Summary of Financial Impact of the Proposed EC&R Development, LLC Project on the Finances of the Lyford Consolidated Independent School District Under a Requested Chapter 313 Property Value Limitation

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Introduction

EC&R Development, LLC (EC&R) has requested that the Lyford Consolidated Independent School District (LCISD) consider granting a property value limitation under Chapter 313 of the Tax Code for a new renewable electric wind generation project. This project represents an expansion of a project previously approved for a value limitation on December 14, 2009. An application reflecting the expansion was submitted to LCISD on March 1, 2011. EC&R proposes to invest a total of $67.95 million to construct and expand on a wind energy project in LCISD.

The EC&R 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.

School Finance Mechanics

Under the provisions of Chapter 313, LCISD may offer a minimum value limitation of $10 million. Based on the revised application, the qualifying time period began with the 2010-11 school year. The full value of the investment is expected to reach $67.95 million in 2012-13, 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 2010-11 and 2011-12 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, it is assumed that the qualifying time period will be the 2010-11 and 2011-12 school years. Beginning in 2012-13, the project would go on the local tax roll at $10 million and remain at that level of taxable value for eight years for maintenance and operations taxes. The full taxable value of the project could be assessed for debt service taxes on voter-approved bond issues throughout the limitation period, with LCISD currently levying a $0.16 per $100 of taxable value 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 period (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. 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 next six cents of tax effort that a district may levy 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. 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). A value limitation must be analyzed for any potential revenue loss associated with all components of the M&O tax levy.

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 750 school districts are funded at the minimum $120 per WADA level, while approximately 250 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. Based on the analyses prepared for these estimates, LCISD appears to remain a "formula" district after granting the value limitation agreement, eligible for more than the state minimum guarantee of $120 per WADA.

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 EC&R 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 underlying property values in order to isolate the effects of the value limitation under the school finance system. While the new 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 1,422 students in average daily attendance (ADA) in analyzing the effects of the EC&R project on the finances of LCISD. The District's local tax base reached $206.2 million for the 2010 tax year. The underlying $206.2 million taxable value for 2010-11 is maintained for the forecast period in order to isolate the effects of the property value limitation. LCISD is not a property-wealthy district, with wealth per weighted ADA or WADA of approximately $82,465 for the 2010-11 school year. These assumptions are summarized in Table 1.

School Finance Impact

A baseline model was prepared for LCISD 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 that influences future state funding. In the analyses for other districts and applicants on earlier projects, these changes appeared 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 EC&R 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 EC&R value but imposes the proposed property value limitation effective in the third year, which in this case is the 2012-13 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 $1.17 is used throughout this analysis.

A summary of the differences between these models is shown in Table 4. The model results show approximately $13 million a year in net General Fund revenue.

Under these assumptions, LCISD would experience a revenue loss as a result of the implementation of the value limitation in the 2012-13 school year (-$1,032,617). The revenue reduction results largely from the mechanics of six cents equalized at a high level, which reflect the one-year lag in values associated with the property value study. It appears that much smaller differences persist between the two models over the course of the agreement starting in the fourth year, 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. The result of this interpretation is that 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 only.

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 $1.17 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 $4.3 million over the life of the agreement. Because there is no anticipated project value in the first two years, no tax credits are expected for investments made on value in excess of the $10 million limit in each of the first two years of the agreement. The key LCISD revenue losses are associated with the additional six-cent levy equalized at the 88th percentile of property wealth and expected to total approximately -$1,377,780 over the course of the agreement. In total, the potential net tax benefits are estimated to total $2.9 million over the life of the agreement.

Facilities Funding Impact

The EC&R project remains fully taxable for debt services taxes, with LCISD currently levying a $0.160 I&S rate. The value of the EC&R 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 well below what is provided for through the state's facilities program. The additional value is expected to help reduce the District's current I&S tax rate to $0.140 per $100 in 2012-13—$0.020 cents of tax effort. Once the project's addition to the tax roll is incorporated in the Comptroller's 2012 property value study for use in the 2013-14 school year, state facilities funding will be reduced and reversion to the prior I&S tax rate is likely, in the absence of additional value growth.

The EC&R project is not expected to affect LCISD in terms of enrollment. Continued expansion of the renewable energy industry could result in additional employment in the area and an increase in the school-age population, but this project is unlikely to have much impact on a stand-alone basis.

Conclusion

The proposed EC&R wind energy project and expansion enhances the tax base of LCISD. It reflects continued capital investment in renewable electric energy generation, one of the goals 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 $2.9 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 LCISD in meeting its future debt service obligations.

Table 1 – Base District Information with EC&R Development, LLC 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	2010-11	1,422.00	2,240.31	$1.1700	$0.1600	$206,181,579	$206,181,579	$184,746,866	$184,746,866	$82,465	$82,465
2	2011-12	1,422.00	2,240.31	$1.1700	$0.1600	$206,181,579	$206,181,579	$203,758,339	$203,758,339	$90,951	$90,951
3	2012-13	1,422.00	2,240.31	$1.1700	$0.1400	$274,131,579	$216,181,579	$203,758,339	$203,758,339	$90,951	$90,951
4	2013-14	1,422.00	2,240.31	$1.1700	$0.1600	$270,731,579	$216,181,579	$271,708,339	$219,951,469	$121,282	$98,179
5	2014-15	1,422.00	2,240.31	$1.1700	$0.1600	$267,331,579	$216,181,579	$268,308,339	$219,588,110	$119,764	$98,017
6	2015-16	1,422.00	2,240.31	$1.1700	$0.1600	$263,931,579	$216,181,579	$264,908,339	$219,224,751	$118,246	$97,855
7	2016-17	1,422.00	2,240.31	$1.1700	$0.1600	$260,541,579	$216,181,579	$261,508,339	$218,861,392	$116,729	$97,692
8	2017-18	1,422.00	2,240.31	$1.1700	$0.1600	$257,141,579	$216,181,579	$258,118,339	$218,499,102	$115,215	$97,531
9	2018-19	1,422.00	2,240.31	$1.1700	$0.1600	$253,741,579	$216,181,579	$254,718,339	$218,135,744	$113,698	$97,369
10	2019-20	1,422.00	2,240.31	$1.1700	$0.1600	$250,341,579	$216,181,579	$251,318,339	$217,772,385	$112,180	$97,206
11	2020-21	1,422.00	2,240.31	$1.1700	$0.1600	$246,951,579	$246,951,579	$247,918,339	$217,409,026	$110,662	$97,044
12	2021-22	1,422.00	2,240.31	$1.1700	$0.1600	$243,551,579	$243,551,579	$244,528,339	$244,528,339	$109,149	$109,149
13	2022-23	1,422.00	2,240.31	$1.1700	$0.1600	$240,151,579	$240,151,579	$241,128,339	$241,128,339	$107,632	$107,632
14	2023-24	1,422.00	2,240.31	$1.1700	$0.1600	$236,751,579	$236,751,579	$237,728,339	$237,728,339	$106,114	$106,114
15	2024-25	1,422.00	2,240.31	$1.1700	$0.1600	$233,361,579	$233,361,579	$234,328,339	$234,328,339	$104,596	$104,596

***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	2010-11	$1,900,182	$9,635,889	$0	$0	$0	$322,920	$1,315,562	$0	$13,174,552
2	2011-12	$1,900,182	$9,445,765	$0	$0	$0	$322,920	$1,162,685	$0	$12,831,551
3	2012-13	$2,573,220	$9,445,765	$0	$0	$0	$437,297	$1,574,504	$0	$14,030,785
4	2013-14	$2,538,478	$8,769,852	$0	$0	$0	$431,393	$1,056,919	$0	$12,796,642
5	2014-15	$2,504,477	$8,803,853	$0	$0	$0	$425,615	$1,061,369	$0	$12,795,314
6	2015-16	$2,470,475	$8,837,855	$0	$0	$0	$419,836	$1,065,786	$0	$12,793,952
7	2016-17	$2,436,573	$8,871,857	$0	$0	$0	$414,075	$1,070,210	$0	$12,792,715
8	2017-18	$2,402,571	$8,905,759	$0	$0	$0	$408,297	$1,074,498	$0	$12,791,125
9	2018-19	$2,368,570	$8,939,760	$0	$0	$0	$402,518	$1,078,803	$0	$12,789,651
10	2019-20	$2,334,568	$8,973,762	$0	$0	$0	$396,740	$1,083,069	$0	$12,788,140
11	2020-21	$2,278,403	$9,007,764	$0	$0	$0	$387,195	$1,076,819	$0	$12,750,182
12	2021-22	$2,246,862	$9,041,665	$0	$0	$0	$381,835	$1,081,927	$0	$12,752,289
13	2022-23	$2,215,320	$9,075,667	$0	$0	$0	$376,475	$1,087,089	$0	$12,754,551
14	2023-24	$2,183,778	$9,109,669	$0	$0	$0	$371,115	$1,092,245	$0	$12,756,807
15	2024-25	$2,152,330	$9,143,670	$0	$0	$0	$365,770	$1,097,442	$0	$12,759,212

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	2010-11	$1,900,182	$9,635,889	$0	$0	$0	$322,920	$1,315,562	$0	$13,174,552
2	2011-12	$1,900,182	$9,445,765	$0	$0	$0	$322,920	$1,162,685	$0	$12,831,551
3	2012-13	$1,993,691	$9,445,765	$0	$0	$0	$338,811	$1,219,901	$0	$12,998,168
4	2013-14	$1,993,691	$9,287,446	$0	$0	$0	$338,811	$1,105,147	$0	$12,725,095
5	2014-15	$1,993,691	$9,291,080	$0	$0	$0	$338,811	$1,107,536	$0	$12,731,118
6	2015-16	$1,993,691	$9,294,714	$0	$0	$0	$338,811	$1,109,933	$0	$12,737,149
7	2016-17	$1,993,691	$9,298,348	$0	$0	$0	$338,811	$1,112,339	$0	$12,743,188
8	2017-18	$1,993,691	$9,301,971	$0	$0	$0	$338,811	$1,114,745	$0	$12,749,218
9	2018-19	$1,993,691	$9,305,604	$0	$0	$0	$338,811	$1,117,166	$0	$12,755,272
10	2019-20	$1,993,691	$9,309,238	$0	$0	$0	$338,811	$1,119,595	$0	$12,761,335
11	2020-21	$2,279,143	$9,312,872	$0	$0	$0	$387,321	$1,282,683	$0	$13,262,019
12	2021-22	$2,247,602	$9,041,665	$0	$0	$0	$381,961	$1,082,284	$0	$12,753,511
13	2022-23	$2,216,060	$9,075,667	$0	$0	$0	$376,601	$1,087,452	$0	$12,755,779
14	2023-24	$2,184,518	$9,109,669	$0	$0	$0	$371,240	$1,092,615	$0	$12,758,042
15	2024-25	$2,153,069	$9,143,670	$0	$0	$0	$365,896	$1,097,820	$0	$12,760,455

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	2010-11	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	2011-12	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	2012-13	-$579,529	$0	$0	$0	$0	-$98,486	-$354,602	$0	-$1,032,617
4	2013-14	-$544,787	$517,594	$0	$0	$0	-$92,582	$48,228	$0	-$71,547
5	2014-15	-$510,786	$487,227	$0	$0	$0	-$86,804	$46,167	$0	-$64,196
6	2015-16	-$476,784	$456,859	$0	$0	$0	-$81,025	$44,148	$0	-$56,803
7	2016-17	-$442,882	$426,491	$0	$0	$0	-$75,264	$42,128	$0	-$49,527
8	2017-18	-$408,880	$396,212	$0	$0	$0	-$69,486	$40,247	$0	-$41,907
9	2018-19	-$374,879	$365,844	$0	$0	$0	-$63,707	$38,363	$0	-$34,380
10	2019-20	-$340,877	$335,476	$0	$0	$0	-$57,929	$36,526	$0	-$26,804
11	2020-21	$740	$305,108	$0	$0	$0	$126	$205,864	$0	$511,837
12	2021-22	$740	$0	$0	$0	$0	$126	$356	$0	$1,222
13	2022-23	$740	$0	$0	$0	$0	$126	$363	$0	$1,228
14	2023-24	$740	$0	$0	$0	$0	$126	$370	$0	$1,235
15	2024-25	$740	$0	$0	$0	$0	$126	$377	$0	$1,243

Table 5 - Estimated Financial impact of the EC&R Development, LLC Project Property Value Limitation Request Submitted to LCISD at $1.17 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	2010-11	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	2011-12	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	2012-13	$67,950,000	$10,000,000	$57,950,000	$795,015	$117,000	$678,015	$0	$678,015	-$1,032,617	-$354,602
4	2013-14	$64,550,000	$10,000,000	$54,550,000	$755,235	$117,000	$638,235	$0	$638,235	-$71,547	$566,688
5	2014-15	$61,150,000	$10,000,000	$51,150,000	$715,455	$117,000	$598,455	$0	$598,455	-$64,196	$534,259
6	2015-16	$57,750,000	$10,000,000	$47,750,000	$675,675	$117,000	$558,675	$0	$558,675	-$56,803	$501,872
7	2016-17	$54,360,000	$10,000,000	$44,360,000	$636,012	$117,000	$519,012	$0	$519,012	-$49,527	$469,485
8	2017-18	$50,960,000	$10,000,000	$40,960,000	$596,232	$117,000	$479,232	$0	$479,232	-$41,907	$437,325
9	2018-19	$47,560,000	$10,000,000	$37,560,000	$556,452	$117,000	$439,452	$0	$439,452	-$34,380	$405,072
10	2019-20	$44,160,000	$10,000,000	$34,160,000	$516,672	$117,000	$399,672	$0	$399,672	-$26,804	$372,868
11	2020-21	$40,770,000	$40,770,000	$0	$477,009	$477,009	$0	$0	$0	$0	$0
12	2021-22	$37,370,000	$37,370,000	$0	$437,229	$437,229	$0	$0	$0	$0	$0
13	2022-23	$33,970,000	$33,970,000	$0	$397,449	$397,449	$0	$0	$0	$0	$0
14	2023-24	$30,570,000	$30,570,000	$0	$357,669	$357,669	$0	$0	$0	$0	$0
15	2024-25	$27,180,000	$27,180,000	$0	$318,006	$318,006	$0	$0	$0	$0	$0
					$7,234,110	**$2,923,362**	**$4,310,748**	**$0**	**$4,310,748**	**-$1,377,780**	**$2,932,968**

Tax Credit for Value Over Limit in First 2 Years	**Year 1**	**Year 2**	**Max Credits**
	$0	$0	$0
	Credits Earned		$0
	Credits Paid		$0
	Excess Credits Unpaid		$0