

FINAL REPORT

Summary of the Financial Impact of the Proposed Heartland Wind, LLC Wind Turbine Project on the Kenedy County Wide CSD Under a Requested Chapter 313 Property Value Limitation As Amended

**Prepared By
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Introduction

Heartland Wind, LLC (HW) has requested that the Kenedy County Wide CSD (KCWCSD) grant a property value limitation under Chapter 313 of the Texas Tax Code for the construction and operation of 84 2.4 megawatt wind driven turbines. An application has been submitted by HW to KCWCSD and the KCWCSD Board of Trustees approved that application on October 29, 2008. An amended application has now been submitted. HW proposes to invest \$250,003,200 in this project as set forth in the amended application. This project is consistent with the state's goal for economic development, the expanded intent of House Bill 1200 as passed by the Texas Legislature in 2001, and Chapter 313 of the Texas Tax Code.

Background

In accordance with the amended application, this project will be fully taxable for both maintenance and operations (M&O) and debt service (I&S) purposes in the first two years (school years 2013-14 and 2014-15) which represent the project's qualifying time period. KCWCSD intends to offer a value limitation for this project of \$30 million effective school year 2015-16 through 2022-23. As a result, the project will impact the local tax roll of the school district at that same amount for M&O taxes only. Taxes for debt service, voter approved projects financed by the sale of bonds, will continue at the full taxable value. I&S taxes for any future projects approved by the voters of the district will also be assessed against the full taxable value. Depreciation will reduce the taxable value of the project over time.

While taxes are collected by the district on the current year county appraisal district (CAD) value, the state funding formulas use the comptroller's property tax division (CPTD) value for the purpose of calculating the district's required local shares within the funding tiers of that formula. The current year CPTD value is a reflection of last year's CAD value; therefore, it lags behind the CAD value in all years. As a result, state and local revenues are generated by two different values in any given year.

With the passage of House Bill 1 in the 2006 special legislative session, the school finance system in Texas moved from one that was formula driven with a maximum M&O tax rate of \$1.50 to one that was, and continues to be, target revenue driven at a maximum tax rate of generally \$1.04, voter approval for a higher tax rate up to \$1.17 notwithstanding. This means that most districts now receive additional state aid for tax reduction (ASATR) to offset the loss in state and local funds at the new maximum \$1.04 M&O tax cap vs. what was previously generated at the \$1.50 maximum M&O tax cap.

With the passage of Senate Bill 1 in the 2011 special legislative session, funding reductions to the school finance system in Texas amounted to \$4 billion for the biennium or \$2 billion each year of the biennium. To accomplish these reductions, schools' regular program allotments are reduced by 7.61 percent in school year 2011-12 while those same calculated allotments are reduced by 2 percent in school year 2012-13 in addition to the ASATR funding also being reduced by 7.65%. The stated goal is for ASATR revenue to be completely eliminated by school year 2017-18. Current legal challenges and future

legislative sessions will determine the course of school finance beginning in school year 2013-14 and beyond.

Assumptions

As required of chapter 313 projects, 15 years of data must be assimilated in order to produce revenue projections for that same number of years. The revenue projections for the KCWCSD that accompany this project, therefore, adhere the following general assumptions:

1. The current school funding system and formulas as set forth in Senate Bill 1 were used to project state aid; although, no guarantee exists that this system or these formulas will remain in effect after the 2012-13 school year.
2. This system and its formulas are driven by student data, property values, and tax collections. As a result, certain assumptions were made concerning each of these details.
3. The student counts were held constant across the 15 years.
4. The certified CAD taxable value for school year 2011-12 was used as the base value and held constant to which the estimated project values for each year were added. These projected CAD values were then used for the CPTD values in each of the following years based on the lag between these two values as heretofore explained.
5. Tax collections each year were based on the district's 2011-12 adopted M&O rate of \$1.06 and the adopted I&S rate of \$0.03 and an assumed collection rate of 100 percent each year.

These assumptions allow for the isolation of the effects of the property value limitation on the district's finances. The detail of these assumptions are summarized and depicted in Table I.

School Finance Impact on the District

In accordance with the proposed, amended agreement and under the assumptions heretofore outlined, two models were prepared for comparison purposes in an effort to determine the projected financial impact, if any, to KCWCSD resulting from this amended agreement.

The first model projects state and local revenue to the district under the amended agreement. In it, the taxable value of the project each year is added to the district's baseline taxable value including those years in which the value limitation is applicable.

The second model projects state and local revenue to the district without the provisions of the amended agreement. In this model, no value limitation is applied to the district's base taxable value; instead, the full taxable value of the project when added to the district's base year taxable value is used in place of the value limitation.

A summary of the differences is depicted in a separate spreadsheet entitled "Exhibit B." Significant losses to the district are noted in years 3-10 totaling \$10,852,144, the recapture of a portion of the district's tax dollars notwithstanding. When the recapture of

a portion of the tax dollars as calculated in the state funding formulas is factored in, however, the losses to the district in years 3-10 are reduced to a net total of \$784,257. These annual and total losses are attributable to the following district specific factors:

1. KCWCSD is a chapter 41, grade K-6 school district that serves a relatively stable student population of 85 students each year and has a property wealth of over \$1 billion with the inclusion the values projected by the HW project. As a result, the district has a wealth per pupil that exceeds \$11 million.
2. Because of its relatively high wealth per pupil, the district generates no state aid other than its staff allotment and the per capita apportionment from the state's available school fund. The district's calculated Tier I allotment is completely offset by the Tier I calculated local share.
3. The district is completely formula driven under the state's new finance plan with tax collections exceeding its calculated target revenue per WADA, all of which precludes the generation of ASATR.
4. As a result, the district is almost totally dependent upon tax collections for financing educational costs; therefore, imposing the tax value limitation in years 3-10 when compared to the taxes collected at the full taxable value each year without the value limitation produces the projected losses in revenue resulting from the chapter 313 agreement as depicted in Exhibit B.

In addition, no revenue gains are noted in other years except for a slight gain of \$61,599 in year 11 resulting from a lag in the CPTD vs. the CAD value which is more favorable to the district, specifically the CPTD value, under the value limitation afforded by the chapter 313 agreement.

NOTE: Because ASATR funding has the effect of offsetting school district revenue losses arising from limitations on the value of a qualified investment, any reduction of ASATR funding after the 2012-13 school year will most likely not be the contributing factor toward significant increases in the amount of estimated revenue protection, if any, payable by the applicant to the district pursuant to the tax limitation agreement.

Impact on the Taxpayer (HW)

As heretofore mentioned, the property resulting from this project is fully taxable in the first two years under this agreement. In year three, the tax value limitation applies, but only to the M&O taxes collected at the assumed M&O tax rate of \$1.06 per \$100 of taxable value.

Under the assumptions used herein, the potential tax savings resulting from the value limitation total \$10,852,144. In addition, HW is eligible for a tax credit on taxes paid on value in excess of the value limitation in each of the first two years. The cumulative tax credits are projected to be \$1,597,950 initially based on the M&O taxes paid on the value of qualified property that exceeds the limitation amount during the two full years of the qualifying time period. However, chapter 313.104(2)(B) of the Texas Tax Code caps the value of tax credits paid in years 4-10 of the agreement at an amount not to exceed one-half of the total M&O and I&S taxes paid each year by the taxpayer. Applying that provision, the value of the tax credits paid in years 4-10 of the agreement are projected to

be \$1,276,268. The Texas Education Agency (TEA) issues the reminder that these estimates will be recalculated based on current data prior to any issuance of the tax credits. The school district is to be reimbursed by the state for tax credit payments.

A separate spreadsheet entitled “chapter 313 cost spreadsheet – amended agreement” illustrates the projected tax credits.

Facilities Funding Impact

The HW project remains fully taxable for I&S taxes. This stipulation applies not only to the district’s current debt, but also to any future debt the district’s voters may choose to incur.

KCWCSO is not eligible for existing debt allotment (EDA) or instructional facilities allotment (IFA) assistance from the state. As a result, increasing CPTD values resulting from taxable value added by the project will have no direct impact on state facilities assistance. However, the increase in the local taxable value resulting from the project and the fact that the full value of this project remains fully taxable should provide the opportunity for decreasing the current I&S tax rate assuming the addition of no new bonded debt.

Summary

While some uncertainty abounds with regard to the future of the state’s public school finance system, the following points appear to currently apply to the HW project under and the KCWCSD under the amended agreement:

1. It meets the intent of the economic development initiative for the State of Texas.
2. It substantially enhances the district’s I&S tax base.
3. It causes substantial financial loss for the district with regard to M&O earnings in years 3-10 of the project.
4. It produces substantial tax incentives and savings for HW.

Table I - Data Assumptions for HW & KCWCSD Chapter 313 Project - Amended Agreement (March 2012)

Year of Agreement	School Year	Tax Year	ADA	WADA	M&O Tax Rate	I&S Tax Rate	CAD Value	CAD Value	CPTD Value	CPTD Value
							With Limitation	Without Limitation	With Limitation	Without Limitation
1	2013-14	2013	75.93	151.878	\$1.06	\$0.03	\$959,410,847	\$959,410,847	\$959,410,847	\$959,410,847
2	2014-15	2014	75.93	151.878	\$1.06	\$0.03	\$1,140,160,147	\$1,140,160,847	\$959,410,847	\$959,410,847
3	2015-16	2015	75.93	151.878	\$1.06	\$0.03	\$989,410,847	\$1,134,742,147	\$1,140,160,847	\$1,140,160,847
4	2016-17	2016	75.93	151.878	\$1.06	\$0.03	\$989,410,847	\$1,129,485,847	\$989,410,847	\$1,134,742,147
5	2017-18	2017	75.93	151.878	\$1.06	\$0.03	\$989,410,847	\$1,124,387,187	\$989,410,847	\$1,129,485,847
6	2018-19	2018	75.93	151.878	\$1.06	\$0.03	\$989,410,847	\$1,119,427,453	\$989,410,847	\$1,124,387,187
7	2019-20	2019	75.93	151.878	\$1.06	\$0.03	\$989,410,847	\$1,114,616,972	\$989,410,847	\$1,119,427,453
8	2020-21	2020	75.93	151.878	\$1.06	\$0.03	\$989,410,847	\$1,109,951,308	\$989,410,847	\$1,114,616,972
9	2021-22	2021	75.93	151.878	\$1.06	\$0.03	\$989,410,847	\$1,105,426,059	\$989,410,847	\$1,109,951,308
10	2022-23	2022	75.93	151.878	\$1.06	\$0.03	\$989,410,847	\$1,101,036,952	\$989,410,847	\$1,105,426,059
11	2023-24	2023	75.93	151.878	\$1.06	\$0.03	\$1,096,779,838	\$1,096,779,838	\$989,410,847	\$1,101,036,952
12	2024-25	2024	75.93	151.878	\$1.06	\$0.03	\$1,092,650,890	\$1,092,650,890	\$1,096,779,838	\$1,096,779,838
13	2025-26	2025	75.93	151.878	\$1.06	\$0.03	\$1,088,646,100	\$1,088,646,100	\$1,092,650,890	\$1,092,650,890
14	2026-27	2026	75.93	151.878	\$1.06	\$0.03	\$1,084,761,872	\$1,084,761,872	\$1,088,646,100	\$1,088,646,100
15	2027-28	2027	75.93	151.878	\$1.06	\$0.03	\$1,080,994,423	\$1,080,994,423	\$1,084,761,872	\$1,084,761,872

Year of Project	Year of Tax Credit	Year of Tax Credit Settle-Up	Year of Limit	School Year	Tax Year	Market Value with no Exemptions	I&S Taxable Value of Investment	Difference from previous year's value	Annual Depreciation Rate	M&O Property Value Limitation Amount	M&O Exempt Value of Property	M&O Tax Base Years 1-13	M&O Tax Rate	M&O Tax Levy without Limitation	M&O Tax Levy with Limitation	I&S Tax Rate	I&S Tax Levy	Sum of M&O and I&S Tax Levies BEFORE CREDIT CREDITED	Sum of M&O and I&S Tax Levies AFTER CREDIT CREDITED	Tax Savings Due to Limitation	
From Agreement List						From School Finance Report															
School District:			Kenedy County Wide CSD			Kenedy County Wide CSD															
Project:			Heartland Wind Farm (Penascal III Amended Agreement)			Heartland Wind Farm (Penascal III Amended Agreement)															
County:			Kenedy County			Kenedy County															
Eligibility Category:			Renewable Energy Electric Generation			Renewable Energy Electric Generation															
Master App. Number:			???			???															
Limitation Amount:			\$30,000,000			\$30,000,000															
0			2012-13	2012		\$0	\$0			\$0	\$0	\$0	\$1.0600	\$0	\$0	\$0.0300	\$0	\$0	\$0	\$0	
1			2013-14	2013		\$0	\$0			\$0	\$0	\$0	\$1.0600	\$0	\$0	\$0.0300	\$0	\$0	\$0	\$0	
2			2014-15	2014		\$180,750,000	\$180,750,000	-\$180,750,000	-	\$0	\$0	\$180,750,000	\$1.0600	\$1,915,950	\$1,915,950	\$0.0300	\$54,225	\$1,970,175	\$1,970,175	\$0	
3			1	2015-16	2015	\$175,331,300	\$175,331,300	\$5,418,700	3.00%	\$30,000,000	\$145,331,300	\$30,000,000	\$1.0600	\$1,858,512	\$318,000	\$0.0300	\$52,599	\$370,599	\$370,599	\$1,540,512	
4	1		2	2016-17	2016	\$170,075,000	\$170,075,000	\$5,256,300	3.00%	\$30,000,000	\$140,075,000	\$30,000,000	\$1.0600	\$1,802,795	\$318,000	\$0.0300	\$51,023	\$369,023	\$184,511	\$1,484,795	
5	2		3	2017-18	2017	\$164,976,340	\$164,976,340	\$5,098,660	3.00%	\$30,000,000	\$134,976,340	\$30,000,000	\$1.0600	\$1,748,749	\$318,000	\$0.0300	\$49,493	\$367,493	\$183,746	\$1,430,749	
6	3		4	2018-19	2018	\$160,016,606	\$160,016,606	\$4,959,734	3.01%	\$30,000,000	\$130,016,606	\$30,000,000	\$1.0600	\$1,696,176	\$318,000	\$0.0300	\$48,005	\$366,005	\$183,002	\$1,378,176	
7	4		5	2019-20	2019	\$155,206,125	\$155,206,125	\$4,810,481	3.01%	\$30,000,000	\$125,206,125	\$30,000,000	\$1.0600	\$1,645,185	\$318,000	\$0.0300	\$46,562	\$364,562	\$182,281	\$1,327,185	
8	5		6	2020-21	2020	\$150,540,461	\$150,540,461	\$4,665,664	3.01%	\$30,000,000	\$120,540,461	\$30,000,000	\$1.0600	\$1,595,729	\$318,000	\$0.0300	\$45,162	\$363,162	\$181,581	\$1,277,729	
9	6		7	2021-22	2021	\$146,015,212	\$146,015,212	\$4,525,249	3.01%	\$30,000,000	\$116,015,212	\$30,000,000	\$1.0600	\$1,547,761	\$318,000	\$0.0300	\$43,805	\$361,805	\$180,902	\$1,229,761	
10	7		8	2022-23	2022	\$141,626,105	\$141,626,105	\$4,389,107	3.01%	\$30,000,000	\$111,626,105	\$30,000,000	\$1.0600	\$1,501,237	\$318,000	\$0.0300	\$42,488	\$360,488	\$180,244	\$1,183,237	
11		1		2023-24	2023	\$137,368,991	\$137,368,991			\$0	\$0	\$137,368,991	\$1.0600	\$1,456,111	\$1,456,111	\$0.0300	\$41,211	\$1,497,322	\$1,175,640	\$0	
12		2		2024-25	2024	\$133,240,043	\$133,240,043			\$0	\$0	\$133,240,043	\$1.0600	\$1,412,344	\$1,412,344	\$0.0300	\$39,972	\$1,452,316	\$1,452,316	\$0	
13		3		2025-26	2025	\$129,235,253	\$129,235,253			\$0	\$0	\$129,235,253	\$1.0600	\$1,369,894	\$1,369,894	\$0.0300	\$38,771	\$1,408,664	\$1,408,664	\$0	
																			Limitation Tax Savings:	\$10,852,144	
2009 market value of the qualified property as reported by company											NA										
M&O Taxable Value of Qualified Property (in 2009) if limitation were not in effect (I&S Value)											NA										
Dollar amount of M&O levy that would have been imposed without the limitation (through 2009)											NA										
M&O Taxable Value of Qualified Property (in 2009) with limitation in effect (Limited M&O Value)											NA										
Dollar amount of M&O levy imposed with the limitation (through 2009)											NA										
Estimated tax benefit (school levy loss) from value limitation through 2009 (Diff. between...)											NA										
Estimated 13 year total M&O levy without any limit or credit (11 years for projects starting in 2003 & 2004)											\$19,550,443										
Estimated 13 (or 11) year total gross tax benefit to company/levy loss to district (through limitation and tax credit)											\$12,450,094										
Amt. of Gross 13 (or 11) Year Tax Benefit ÷ Est. 13 (or 11) year total levy without any limit or credit = Percentage Exempted											63.68%										
Number of qualifying jobs committed to:						6															
CDNO Value:						131-001															
Subchapter B or Subchapter C:						Sub. C															

Project Owner:	Heartland Wind (HW) LLC
Project Name:	Kenedy County ESD #1 (Amended Application)
First Year of Qualifying Time Period:	2013 tax year 2013-14 school year
First Year of Value Limitation (Third Year):	2015 tax year 2015-16 school year
First Year of Tax Credit:	2016 tax year 2016-17 school year
Limitation Amount:	\$30,000,000
District Name:	Kenedy County Wide CSD
County-District Number:	131-001
Amount Eligible During Qualifying Period:	\$250,003,200 (Amended)

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A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
Date Agreement Was Approved by School Board	Year of Agreement	Tax Year	School Year	Taxable Value of Qualified Property (Without a Limitation)	Difference Between Limitation Amount and Taxable Value (Exempt Value)	ISD's Local Tax Roll for Project (Current Tax Year)	Adopted M&O Tax Rate	Adopted Debt (I&S) Tax Rate	Total Tax Rate	Projected Full Taxes (Before Exemptions)	Amount of M&O Levy in Excess of Limitation Amount in Years of Qualifying Period	Amount Credited Current & Future	Total M&O and I&S Levy to Calculate Max Credit Payback	M&O Tax Levy	50% Tax Credit Cap	Cumulative Tax Credit Issued (Net)
10/29/2008	0	2012	2012-13	0		0	1.06	0.03	1.09	0	0	NA	NA	NA	NA	NA
	1	2013	2013-14	0		0	1.06	0.03	1.09	0	-	NA	NA	NA	NA	NA
	2	2014	2014-15	180,750,000		180,750,000	1.06	0.03	1.09	1,970,175	1,915,950	NA	NA	318,000	NA	NA
	3	2015	2015-16	175,331,300	145,331,300	30,000,000	1.06	0.03	1.09	1,911,111	1,858,512	273,707	370,599	45,428.57	185,300	0
	4	2016	2016-17	170,075,000	140,075,000	30,000,000	1.06	0.03	1.09	1,853,818	1,802,795	273,707	369,023	45,428.57	184,511	184,511
	5	2017	2017-18	164,976,340	134,976,340	30,000,000	1.06	0.03	1.09	1,798,242	1,748,749	273,707	367,493	45,428.57	183,746	183,746
	6	2018	2018-19	160,016,606	130,016,606	30,000,000	1.06	0.03	1.09	1,744,181	1,696,176	273,707	366,005	45,428.57	183,002	183,002
	7	2019	2019-20	155,206,125	125,206,125	30,000,000	1.06	0.03	1.09	1,691,747	1,645,185	273,707	364,562	45,428.57	182,281	182,281
	8	2020	2020-21	150,540,461	120,540,461	30,000,000	1.06	0.03	1.09	1,640,891	1,595,729	273,707	363,162	45,428.57	181,581	181,581
	9	2021	2021-22	146,015,212	116,015,212	30,000,000	1.06	0.03	1.09	1,591,566	1,547,761	273,707	361,805	45,428.57	180,902	180,902
	10	2022	2022-23	141,626,105	111,626,105	30,000,000	1.06	0.03	1.09	1,543,725	1,501,237	273,707	360,488	45,428.57	180,244	180,244
	11	2023	2023-24	137,368,991	0	137,368,991	1.06	0.03	1.09	1,497,322	1,456,111	0	0	0	0	321,681
	12	2024	2024-25	133,240,043	0	133,240,043	1.06	0.03	1.09	1,452,316	1,412,344	0	0	0	0	0
	13	2025	2025-26	129,235,253	0	129,235,253	1.06	0.03	1.09	1,408,664	1,369,894	0	0	0	0	0
Total												1,915,949	318,000	1,276,268	1,597,949	