

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

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**Summary of Spearman ISD Financial Impact
of the
Limited Appraised Value Application
from
Palo Duro Wind Energy, LLC**

Introduction

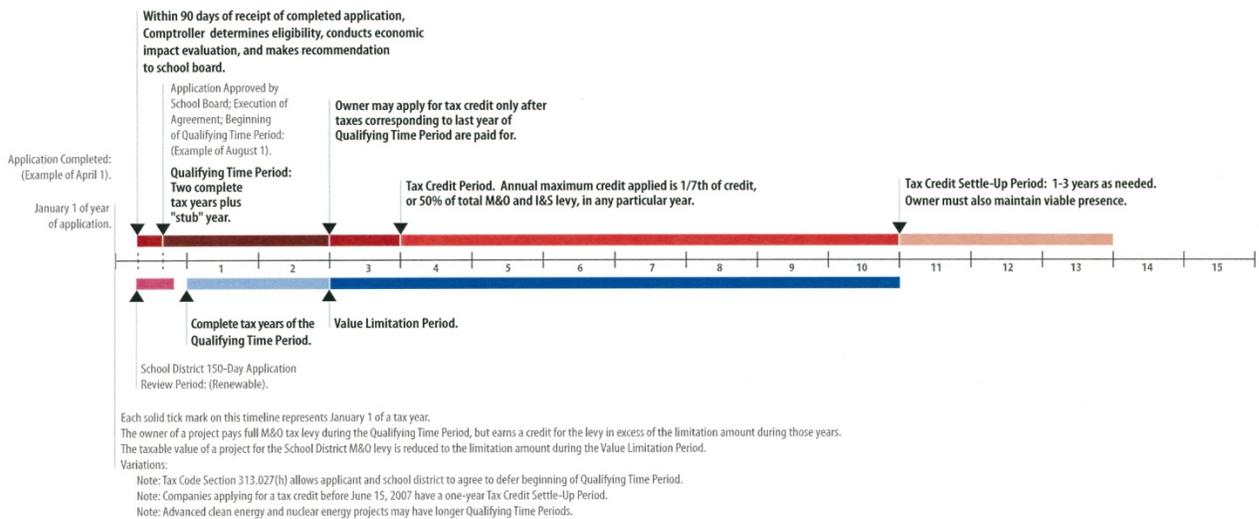
Palo Duro Wind Energy, LLC applied for a property value limitation from Spearman Independent School District under Chapter 313 of the Tax Code. The application was submitted on July 25, 2013 and subsequently approved for consideration by the Spearman ISD Board of Trustees. Palo Duro Wind Energy, LLC (“Palo Duro 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 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. Spearman 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 Spearman ISD

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has a minimum qualified investment amount of \$10 million. A qualifying entity’s taxable 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 Spearman 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 Palo Duro 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 Spearman ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From Palo Duro Wind	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	1,657,500	n/a	0	1,657,500
Jan. 1, 2015	63,648,000	n/a	0	63,648,000
Jan. 1, 2016	58,556,000	(10,000,000)	48,556,000	10,000,000
Jan. 1, 2017	53,872,000	(10,000,000)	43,872,000	10,000,000
Jan. 1, 2018	49,562,000	(10,000,000)	39,562,000	10,000,000
Jan. 1, 2019	45,597,000	(10,000,000)	35,597,000	10,000,000
Jan. 1, 2020	41,949,000	(10,000,000)	31,949,000	10,000,000
Jan. 1, 2021	38,593,000	(10,000,000)	28,593,000	10,000,000
Jan. 1, 2022	35,506,000	(10,000,000)	25,506,000	10,000,000
Jan. 1, 2023	32,666,000	(10,000,000)	22,666,000	10,000,000
Jan. 1, 2024	30,053,000	n/a	0	30,053,000
Jan. 1, 2025	27,649,000	n/a	0	27,649,000
Jan. 1, 2026	25,437,000	n/a	0	25,437,000

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Palo Duro Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Palo Duro Wind is \$3.397 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.

Spearman 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 and the study projects that it will maintain an M&O tax rate of \$1.04 for the life of this agreement.
- The district currently has outstanding bonded indebtedness that are scheduled to payoff in 2032 and currently has a \$.1996 I&S rate. The annual debt payment is approximately \$800,000. The additional value of the company will further reduce the I&S tax rate. The district could 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	1.040	0.189	17,238	0	n/a	0	0
2015-2016	1.040	0.164	661,939	0	n/a	0	0
2016-2017	1.040	0.164	608,982	504,982	n/a	(34,075)	470,908
2017-2018	1.040	0.164	560,269	456,269	79,706	0	535,974
2018-2019	1.040	0.164	515,445	411,445	79,706	0	491,150
2019-2020	1.040	0.163	474,209	370,209	79,706	0	449,914
2020-2021	1.040	0.163	436,270	332,270	79,706	0	411,975
2021-2022	1.040	0.163	401,367	297,367	79,706	0	377,073
2022-2023	1.040	0.163	369,262	265,262	79,706	0	344,968
2023-2024	1.040	0.162	339,726	235,726	78,459	0	314,186
2024-2025	1.040	0.161	312,551	0	1,246	0	1,246
2025-2026	1.040	0.161	287,550	0	0	0	0
2026-2027	1.040	0.160	264,545	0	0	0	0
Totals			5,249,353	2,873,530	557,939	(34,075)	3,397,395

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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 Spearman 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 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 increase slightly; therefore, the projected ADA and WADA for school year 2012-2013 was increased 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.

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

TABLE III – District Revenues *without* Palo Duro Wind:

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Tier I	Revenue	Total
		Compressed Rate	State Revenue		Total Revenue	Above Comp Rate	District Revenue
2014-2015	422,045,091	4,220,451	3,410,806	0	7,631,257	347,101	7,978,358
2015-2016	426,265,542	4,262,655	3,387,679	0	7,650,335	347,953	7,998,288
2016-2017	430,528,197	4,305,282	3,364,179	0	7,669,461	348,808	8,018,268
2017-2018	434,833,479	4,348,335	3,060,790	0	7,409,124	349,664	7,758,788
2018-2019	439,181,814	4,391,818	3,038,018	0	7,429,836	350,523	7,780,359
2019-2020	443,573,632	4,435,736	3,014,809	0	7,450,546	351,384	7,801,929
2020-2021	448,009,368	4,480,094	2,985,986	0	7,466,079	352,247	7,818,326
2021-2022	452,489,462	4,524,895	2,961,898	0	7,486,792	353,112	7,839,905
2022-2023	457,014,356	4,570,144	2,932,183	0	7,502,327	353,980	7,856,307
2023-2024	461,584,500	4,615,845	2,907,193	0	7,523,038	354,850	7,877,888
2024-2025	466,200,345	4,662,003	2,876,565	0	7,538,569	355,723	7,894,291
2025-2026	470,862,348	4,708,623	2,850,660	0	7,559,283	356,597	7,915,881
2026-2027	475,570,972	4,755,710	2,819,832	0	7,575,542	357,474	7,933,016

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TABLE IV- District Revenues *with* Palo Duro Wind *without* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes			Recapture Amount	Tier I	Revenue	Total
		Compressed	State	Total		Above	District	
		Rate	Revenue	Revenue		Comp Rate	Revenue	
2014-2015	423,702,591	4,237,026	3,394,231	0	7,631,257	348,458	7,979,715	
2015-2016	489,913,542	4,899,135	3,087,282	0	7,986,418	403,669	8,390,087	
2016-2017	489,084,197	4,890,842	2,778,619	0	7,669,461	344,584	8,014,045	
2017-2018	488,705,479	4,887,055	2,469,844	0	7,356,898	345,764	7,702,663	
2018-2019	488,743,814	4,887,438	2,494,342	0	7,381,780	346,924	7,728,704	
2019-2020	489,170,632	4,891,706	2,514,629	0	7,406,336	348,067	7,754,402	
2020-2021	489,958,368	4,899,584	2,525,821	0	7,425,404	349,192	7,774,596	
2021-2022	491,082,462	4,910,825	2,538,550	0	7,449,374	350,301	7,799,675	
2022-2023	492,520,356	4,925,204	2,542,702	0	7,467,906	351,394	7,819,300	
2023-2024	494,250,500	4,942,505	2,548,866	0	7,491,371	352,474	7,843,845	
2024-2025	496,253,345	4,962,533	2,546,899	0	7,509,433	353,539	7,862,972	
2025-2026	498,511,348	4,985,113	2,547,365	0	7,532,478	354,592	7,887,071	
2026-2027	501,007,972	5,010,080	2,540,491	0	7,550,571	355,634	7,906,205	

TABLE V – District Revenues *with* Palo Duro Wind *with* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes			Recapture Amount	Revenue			Total District Revenue
		State	Total	Tier I		Above	Payment		
		Revenue	Revenue	Revenue		Comp	for District		
	Value	Comp Rate	Revenue	Amount	Revenue	Rate	Losses	Revenue	
2014-2015	423,702,591	4,237,026	3,394,231	0	7,631,257	348,458	0	7,979,715	
2015-2016	489,913,542	4,899,135	3,087,282	0	7,986,418	403,669	0	8,390,087	
2016-2017	440,528,197	4,405,282	3,264,179	0	7,669,461	310,509	34,075	8,014,045	
2017-2018	444,833,479	4,448,335	2,959,790	0	7,408,124	349,550	0	7,757,675	
2018-2019	449,181,814	4,491,818	2,937,018	0	7,428,836	350,410	0	7,779,246	
2019-2020	453,573,632	4,535,736	2,913,809	0	7,449,546	351,272	0	7,800,818	
2020-2021	458,009,368	4,580,094	2,884,986	0	7,465,079	352,137	0	7,817,216	
2021-2022	462,489,462	4,624,895	2,860,898	0	7,485,792	353,003	0	7,838,796	
2022-2023	467,014,356	4,670,144	2,831,183	0	7,501,327	353,872	0	7,855,199	
2023-2024	471,584,500	4,715,845	2,806,193	0	7,522,038	354,744	0	7,876,782	
2024-2025	496,253,345	4,962,533	2,773,559	0	7,736,093	370,531	0	8,106,624	
2025-2026	498,511,348	4,985,113	2,547,365	0	7,532,478	354,592	0	7,887,071	
2026-2027	501,007,972	5,010,080	2,540,491	0	7,550,571	355,634	0	7,906,205	

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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. 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 Palo Duro Wind Energy, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Spearman ISD by Palo Duro Wind, the projected amount of these payments over the life of the agreement is \$1,080,924 of the \$3.397 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	Spearman ISD Share \$100/ADA	Palo Duro Wind's Share
2014-2015	0	81,908	(81,908)
2015-2016	0	82,113	(82,113)
2016-2017	470,908	82,318	388,590
2017-2018	535,974	82,524	453,451
2018-2019	491,150	82,730	408,420
2019-2020	449,914	82,937	366,977
2020-2021	411,975	83,144	328,831
2021-2022	377,073	83,352	293,721
2022-2023	344,968	83,561	261,407
2023-2024	314,186	83,769	230,416
2024-2025	1,246	83,979	(82,733)
2025-2026	0	84,189	(84,189)
2026-2027	0	84,399	(84,399)
Totals	3,397,395	1,080,924	2,316,471

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Impact of Projected Student Growth On District Facilities

TABLE VII – Campus Capacity and Available Growth

Campus Name	Grade Level	# of Regular Classrooms	Building Capacity	Current Enrollment	Enrollment Growth Available
Gus Birdwell Elem	EE-5	30	600	455	145
Spearman Jr High	6-8	18	324	197	127
Spearman High School	9-12	31	558	227	331
Total		79	1,482	879	603

The building capacities are based on 20 students per classroom for elementary and 18 students per classroom for secondary. Spearman ISD is a early education through 12th grade district.

Palo Duro 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 two full-time employees are expected. It is not known whether these would be new employees to the Spearman 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 two positions equates to 1 new students.

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

Palo Duro 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, Palo Duro Wind is projected to benefit from a 73% tax savings over the first eleven year period of this agreement. Palo Duro 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.

Spearman ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Palo Duro 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.