

**Summary of the District's Financial Impact
of Chapter 313 Agreement
with Fiber Winds Energy, LLC**

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Lorenzo ISD Financial Impact of Chapter 313 Agreement

Summary of Lorenzo ISD Financial Impact of the Limited Appraised Value Application from Fiber Winds Energy, LLC

Introduction

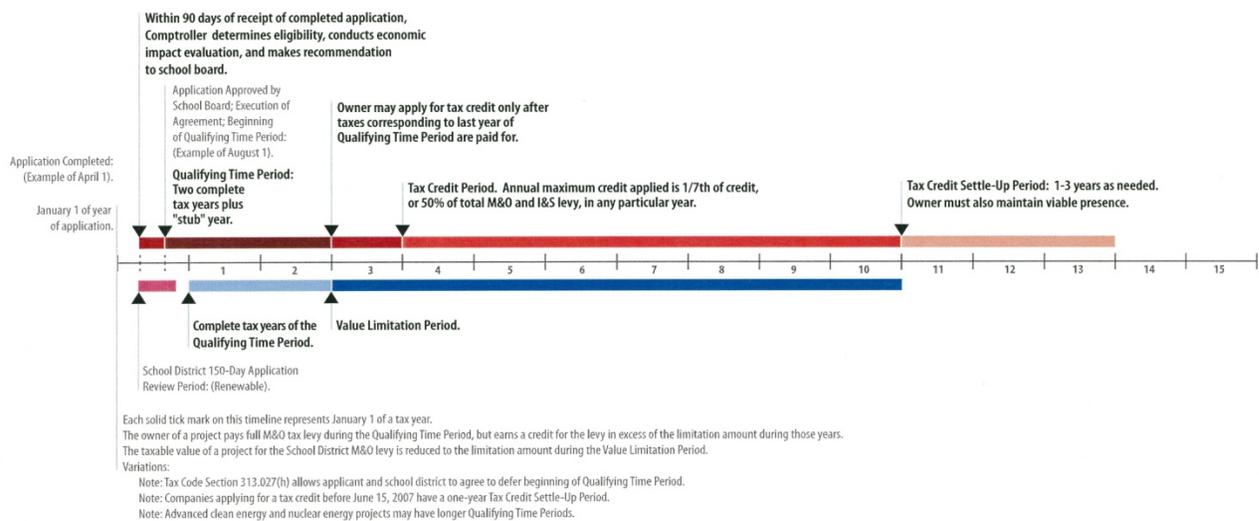
Fiber Winds Energy, LLC applied for a property value limitation from Lorenzo Independent School District under Chapter 313 of the Tax Code. The application was submitted on November 18, 2013 and subsequently approved for consideration by the Lorenzo ISD Board of Trustees. Fiber Winds Energy, LLC (“Fiber Winds”), 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.

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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. Lorenzo 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 Lorenzo ISD has a minimum qualified investment amount of \$10 million. A qualifying entity’s taxable value would be

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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 Lorenzo 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 Fiber Winds” 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 Lorenzo ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From Fiber Winds	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2015	2,500,000	n/a	0	2,500,000
Jan. 1, 2016	79,848,000	n/a	0	79,848,000
Jan. 1, 2017	75,855,600	(10,000,000)	65,855,600	10,000,000
Jan. 1, 2018	72,062,820	(10,000,000)	62,062,820	10,000,000
Jan. 1, 2019	68,459,679	(10,000,000)	58,459,679	10,000,000
Jan. 1, 2020	65,036,695	(10,000,000)	55,036,695	10,000,000
Jan. 1, 2021	61,784,860	(10,000,000)	51,784,860	10,000,000
Jan. 1, 2022	58,695,617	(10,000,000)	48,695,617	10,000,000
Jan. 1, 2023	55,760,836	(10,000,000)	45,760,836	10,000,000
Jan. 1, 2024	52,972,795	(10,000,000)	42,972,795	10,000,000
Jan. 1, 2025	50,324,155	n/a	0	50,324,155
Jan. 1, 2026	47,807,947	n/a	0	47,807,947
Jan. 1, 2027	45,417,550	n/a	0	45,417,550

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Fiber Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Fiber Wind is \$4.499 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.

Lorenzo 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 that would approve a M&O tax rate in excess of \$1.0271; therefore, the study assumes that they will maintain a M&O tax rate of \$1.0271. The M&O rate for 2016-2017 & 2025-2026 is projected to drop to \$1.0171 due to the rollback tax rate calculations.
- The district currently has no outstanding bonded indebtedness and therefore no I&S tax rate was projected in the study. The district could pursue a bond election and issue 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
2015-2016	1.0271	0.000	25,678	0	n/a	0	0
2016-2017	1.0171	0.000	812,134	0	n/a	0	0
2017-2018	1.0271	0.000	779,113	676,403	n/a	(634,112)	42,291
2018-2019	1.0271	0.000	740,157	637,447	51,355	0	688,802
2019-2020	1.0271	0.000	703,149	600,439	51,355	0	651,794
2020-2021	1.0271	0.000	667,992	565,282	51,355	0	616,637
2021-2022	1.0271	0.000	634,592	531,882	51,355	0	583,237
2022-2023	1.0271	0.000	602,863	500,153	51,355	0	551,508
2023-2024	1.0271	0.000	572,720	470,010	51,355	0	521,365
2024-2025	1.0271	0.000	544,084	441,374	51,355	0	492,729
2025-2026	1.0171	0.000	511,847	0	350,939	0	350,939
2026-2027	1.0271	0.000	491,035	0	0	0	0
2027-2028	1.0271	0.000	466,484	0	0	0	0
Totals			7,551,847	4,422,989	710,424	(634,112)	4,499,302

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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 Lorenzo 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 2013.
- A tax collection rate of 100% on current year tax levy with no projected delinquent taxes
- An annual taxable value increased by 1.0% was used to project the district’s taxable value, except as it related to the requested LAVA. The district’s 2013 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 2013-2014 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.

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

TABLE III – District Revenues *without* Fiber Winds 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	
2015-2016	195,201,857	1,887,797	785,944	0	2,673,741	172,097	2,845,837
2016-2017	197,053,876	1,905,708	792,447	0	2,698,155	191,625	2,889,780
2017-2018	198,924,415	1,923,798	759,020	0	2,682,818	192,505	2,875,324
2018-2019	200,813,659	1,942,069	730,398	0	2,672,467	191,526	2,863,993
2019-2020	202,721,795	1,960,522	696,597	0	2,657,120	190,551	2,847,671
2020-2021	204,649,013	1,979,161	667,601	0	2,646,761	189,582	2,836,343
2021-2022	206,595,503	1,997,985	630,816	0	2,628,801	188,618	2,817,419
2022-2023	208,561,458	2,016,998	599,050	0	2,616,048	187,658	2,803,706
2023-2024	219,047,073	2,118,404	567,011	0	2,685,415	194,170	2,879,585
2024-2025	219,202,544	2,119,908	450,583	0	2,570,491	184,081	2,754,571
2025-2026	219,378,069	2,121,605	439,044	0	2,560,649	181,408	2,742,057
2026-2027	220,535,850	2,132,802	422,038	0	2,554,840	183,066	2,737,906
2027-2028	221,767,368	2,144,712	400,026	0	2,544,738	182,197	2,726,935

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TABLE IV- District Revenues *with* Fiber Winds Energy *without* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes			Hold	M&O	Total District Revenue
		Compressed Rate	State Revenue	Recapture Amount	Harmless Revenue	Taxes > Comp Rate	
2015-2016	197,701,857	1,911,975	761,766	0	2,673,741	174,278	2,848,019
2016-2017	276,901,876	2,677,918	745,289	0	3,423,207	223,078	3,646,286
2017-2018	274,780,015	2,657,398	60,633	121,059	2,596,972	188,712	2,785,684
2018-2019	272,876,479	2,638,988	63,019	113,461	2,588,546	187,917	2,776,463
2019-2020	271,181,474	2,622,596	61,091	107,885	2,575,802	187,121	2,762,922
2020-2021	269,685,708	2,608,130	63,775	104,241	2,567,664	186,323	2,753,988
2021-2022	268,380,363	2,595,506	65,340	102,444	2,558,402	185,524	2,743,927
2022-2023	267,257,075	2,584,643	59,324	102,414	2,541,553	184,724	2,726,277
2023-2024	274,807,909	2,657,667	59,541	107,395	2,609,813	189,749	2,799,562
2024-2025	272,175,339	2,632,208	60,651	188,051	2,504,808	181,866	2,686,674
2025-2026	269,702,224	2,608,290	62,936	175,143	2,496,084	181,059	2,677,143
2026-2027	268,343,797	2,595,153	60,274	164,277	2,491,150	180,897	2,672,046
2027-2028	267,184,918	2,583,945	64,852	163,478	2,485,319	180,128	2,665,447

TABLE V – District Revenues *with* Fiber Winds Energy *with* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes Comp Rate	State Revenue	Recapture Amount	Hold	M&O	Payment for District Losses	Total District Revenue
					Harmless Revenue	Taxes > Comp Rate		
2015-2016	197,701,857	1,911,975	761,766	0	2,673,741	174,278	0	2,848,019
2016-2017	276,901,876	2,677,918	745,289	0	3,423,207	223,078	0	3,646,286
2017-2018	208,924,415	2,020,508	79,297	92,045	2,007,760	143,812	634,112	2,785,684
2018-2019	210,813,659	2,038,779	630,787	0	2,669,566	191,350	0	2,860,915
2019-2020	212,721,795	2,057,232	596,986	0	2,654,219	190,378	0	2,844,597
2020-2021	214,649,013	2,075,871	567,989	0	2,643,859	189,412	0	2,833,271
2021-2022	216,595,503	2,094,695	531,205	0	2,625,900	188,451	0	2,814,351
2022-2023	218,561,458	2,113,708	499,438	0	2,613,146	187,495	0	2,800,641
2023-2024	229,047,073	2,215,114	467,399	0	2,682,513	193,668	0	2,876,181
2024-2025	229,202,544	2,216,618	350,972	0	2,567,590	184,002	0	2,751,592
2025-2026	269,702,224	2,608,290	327,919	0	2,936,209	179,184	0	3,115,393
2026-2027	268,343,797	2,595,153	60,274	164,277	2,491,150	180,897	0	2,672,046
2027-2028	267,184,918	2,583,945	64,852	163,478	2,485,319	180,128	0	2,665,447

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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 79th Legislative Session and became effective for the 2006-2007 school year. Those formula changes 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 funding formulas, some districts had the majority of the district's revenue losses in year three of the LAVA offset with additional state funding. The funding that was available to offset those revenue losses was called Additional State Aid for Tax Reduction (ASATR) and those funds were phased out as a result of legislation in the 82nd Legislative Session in 2011. This legislation eliminated the ASATR funding for fiscal year 2017-2018 and thereafter and can have a significant financial impact for LAVA agreements that have a year three in 2017-2018 or later. The loss of ASATR funding can again cause a district to experience a significant loss of funds in year three of the agreement and consequently cause the company to have revenue protection payments during that year that are similar to those experienced prior to 2006-2007.

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Payments in Lieu of Taxes

Assuming that the District and Fiber Winds Energy, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Lorenzo ISD by Fiber Winds, the projected amount of these payments over the life of the agreement is \$338,062 of the \$4.499 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	Lorenzo ISD \$100/ADA	Fiber Wind's Share
2015-2016	0	26,794	(26,794)
2016-2017	0	26,660	(26,660)
2017-2018	42,291	26,527	15,764
2018-2019	688,802	26,394	662,408
2019-2020	651,794	26,262	625,532
2020-2021	616,637	26,131	590,506
2021-2022	583,237	26,000	557,237
2022-2023	551,508	25,870	525,637
2023-2024	521,365	25,741	495,624
2024-2025	492,729	25,612	467,116
2025-2026	350,939	25,484	325,455
2026-2027	0	25,357	(25,357)
2027-2028	0	25,230	(25,230)
Totals	4,499,302	338,062	4,161,240

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Impact of Projected Student Growth On District Facilities

TABLE VII – Campus Capacity and Available Growth

Grade Level	# of Regular Classrooms	Building Capacity	Current Enrollment	Enrollment Growth Available
Pre-K thru 6	16	352	189	163
7 thru 12	12	240	116	124
Total	28	592	305	287

The building capacities are based on 22 students per classroom for the elementary campuses, 20 students for the Jr. High and high school. Lorenzo ISD is a pre-kindergarten through 12th grade district.

Fiber Winds 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 three full-time employees are expected. It is not known whether these would be new employees to the Lorenzo 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 Lorenzo 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 Fiber Winds Energy, LLC, would be beneficial to both Fiber Winds and Lorenzo ISD under the current school finance system.

Fiber Winds 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, Fiber Winds is projected to benefit from a 78% tax savings over the first eleven year period of this agreement. Fiber Winds 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.

Lorenzo ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Fiber Winds 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.