CHAPTER 313 PROPERTY VALUE LIMITATION FINANCIAL IMPACT OF THE PROPOSED IKO SOUTHWEST, INC. PROJECT IN THE HILLSBORO INDEPENDENT SCHOOL DISTRICT

PREPARED BY

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TEXAS SCHOOL FINANCE EXPERTS

SEPTEMBER 29, 2014

Executive Summary

IKO Southwest, Inc. (Company) has requested that the Hillsboro Independent School Distirct (HISD) consider granting a property value limitation under Chapter 313 of the Tax Code, also known as the Texas Economic Development Act. In an application submitted to HISD on April 22, 2014 the Company plans to invest $78.6 million to construct a facility that will manufacture asphalt roofing shingles. Moak, Casey & Associates (MCA) has been retained to prepare an analysis of this value limitaiton and help the district navigate the overall application and agreement process.

The IKO Southwest 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, Chapter 313 of the Tax Code granted eligibility to companies engaged in manufacturing, research and development, and renewable electric energy production 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.

Under the provisions of Chapter 313, HISD may offer a minimum value limitation of $20 million. This value limitation, under the proposed application, will begin in the 2017-18 school year and remain at that level of taxable value for Maintenance and Operations (M&O) tax purposes for ten years. The entire project value will remain taxable for I&S or debt service purposes for the term of the agreement (and thereafter).

MCA's initial school finance analysis is detailed in this report. The overall conclusions are as follows, but please read all of the subsquent details in the report below for more information.

Total Revenue-Loss Payment owed to HISD	$771,363
Total Savings to Company after Revenue-Loss Payment	$4,865,699

Application Process

After the school district has submitted an application to the Comptroller's Office (Comptroller), the Comptroller begins reviewing the application for completeness. The purpose of this review is to ensure all necessary information and attachments are included in the application before moving forward with the formal review process. At the time the application is determined complete—typically 4-6 weeks after receipt—the Comptroller will deliver a Completeness Letter to the company and the school district.

The issuance of a Completeness Letter is important because it sets the timeline for the rest of process. From the date of issuance, the Comptroller has 90 days to conduct its full review of the project and provide its certificate for a limitation on appraised value. After the certificate is received, the district has until the 150th day from the receipt of the Completeness Letter or until December 31st, whichever is earlier, to adopt an agreement.

Each value limitation agreement is unique and to ensure the proper revenue-loss protection and maximum supplemental benefits are in place, an understanding of the school district's finances and a thorough knowledge of the Ch. 313 statute are required. MCA and O'Hanlon, McCollom & Demerath will make every effort to ensure the best interests of HISD are secured. After the Comptroller's certificate is received, O'Hanlon, McCollom & Demerath will contact the school district to discuss the value limitation agreement and begin negotiations with the Company, under the direction of the District. A final version of the agreement must be submitted to the Comptroller for review 30 days prior to final adoption by the school district's board of trustees.

At the final board meeting, the school board will review the Value Limitation Agreement and Findings of Fact that detail the project's conformance with state law. Prior to this meeting, O'Hanlon, McCollom & Demerath will provide the district with the necessary agenda language and any additional action items that are needed for board consideration and action.

How the 313 Agreement Interacts with Texas School Finance

M&O funding for Texas schools relies on two methods of finance: local school district property taxes and state aid. State aid consists of three components: Tier I, Tier II and additional state aid for tax reduction.

Tier I provides state funding based on ADA and special student populations, as well as transportation. The local funds for Tier I are M&O taxes raised at the compressed tax rate—$1.00 per $100 of taxable value for most school districts (less any recapture payments owed to the state from high property-wealth school districts).

Tier II guarantees a specific amount of funding per student in weighted average daily attendance for each penny of a school district's tax effort above a specified level. There are two levels of Tier II funding—funding under the six so-called golden pennies and the eleven so-called copper pennies. Voter approval is required in most cases to access the last two golden pennies and the eleven copper pennies.

Additional State Aid for Tax Reduction (ASATR) guarantees a school district a set amount of state and local M&O funds per student in weighted average daily attendance to compensate for the mandatory reduction in, or compression of, the local M&O tax rate that was adopted in 2005 or 2006. For more detailed information on the school finance funding system, please review the Texas Education Agency's School Finance 101: Funding of Texas Public Schools. For the 2014-15 school year it is estimated that 230 school districts will receive ASATR hold-harmless funding ($335 million in state funding). ASATR funding is expected to be eliminated by the 2017-18 school year under current law.

Based on the estimates presented below, HISD is not expected to receive ASATR funding under either the base case or limitation model calculations. Under the proposed value limitation, ASATR funding would expire under current law before the value limitation takes effect in the 2017-18 school year.

For a school district that approves a Chapter 313 value limitation, the first year is often problematic financially. The implementation of the value limitation often results in an M&O revenue loss to the school district in the first year of the limitation that would not be reimbursed by the state, but require some type of compensation from the Company under the revenue protection provisions of the agreement. This is because the general school finance formula system calculates state aid entitlements using the property value for the preceding year as certified by the Comptroller.

In most instances smaller revenue losses would be anticipated in years 2-10 of the limitation when the state M&O property values are aligned at the minimum value established by the Board on both the local tax roll and the corresponding state property value study. **If the full value of the project increases significantly during the value limitation period, the revenue losses may be greater than originally estimated. This does not appear to be the case for the IKO Southwest project, based on the estimated taxable value schedule included in the Company's application.**

A taxpayer receiving a value limitation pays M&O taxes on the reduced value for the project in years 1-10. The Company will receive a tax bill for I&S taxes based on the full project value throughout the qualifying and value limitation period (and thereafter).

Future legislative action on school funding could potentially affect the impact of the value limitation on the school district's finances and result in revenue-loss estimates that differ from the estimates presented in this report.

Underlying School District Data Assumptions

A key element in any analysis of the school finance implications of a Chapter 313 agreement is the provision for revenue protection in the agreement between the school district and the applicant. The agreement calls for a calculation of the revenue impact of the value limitation in years 1-10 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. This approach also reduces guess work as to future changes in school finance and property tax laws.

Student enrollment counts are held constant at 1,812 students in average daily attendance (ADA) in analyzing the effects of the project on the finances of HISD. The District's local tax base reached $573.8 million for the 2014 tax year (the most recent year available) and is maintained at that level for the forecast period in order to isolate the effects of the property value limitation. An M&O tax rate of $1.15 per $100 is used throughout this analysis for the limitation years. HISD has estimated 2014-15 state property wealth per weighted ADA or WADA of approximately $196,727, which is below the state average. Given its relatively low property wealth per student, HISD is not considered a Chapter 41 or recapture district under the school finance system. Table 1 summarizes the enrollment and property value assumptions for the 15 years that are the subject of this analysis.

The M&O tax rate for the 2027-28 school year reflect the impact of the Chapter 313 project value returning to the total tax roll for M&O funding purposes, which could result in a lower M&O tax rate under the current tax rollback calculations. For the purposes of these estimates, it is assumed that the current M&O tax rate in year 11 of the limitation agreement would be reduced slightly from the $1.15 per $100 M&O rate shown in Table 1 to $1.10 and then return to the $1.15 M&O tax rate in the 2028-29 school year. The lower M&O rate is reflected for that year in the limitation model shown below.

The general approach used here to analyze the future revenue stream of the school district under a value limitation is to maintain static enrollment and property values in order to isolate the effects of the value limitation under the school finance system. ASATR is continued under the current funding elements until the 2017-18 school year, although it is not a factor for HISD in these calculations, as noted previously.

Table 1 – Base District Information with IKO Southwest 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
Pre-Year 1	2016-17	1,812.10	2,653.48	$1.1500	$0.2600	$573,787,305	$573,787,305	$552,688,618	$552,688,618	$208,288	$208,288
1	2017-18	1,812.10	2,653.48	$1.1500	$0.2600	$652,339,805	$593,787,305	$552,688,618	$552,688,618	$208,288	$208,288
2	2018-19	1,812.10	2,653.48	$1.1500	$0.2600	$650,050,468	$593,787,305	$631,241,118	$572,688,618	$237,892	$215,826
3	2019-20	1,812.10	2,653.48	$1.1500	$0.2600	$647,829,557	$593,787,305	$628,951,781	$572,688,618	$237,029	$215,826
4	2020-21	1,812.10	2,653.48	$1.1500	$0.2600	$645,675,029	$593,787,305	$626,730,870	$572,688,618	$236,192	$215,826
5	2021-22	1,812.10	2,653.48	$1.1500	$0.2600	$643,578,397	$593,787,305	$624,576,342	$572,688,618	$235,380	$215,826
6	2022-23	1,812.10	2,653.48	$1.1500	$0.2600	$641,544,665	$593,787,305	$622,479,710	$572,688,618	$234,590	$215,826
7	2023-24	1,812.10	2,653.48	$1.1500	$0.2600	$639,571,944	$593,787,305	$620,445,978	$572,688,618	$233,824	$215,826
8	2024-25	1,812.10	2,653.48	$1.1500	$0.2600	$637,658,405	$593,787,305	$618,473,257	$572,688,618	$233,080	$215,826
9	2025-26	1,812.10	2,653.48	$1.1500	$0.2600	$635,802,272	$593,787,305	$616,559,718	$572,688,618	$232,359	$215,826
10	2026-27	1,812.10	2,653.48	$1.1500	$0.2600	$634,001,823	$593,787,305	$614,703,585	$572,688,618	$231,660	$215,826
11	2027-28	1,812.10	2,653.48	$1.1000	$0.2600	$632,255,387	$632,255,387	$612,903,136	$572,688,618	$230,981	$215,826
12	2028-29	1,812.10	2,653.48	$1.1500	$0.2600	$630,561,345	$630,561,345	$611,156,700	$611,156,700	$230,323	$230,323
13	2029-30	1,812.10	2,653.48	$1.1500	$0.2600	$628,918,123	$628,918,123	$609,462,658	$609,462,658	$229,684	$229,684
14	2030-31	1,812.10	2,653.48	$1.1500	$0.2600	$627,324,199	$627,324,199	$607,819,436	$607,819,436	$229,065	$229,065
15	2031-32	1,812.10	2,653.48	$1.1500	$0.2600	$625,778,092	$625,778,092	$606,225,512	$606,225,512	$228,464	$228,464

***Basic Allotment: $5,040; AISD Yield: $61.86; Equalized Wealth: $504,000 per WADA**

M&O Impact of the IKO Southwest Project on HISD

School finance models were prepared for HISD under these assumptions through the 2031-32 school year. Under the proposed agreement, a model is established to make a calculation of the "Baseline Revenue Model" by adding the total value of the project to the model, but without assuming that a value limitation is approved. This is detailed in Table 2.

Additionally, a separate model is established to make a calculation of the "Value Limitation Revenue Model" by adding the project's limited value of $30 million to the model. These results are shown in Table 3.

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	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Other State Aid	Total General Fund
Pre-Year 1	2016-17	$5,266,083	$8,447,626	$0	$0	$789,912	$875,961	$0	$51,625	$15,431,207
1	2017-18	$6,047,608	$8,447,626	$0	$0	$907,141	$1,005,982	$0	$51,625	$16,459,982
2	2018-19	$6,024,714	$7,662,101	$0	$0	$903,707	$764,857	$0	$51,625	$15,407,004
3	2019-20	$6,002,505	$7,684,994	$0	$0	$900,375	$768,135	$0	$51,625	$15,407,634
4	2020-21	$5,980,960	$7,707,203	$0	$0	$897,144	$771,315	$0	$51,625	$15,408,247
5	2021-22	$5,959,994	$7,728,749	$0	$0	$893,999	$774,401	$0	$51,625	$15,408,768
6	2022-23	$5,939,656	$7,749,715	$0	$0	$890,948	$777,403	$0	$51,625	$15,409,347
7	2023-24	$5,919,929	$7,770,052	$0	$0	$887,990	$779,295	$0	$51,625	$15,408,891
8	2024-25	$5,900,794	$7,789,779	$0	$0	$885,119	$782,117	$0	$51,625	$15,409,434
9	2025-26	$5,882,232	$7,808,915	$0	$0	$882,335	$784,856	$0	$51,625	$15,409,963
10	2026-27	$5,864,228	$7,827,476	$0	$0	$879,635	$787,513	$0	$51,625	$15,410,477
11	2027-28	$5,852,814	$7,845,481	$0	$0	$585,282	$679,078	$0	$51,625	$15,014,280
12	2028-29	$5,830,511	$7,862,945	$0	$0	$874,577	$792,587	$0	$51,625	$15,412,245
13	2029-30	$5,814,408	$7,879,885	$0	$0	$872,161	$795,012	$0	$51,625	$15,413,091
14	2030-31	$5,798,787	$7,896,318	$0	$0	$869,818	$797,363	$0	$51,625	$15,413,911
15	2031-32	$5,783,635	$7,912,257	$0	$0	$867,545	$799,644	$0	$51,625	$15,414,706

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	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Other State Aid	Total General Fund
Pre-Year 1	2016-17	$5,266,083	$8,447,626	$0	$0	$789,912	$875,961	$0	$51,625	$15,431,207
1	2017-18	$5,462,083	$8,447,626	$0	$0	$819,312	$907,973	$0	$51,625	$15,688,619
2	2018-19	$5,462,083	$8,247,626	$0	$0	$819,312	$847,361	$0	$51,625	$15,428,007
3	2019-20	$5,462,083	$8,247,626	$0	$0	$819,312	$847,361	$0	$51,625	$15,428,007
4	2020-21	$5,462,083	$8,247,626	$0	$0	$819,312	$847,361	$0	$51,625	$15,428,007
5	2021-22	$5,462,083	$8,247,626	$0	$0	$819,312	$847,361	$0	$51,625	$15,428,007
6	2022-23	$5,462,083	$8,247,626	$0	$0	$819,312	$847,361	$0	$51,625	$15,428,007
7	2023-24	$5,462,083	$8,247,626	$0	$0	$819,312	$847,361	$0	$51,625	$15,428,007
8	2024-25	$5,462,083	$8,247,626	$0	$0	$819,312	$847,361	$0	$51,625	$15,428,007
9	2025-26	$5,462,083	$8,247,626	$0	$0	$819,312	$847,361	$0	$51,625	$15,428,007
10	2026-27	$5,462,083	$8,247,626	$0	$0	$819,312	$847,361	$0	$51,625	$15,428,007
11	2027-28	$5,844,405	$8,247,626	$0	$0	$584,440	$766,317	$0	$51,625	$15,494,413
12	2028-29	$5,822,468	$7,862,945	$0	$0	$873,370	$792,115	$0	$51,625	$15,402,523
13	2029-30	$5,806,365	$7,879,885	$0	$0	$870,955	$794,536	$0	$51,625	$15,403,366
14	2030-31	$5,790,744	$7,896,318	$0	$0	$868,612	$796,884	$0	$51,625	$15,404,183
15	2031-32	$5,775,592	$7,912,257	$0	$0	$866,339	$799,162	$0	$51,625	$15,404,975

Table 4 displays the results of the comparison between the Baseline Revenue Model and the Value Limitation Revenue Model (Tables 2 and 3). The difference between the two models indicates there will be a total revenue loss of $771,363 in the initial 2017-18 value limitation year under the Agreement. An examination of Table 4 indicates that there is no state aid for the $673,354 in tax savings to the Company that year, along with an estimated Tier II state-aid loss of $98,009 due to lower tax effort. By the 2018-19 school year, changes in the state property value study result in state aid increases that offset the property tax reductions due to the limitation. This pattern holds for subsequent years, under the estimates presented here.

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	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Other State Aid	Total General Fund
Pre-Year 1	2016-17	$0	$0	$0	$0	$0	$0	$0	$0	$0
1	2017-18	-$585,525	$0	$0	$0	-$87,829	-$98,009	$0	$0	-$771,363
2	2018-19	-$562,631	$585,525	$0	$0	-$84,395	$82,504	$0	$0	$21,003
3	2019-20	-$540,422	$562,632	$0	$0	-$81,063	$79,226	$0	$0	$20,373
4	2020-21	-$518,877	$540,423	$0	$0	-$77,832	$76,046	$0	$0	$19,760
5	2021-22	-$497,911	$518,877	$0	$0	-$74,687	$72,960	$0	$0	$19,239
6	2022-23	-$477,573	$497,911	$0	$0	-$71,636	$69,958	$0	$0	$18,660
7	2023-24	-$457,846	$477,574	$0	$0	-$68,678	$68,066	$0	$0	$19,116
8	2024-25	-$438,711	$457,847	$0	$0	-$65,807	$65,244	$0	$0	$18,573
9	2025-26	-$420,149	$438,711	$0	$0	-$63,023	$62,505	$0	$0	$18,044
10	2026-27	-$402,145	$420,150	$0	$0	-$60,323	$59,848	$0	$0	$17,530
11	2027-28	-$8,409	$402,145	$0	$0	-$842	$87,239	$0	$0	$480,133
12	2028-29	-$8,043	$0	$0	$0	-$1,207	-$472	$0	$0	-$9,722
13	2029-30	-$8,043	$0	$0	$0	-$1,206	-$476	$0	$0	-$9,725
14	2030-31	-$8,043	$0	$0	$0	-$1,206	-$479	$0	$0	-$9,728
15	2031-32	-$8,043	$0	$0	$0	-$1,206	-$482	$0	$0	-$9,731

M&O Impact on the Taxpayer

Table 5 summarizes the impact of the property value limitation in terms of the potential tax savings to the taxpayer under the property value limitation agreement. The focus of this table is on the M&O tax rate only. A $1.15 per $100 M&O tax rate is assumed in 2014-15 (the most recent year available) and thereafter for the 10-year limitation period. An M&O tax rate of $1.10 per $100 is used for the 2027-28 school year, as discussed in the section on Underlying Assumptions.

Under the assumptions used here, the potential tax savings from the value limitation total $5.6 million over the life of the agreement. The HISD revenue losses are expected to total approximately $771,363 in the intial 2017-18 limitation year under the Agreement. In total, the potential net tax benefits (after hold-harmless payments are made) are estimated to reach $4.87 million.

I&S Funding Impact on School District

The project remains fully taxable for debt services taxes, with HISD currently levying a $0.26 per $100 I&S rate. Under the estimates presented here, HISD should see a boost in I&S tax collections in the 2017-18 school year, which is the peak valuation year under the schedule included in the application. Even with that additional value, however, it appears that HISD will have a state taxable value per ADA that falls slightly below the equivalent $350,000 per ADA guarantee under the state facilities programs (Instructional Facilities Allotment and Existing Debt Allotment). Since the underlying tax base was held static for the purposes of analyzing the impact of the value limitation, a combination of underlying tax base growth and the IKO Southwest project could generate a long-term net benefit for HISD taxpayers in terms of addressing the District's debt needs.

The project is not expected to affect HISD in terms of enrollment, although the anticipated increase in jobs would provide additional employment opportunities in the Hillsboro community. Continued expansion of the project and related development could result in an increase in the school-age population, but this project is unlikely to have a significant enrollment impact on a stand-alone basis.

Table 5 - Estimated Financial Impact of the IKO Southwest Project Property Value Limitation Request Submitted to HISD at $1.1500 M&O Tax Rate

Year of Agreement	School Year	Project Value	Estimated Taxable Value	Value Savings	Assumed M&O Tax Rate	Taxes Before Value Limit	Taxes after Value Limit	Tax Savings @ Projected M&O Rate	Tax Benefit to Company Before Revenue Protection	School District Revenue Losses	Estimated Net Tax Benefits
Pre-Year 1	2016-17	$24,500,000	$24,500,000	$0	$1.150	$281,750	$281,750	$0	$0	$0	$0
1	2017-18	$78,552,500	$20,000,000	$58,552,500	$1.150	$903,354	$230,000	$673,354	$673,354	-$771,363	-$98,009
2	2018-19	$76,263,163	$20,000,000	$56,263,163	$1.150	$877,026	$230,000	$647,026	$647,026	$0	$647,026
3	2019-20	$74,042,252	$20,000,000	$54,042,252	$1.150	$851,486	$230,000	$621,486	$621,486	$0	$621,486
4	2020-21	$71,887,724	$20,000,000	$51,887,724	$1.150	$826,709	$230,000	$596,709	$596,709	$0	$596,709
5	2021-22	$69,791,092	$20,000,000	$49,791,092	$1.150	$802,598	$230,000	$572,598	$572,598	$0	$572,598
6	2022-23	$67,757,360	$20,000,000	$47,757,360	$1.150	$779,210	$230,000	$549,210	$549,210	$0	$549,210
7	2023-24	$65,784,639	$20,000,000	$45,784,639	$1.150	$756,523	$230,000	$526,523	$526,523	$0	$526,523
8	2024-25	$63,871,100	$20,000,000	$43,871,100	$1.150	$734,518	$230,000	$504,518	$504,518	$0	$504,518
9	2025-26	$62,014,967	$20,000,000	$42,014,967	$1.150	$713,172	$230,000	$483,172	$483,172	$0	$483,172
10	2026-27	$60,214,518	$20,000,000	$40,214,518	$1.150	$692,467	$230,000	$462,467	$462,467	$0	$462,467
11	2027-28	$58,468,082	$58,468,082	$0	$1.100	$643,149	$643,149	$0	$0	$0	$0
12	2028-29	$56,774,040	$56,774,040	$0	$1.150	$652,901	$652,901	$0	$0	$0	$0
13	2029-30	$55,130,818	$55,130,818	$0	$1.150	$634,004	$634,004	$0	$0	$0	$0
14	2030-31	$53,536,894	$53,536,894	$0	$1.150	$615,674	$615,674	$0	$0	$0	$0
15	2031-32	$51,990,787	$51,990,787	$0	$1.150	$597,894	$597,894	$0	$0	$0	$0
						$11,362,435	$5,725,373	$5,637,062	$5,637,062	-$771,363	$4,865,699

Note: School district revenue-loss estimates are subject to change based on numerous factors, including:

- **Legislative and Texas Education Agency administrative changes to the underlying school finance formulas used in these calculations.**
- **Legislative changes addressing property value appraisals and exemptions.**
- **Year-to-year appraisals of project values and district taxable values.**
- **Changes in school district tax rates and student enrollment.**