,176
4	2015-16	-$7,011,954	$6,438,012	$573,942	$0	$0	-$1,191,622	$699,329	$223,956	-$268,337
5	2016-17	-$6,846,961	$6,276,959	$570,002	$0	$0	-$1,163,583	$691,952	$206,805	-$264,827
6	2017-18	-$6,604,645	$6,119,896	$484,749	$0	$0	-$1,122,403	$688,167	$189,182	-$245,054
7	2018-19	-$6,371,741	$5,894,306	$477,435	$0	$0	-$1,082,823	$678,985	$164,776	-$239,062
8	2019-20	-$6,119,163	$5,677,789	$441,374	$0	$0	-$1,039,900	$671,525	$141,084	-$227,291
9	2020-21	-$5,876,659	$5,444,426	$432,233	$0	$0	-$998,688	$715,236	$119,988	-$163,465
10	2021-22	-$5,643,817	$5,220,722	$423,095	$0	$0	-$959,119	$609,982	$148,302	-$200,836
11	2022-23	$0	$5,006,266	-$1,150,804	-$2,029,523	$0	$0	$1,236,016	$122,659	$3,184,613
12	2023-24	$0	$0	$0	$0	$0	$0	$0	$0	$0
13	2024-25	$0	$0	$0	$0	$0	$0	$0	$0	$0
14	2025-26	$0	$0	$0	$0	$0	$0	$0	$0	$0
15	2026-27	$0	$0	$0	$0	$0	$0	$0	$0	$0

Table 5 - Estimated Financial impact of the TPCO America Corporation Project Property Value Limitation Request Submitted to G-PISD at $1.1700 M&O Tax Rate

Year of Agreement	School Year	Project Value	Estimated Taxable Value	Value Savings	Taxes Before Value Limit	Taxes after Value Limit	Tax Savings @ Projected M&O Rate	Tax Credits for First Two Years Above Limit	Tax Benefit to Company Before Revenue Protection	School District Revenue Losses	Estimated Net Tax Benefits
1	2012-13	$252,580	$252,580	$0	$2,955	$2,955	$0	$0	$0	$0	$0
2	2013-14	$264,341,704	$264,341,704	$0	$3,092,798	$3,092,798	$0	$0	$0	$0	$0
3	2014-15	$738,050,080	$20,000,000	$718,050,080	$8,635,186	$234,000	$8,401,186	$0	$8,401,186	-$5,390,176	$3,011,010
4	2015-16	$721,160,320	$20,000,000	$701,160,320	$8,437,576	$234,000	$8,203,576	$408,400	$8,611,975	-$268,337	$8,343,639
5	2016-17	$704,661,790	$20,000,000	$684,661,790	$8,244,543	$234,000	$8,010,543	$408,400	$8,418,943	-$264,827	$8,154,116
6	2017-18	$680,431,540	$20,000,000	$660,431,540	$7,961,049	$234,000	$7,727,049	$408,400	$8,135,449	-$245,054	$7,890,395
7	2018-19	$657,142,240	$20,000,000	$637,142,240	$7,688,564	$234,000	$7,454,564	$408,400	$7,862,964	-$239,062	$7,623,901
8	2019-20	$631,885,720	$20,000,000	$611,885,720	$7,393,063	$234,000	$7,159,063	$408,400	$7,567,463	-$227,291	$7,340,172
9	2020-21	$607,636,570	$20,000,000	$587,636,570	$7,109,348	$234,000	$6,875,348	$408,400	$7,283,748	-$163,465	$7,120,283
10	2021-22	$584,353,480	$20,000,000	$564,353,480	$6,836,936	$234,000	$6,602,936	$408,400	$7,011,335	-$200,836	$6,810,500
11	2022-23	$561,996,580	$561,996,580	$0	$6,575,360	$6,575,360	$0	$0	$0	$0	$0
12	2023-24	$540,527,890	$540,527,890	$0	$6,324,176	$6,324,176	$0	$0	$0	$0	$0
13	2024-25	$519,910,960	$519,910,960	$0	$6,082,958	$6,082,958	$0	$0	$0	$0	$0
14	2025-26	$500,110,960	$500,110,960	$0	$5,851,298	$5,851,298	$0	$0	$0	$0	$0
15	2026-27	$481,094,500	$481,094,500	$0	$5,628,806	$5,628,806	$0	$0	$0	$0	$0
					$95,864,616	**$35,430,352**	**$60,434,264**	**$2,858,798**	**$63,293,062**	**-$6,999,047**	**$56,294,015**

Tax Credit for Value Over Limit in First 2 Years

	Year 1	Year 2	Max Credits
	$0	$2,858,798	$2,858,798
Credits Earned			$2,858,798
Credits Paid			$2,858,798
Excess Credits Unpaid			$0