

**Summary of the District's Financial Impact  
of Chapter 313 Agreement  
with South Plains Wind Energy, LLC**

Prepared by

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**&**

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# Lockney ISD Financial Impact of Chapter 313 Agreement

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**Summary of Lockney ISD Financial Impact  
of the  
Limited Appraised Value Application  
from  
South Plains Wind Energy, LLC**

## **Introduction**

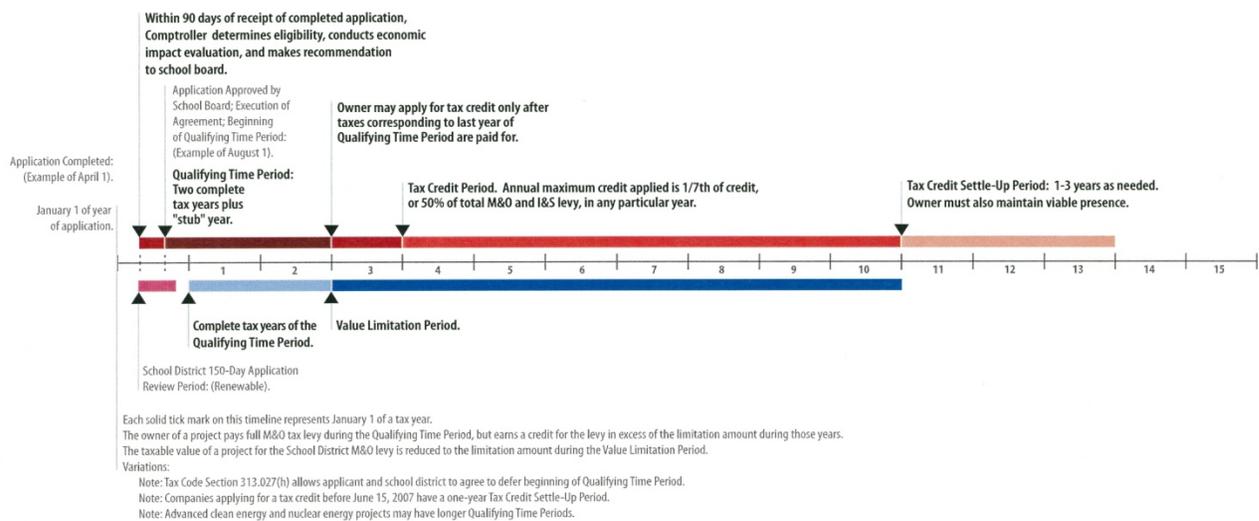
South Plains Wind Energy, LLC applied for a property value limitation from Lockney Independent School District under Chapter 313 of the Tax Code. The application was submitted on April 11, 2013 and subsequently approved for consideration by the Lockney ISD Board of Trustees. South Plains Wind Energy, LLC (“South Plains 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. Lockney 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 Lockney ISD has a minimum qualified investment amount of \$10 million. A qualifying entity’s taxable

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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 Lockney 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 South Plains 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 Lockney ISD.

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

Tax Year	Additional Value From South Plains Wind	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	3,750,000	n/a	0	3,750,000
Jan. 1, 2015	144,000,000	n/a	0	144,000,000
Jan. 1, 2016	131,040,000	(10,000,000)	121,040,000	10,000,000
Jan. 1, 2017	119,246,000	(10,000,000)	109,246,000	10,000,000
Jan. 1, 2018	108,514,000	(10,000,000)	98,514,000	10,000,000
Jan. 1, 2019	98,748,000	(10,000,000)	88,748,000	10,000,000
Jan. 1, 2020	89,861,000	(10,000,000)	79,861,000	10,000,000
Jan. 1, 2021	81,774,000	(10,000,000)	71,774,000	10,000,000
Jan. 1, 2022	74,414,000	(10,000,000)	64,414,000	10,000,000
Jan. 1, 2023	67,717,000	(10,000,000)	57,717,000	10,000,000
Jan. 1, 2024	61,622,000	n/a	0	61,622,000
Jan. 1, 2025	56,076,000	n/a	0	56,076,000
Jan. 1, 2026	51,029,000	n/a	0	51,029,000

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## South Plains Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for South Plains Wind is \$8.807 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.

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

- The District has held a tax ratification election and the study projects that it will maintain an M&O tax rate of \$1.14 for the life of this agreement. The M&O rate for 2015-2016 is projected to drop to \$1.04 due to the rollback tax rate calculations.
- The district currently has no outstanding bonds and no I&S tax is projected in the study. The district could however 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	1.14	0.00	42,750	0	n/a	0	0
2015-2016	1.04	0.00	1,497,600	0	n/a	0	0
2016-2017	1.14	0.00	1,493,856	1,379,856	n/a	(456,996)	922,860
2017-2018	1.14	0.00	1,359,404	1,245,404	57,000	0	1,302,404
2018-2019	1.14	0.00	1,237,060	1,123,060	57,000	0	1,180,060
2019-2020	1.14	0.00	1,125,727	1,011,727	57,000	0	1,068,727
2020-2021	1.14	0.00	1,024,415	910,415	57,000	0	967,415
2021-2022	1.14	0.00	932,224	818,224	57,000	0	875,224
2022-2023	1.14	0.00	848,320	734,320	57,000	0	791,320
2023-2024	1.14	0.00	771,974	657,974	57,000	0	714,974
2024-2025	1.14	0.00	702,491	0	702,491	0	702,491
2025-2026	1.14	0.00	639,266	0	282,109	0	282,109
2026-2027	1.14	0.00	581,731	0	0	0	0
<b>Totals</b>			<b>12,256,817</b>	<b>7,880,980</b>	<b>1,383,600</b>	<b>(456,996)</b>	<b>8,807,584</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 Lockney 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 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 1.0% 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.

# Lockney 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 South Plains Wind (Table III), the addition of South Plains Wind's taxable values without a Chapter 313 Agreement (Table IV), and the addition of South Plains Wind's taxable values with a Chapter 313 Agreement (Table V).

**TABLE III – District Revenues *without* South Plains Wind Energy, LLC:**

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	
2014-2015	97,843,757	978,438	3,092,187	0	4,070,624	512,111	4,582,736
2015-2016	98,822,194	988,222	3,072,773	0	4,060,995	512,895	4,573,890
2016-2017	99,810,416	998,104	3,053,260	0	4,051,364	511,568	4,562,933
2017-2018	100,808,520	1,008,085	3,033,669	0	4,041,755	510,245	4,552,000
2018-2019	101,816,605	1,018,166	3,013,947	0	4,032,113	508,926	4,541,040
2019-2020	102,834,771	1,028,348	2,994,210	0	4,022,558	507,611	4,530,169
2020-2021	103,863,119	1,038,631	2,974,389	0	4,013,020	506,300	4,519,319
2021-2022	104,901,750	1,049,018	2,954,444	0	4,003,462	504,992	4,508,454
2022-2023	105,950,768	1,059,508	2,934,474	0	3,993,982	503,688	4,497,670
2023-2024	107,010,276	1,070,103	2,914,417	0	3,984,519	502,388	4,486,908
2024-2025	108,080,378	1,080,804	2,894,214	0	3,975,018	501,092	4,476,110
2025-2026	109,161,182	1,091,612	2,874,014	0	3,965,626	499,799	4,465,425
2026-2027	110,252,794	1,102,528	2,853,665	0	3,956,193	498,510	4,454,703

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**TABLE IV- District Revenues *with* South Plains Wind Energy *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				
2014-2015	101,593,757	1,015,938	3,092,187	0	4,108,124	531,564	4,639,689
2015-2016	242,822,194	2,428,222	3,036,117	0	5,464,339	470,792	5,935,131
2016-2017	230,850,416	2,308,504	1,613,260	0	3,921,764	479,150	4,400,914
2017-2018	220,054,520	2,200,545	1,723,269	0	3,923,815	479,317	4,403,131
2018-2019	210,330,605	2,103,306	1,821,487	0	3,924,793	479,499	4,404,292
2019-2020	201,582,771	2,015,828	1,908,079	0	3,923,907	479,687	4,403,593
2020-2021	193,724,119	1,937,241	1,986,680	0	3,923,921	479,873	4,403,794
2021-2022	186,675,750	1,866,758	2,055,515	0	3,922,273	480,050	4,402,323
2022-2023	180,364,768	1,803,648	2,116,247	0	3,919,895	480,209	4,400,104
2023-2024	174,727,276	1,747,273	2,169,655	0	3,916,927	480,348	4,397,276
2024-2025	169,702,378	1,697,024	2,216,289	0	3,913,313	480,454	4,393,767
2025-2026	165,237,182	1,652,372	2,256,795	0	3,909,167	480,527	4,389,693
2026-2027	161,281,794	1,612,818	2,291,722	0	3,904,540	480,556	4,385,096

**TABLE V – District Revenues *with* South Plains Wind Energy *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	Total District Revenue
							for District Losses	
2014-2015	101,593,757	1,015,938	3,092,187	0	4,108,124	531,564	0	4,639,689
2015-2016	242,822,194	2,428,222	3,036,117	0	5,464,339	470,792	0	5,935,131
2016-2017	109,810,416	1,098,104	2,616,942	0	3,715,046	228,872	456,996	4,400,914
2017-2018	110,808,520	1,108,085	2,933,669	0	4,041,755	509,388	0	4,551,143
2018-2019	111,816,605	1,118,166	2,913,947	0	4,032,113	508,083	0	4,540,196
2019-2020	112,834,771	1,128,348	2,893,941	0	4,022,289	506,781	0	4,529,070
2020-2021	113,863,119	1,138,631	2,874,161	0	4,012,792	505,483	0	4,518,275
2021-2022	114,901,750	1,149,018	2,854,124	0	4,003,142	504,189	0	4,507,330
2022-2023	115,950,768	1,159,508	2,833,988	0	3,993,496	502,898	0	4,496,393
2023-2024	117,010,276	1,170,103	2,813,795	0	3,983,897	501,610	0	4,485,508
2024-2025	169,702,378	1,697,024	2,793,459	0	4,490,483	717,445	0	5,207,928
2025-2026	165,237,182	1,652,372	2,256,795	0	3,909,167	480,527	0	4,389,693
2026-2027	161,281,794	1,612,818	2,291,722	0	3,904,540	480,556	0	4,385,096

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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. 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 South Plains Wind Energy, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Lockney ISD by South Plains Wind, the projected amount of these payments over the life of the agreement is \$637,141 of the \$8.807 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	Lockney ISD \$100/ADA	South Plains Wind's Share
<b>2014-2015</b>	0	49,750	(49,750)
<b>2015-2016</b>	0	49,626	(49,626)
<b>2016-2017</b>	922,860	49,502	873,358
<b>2017-2018</b>	1,302,404	49,378	1,253,026
<b>2018-2019</b>	1,180,060	49,255	1,130,805
<b>2019-2020</b>	1,068,727	49,132	1,019,596
<b>2020-2021</b>	967,415	49,009	918,407
<b>2021-2022</b>	875,224	48,886	826,337
<b>2022-2023</b>	791,320	48,764	742,556
<b>2023-2024</b>	714,974	48,642	666,332
<b>2024-2025</b>	702,491	48,520	653,971
<b>2025-2026</b>	282,109	48,399	233,710
<b>2026-2027</b>	0	48,278	(48,278)
<b>Totals</b>	<b>8,807,584</b>	<b>637,141</b>	<b>8,170,442</b>

# Lockney ISD Financial Impact of Chapter 313 Agreement

## Impact of Projected Student Growth On District Facilities

**TABLE VII – Campus Capacity and Available Growth**

<b>Campus Name</b>	<b>Grade Level</b>	<b># of Regular Classrooms</b>	<b>Building Capacity</b>	<b>Current Enrollment</b>	<b>Enrollment Growth Available</b>
<b>Lockney Elem</b>	EE thru 5	33	660	247	413
<b>Lockney Jr High</b>	6-8	14	252	110	142
<b>Lockney High</b>	9-12	21	378	156	222
<b>Total</b>		<b>68</b>	<b>1,290</b>	<b>513</b>	<b>777</b>

The building capacities are based on 20 students per classroom for the elementary campuses, 18 students for the middle and high school. Lockney ISD is a early education through 12<sup>th</sup> grade district.

South Plains Wind Energy, 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 six full-time employees are expected. It is not known whether these would be new employees to the Lockney 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 six positions equates to 3 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Lockney 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 South Plains Wind Energy, LLC, would be beneficial to both South Plains Wind and Lockney ISD under the current school finance system.

South Plains Wind Energy, 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, South Plains Wind is projected to benefit from a 79% tax savings over the first twelve year period of this agreement. South Plains 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.

Lockney ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require South Plains 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.