

**Summary of the District's Financial Impact
of Chapter 313 Agreement
with DCP Midstream, LP**

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**Summary of Reagan County ISD Financial Impact
of the
Limited Appraised Value Application
from
DCP Midstream, LP**

Introduction

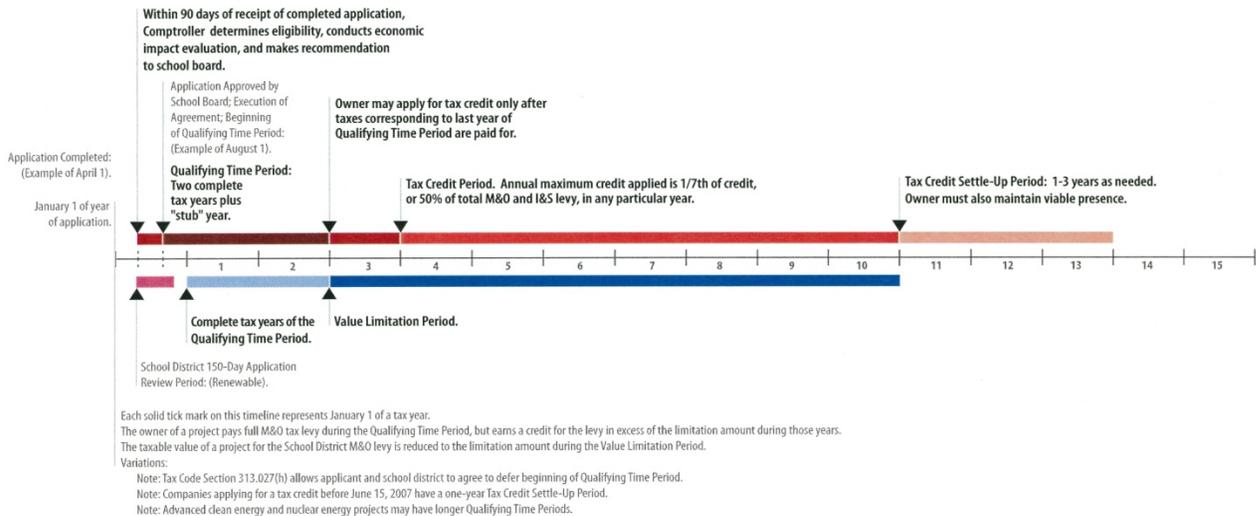
DCP Midstream, LP applied for a property value limitation from Reagan County Independent School District under Chapter 313 of the Tax Code. The application was submitted on March 18, 2013 and subsequently approved for consideration by the Reagan County ISD Board of Trustees. DCP Midstream, LP (“DCP Midstream”), 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. Reagan County ISD is considered a Rural category 2 District as categorized with total taxable value of industrial property of at least \$90 million but less than \$200 million, thus Reagan County ISD has a minimum qualified investment amount of \$20 million. A qualifying entity’s taxable

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value would be reduced to \$20 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 Reagan County 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 DCP Midstream” 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 \$20,000,000 minimum qualified investment of Reagan County ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From DCP Midstream	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	28,022,830	n/a	0	28,022,830
Jan. 1, 2015	72,222,830	n/a	0	72,222,830
Jan. 1, 2016	67,662,830	(20,000,000)	47,662,830	20,000,000
Jan. 1, 2017	60,822,830	(20,000,000)	40,822,830	20,000,000
Jan. 1, 2018	57,022,830	(20,000,000)	37,022,830	20,000,000
Jan. 1, 2019	52,462,830	(20,000,000)	32,462,830	20,000,000
Jan. 1, 2020	48,662,830	(20,000,000)	28,662,830	20,000,000
Jan. 1, 2021	45,622,830	(20,000,000)	25,622,830	20,000,000
Jan. 1, 2022	43,342,830	(20,000,000)	23,342,830	20,000,000
Jan. 1, 2023	41,822,830	(20,000,000)	21,822,830	20,000,000
Jan. 1, 2024	38,022,830	n/a	0	38,022,830
Jan. 1, 2025	40,568,830	n/a	0	40,568,830
Jan. 1, 2026	39,352,450	n/a	0	39,352,450

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DCP Midstream's Tax Benefit from Agreement

The projected amount of the net tax savings for DCP Midstream is \$3.338 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.

Reagan County ISD's projected tax rates for maintenance & operations (M&O) and interest & sinking (I&S) are based on the following assumptions:

- The District has held a tax ratification election and the study projects that it will maintain an M&O tax rate of \$1.10 for the life of this agreement.
- The district has outstanding bonds that are scheduled to payoff in 2027 and currently have a \$.14 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	1.10	0.14	308,251	0	n/a	0	0
2015-2016	1.10	0.14	794,451	0	n/a	0	0
2016-2017	1.10	0.14	744,291	524,291	n/a	(39,540)	484,751
2017-2018	1.10	0.14	669,051	449,051	94,672	(22,247)	521,476
2018-2019	1.10	0.14	627,251	407,251	94,672	(20,764)	481,159
2019-2020	1.10	0.14	577,091	357,091	94,672	(17,917)	433,846
2020-2021	1.10	0.14	535,291	315,291	94,672	(15,879)	394,084
2021-2022	1.10	0.14	501,851	281,851	94,672	(14,285)	362,238
2022-2023	1.10	0.14	476,771	256,771	94,672	(13,134)	338,309
2023-2024	1.10	0.14	460,051	240,051	94,672	(12,425)	322,298
2024-2025	1.10	0.14	418,251	0	0	0	0
2025-2026	1.10	0.14	446,257	0	0	0	0
2026-2027	1.10	0.14	432,877	0	0	0	0
Totals			6,991,737	2,831,649	662,702	(156,190)	3,338,162

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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 Reagan County 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 2012-2013 fiscal year) were used for state aid and recapture calculation purposes
 - Level 2 of Tier II yield - \$59.97 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 decrease 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 DCP Midstream (Table III), the addition of DCP Midstream's taxable values without a Chapter 313 Agreement (Table IV), and the addition of DCP Midstream's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues *without* DCP Midstream, LP:

Fiscal Year	Total Taxable Value	M&O Taxes			Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Total District Revenue
		Compressed Rate	State Revenue	State Revenue				
2014-2015	2,525,000,000	22,389,175	1,748,185	19,274,069	4,863,291	5,278,109	10,141,399	
2015-2016	2,550,250,000	22,613,067	1,753,806	19,521,850	4,845,023	5,330,890	10,175,913	
2016-2017	2,575,752,500	22,839,197	1,759,440	19,770,617	4,828,020	5,384,198	10,212,219	
2017-2018	2,601,510,025	23,067,589	1,765,089	20,021,990	4,810,688	5,438,040	10,248,729	
2018-2019	2,627,525,125	23,298,265	1,770,752	20,275,995	4,793,022	5,492,421	10,285,443	
2019-2020	2,653,800,377	23,531,248	1,776,429	20,532,658	4,775,019	5,547,345	10,322,364	
2020-2021	2,680,338,380	23,766,560	1,782,120	20,792,005	4,756,675	5,602,819	10,359,493	
2021-2022	2,707,141,764	24,004,226	1,787,825	21,054,065	4,737,985	5,658,847	10,396,832	
2022-2023	2,734,213,182	24,244,268	1,793,544	21,318,865	4,718,948	5,715,435	10,434,383	
2023-2024	2,761,555,314	24,486,711	1,799,278	21,586,432	4,699,557	5,772,590	10,472,147	
2024-2025	2,789,170,867	24,731,578	1,805,027	21,856,795	4,679,810	5,830,315	10,510,125	
2025-2026	2,817,062,575	24,978,894	1,810,789	22,129,981	4,659,702	5,888,619	10,548,321	
2026-2027	2,845,233,201	25,228,683	1,816,566	22,406,019	4,639,230	5,947,505	10,586,735	

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TABLE IV- District Revenues with DCP Midstream, LP without Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Total District Revenue
		Compressed Rate	State Revenue				
2014-2015	2,553,022,830	22,637,653	1,699,999	19,510,987	4,826,665	5,336,686	10,163,351
2015-2016	2,622,472,830	23,253,467	1,672,157	20,178,233	4,747,391	5,481,860	10,229,251
2016-2017	2,643,415,330	23,439,164	1,784,753	20,498,825	4,725,092	5,525,637	10,250,729
2017-2018	2,662,332,855	23,606,905	1,795,102	20,684,501	4,717,506	5,565,181	10,282,686
2018-2019	2,684,547,955	23,803,887	1,794,183	20,891,769	4,706,300	5,611,618	10,317,918
2019-2020	2,706,263,207	23,996,436	1,801,352	21,102,806	4,694,982	5,657,010	10,351,992
2020-2021	2,729,001,210	24,198,054	1,805,342	21,320,852	4,682,544	5,704,540	10,387,084
2021-2022	2,752,764,594	24,408,764	1,809,380	21,549,528	4,668,615	5,754,214	10,422,829
2022-2023	2,777,556,012	24,628,589	1,813,464	21,788,861	4,653,193	5,806,036	10,459,229
2023-2024	2,803,378,144	24,857,554	1,817,598	22,038,881	4,636,272	5,860,013	10,496,285
2024-2025	2,827,193,697	25,068,727	1,827,952	22,274,964	4,621,714	5,909,796	10,531,510
2025-2026	2,857,631,405	25,338,618	1,820,821	22,560,188	4,599,251	5,973,421	10,572,672
2026-2027	2,884,585,651	25,577,621	1,834,248	22,832,128	4,579,741	6,029,765	10,609,506

TABLE V – District Revenues with DCP Midstream, LP with Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes Comp Rate	State Revenue	Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Payment	Total District Revenue
							for District Losses	
2014-2015	2,553,022,830	22,637,653	1,699,999	19,509,378	4,828,275	5,336,686	0	10,164,960
2015-2016	2,622,472,830	23,253,467	1,672,157	20,178,233	4,747,391	5,481,860	0	10,229,251
2016-2017	2,595,752,500	23,016,537	1,886,106	20,117,460	4,785,183	5,426,005	39,540	10,250,729
2017-2018	2,621,510,025	23,244,929	1,779,636	20,243,973	4,780,592	5,479,847	22,247	10,282,686
2018-2019	2,647,525,125	23,475,605	1,785,330	20,498,009	4,762,927	5,534,228	20,764	10,317,918
2019-2020	2,673,800,377	23,708,588	1,791,040	20,754,704	4,744,924	5,589,152	17,917	10,351,992
2020-2021	2,700,338,380	23,943,900	1,796,763	21,014,083	4,726,580	5,644,625	15,879	10,387,084
2021-2022	2,727,141,764	24,181,566	1,802,501	21,276,176	4,707,891	5,700,654	14,285	10,422,829
2022-2023	2,754,213,182	24,421,608	1,808,253	21,541,008	4,688,854	5,757,242	13,134	10,459,229
2023-2024	2,781,555,314	24,664,051	1,814,019	21,808,607	4,669,463	5,814,396	12,425	10,496,285
2024-2025	2,827,193,697	25,068,727	1,782,939	22,224,837	4,626,828	5,909,796	0	10,536,624
2025-2026	2,857,631,405	25,338,618	1,820,821	22,560,188	4,599,251	5,973,421	0	10,572,672
2026-2027	2,884,585,651	25,577,621	1,834,248	22,832,128	4,579,741	6,029,765	0	10,609,506

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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 DCP Midstream, LP mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Reagan County ISD by DCP Midstream, the projected amount of these payments over the life of the agreement is \$1,046,440 of the \$3.338 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	Reagan County ISD \$100/ADA	DCP Midstream's Share
2014-2015	0	79,295	(79,295)
2015-2016	0	79,493	(79,493)
2016-2017	484,751	79,692	405,059
2017-2018	521,476	79,891	441,585
2018-2019	481,159	80,091	401,068
2019-2020	433,846	80,291	353,555
2020-2021	394,084	80,492	313,592
2021-2022	362,238	80,693	281,545
2022-2023	338,309	80,895	257,415
2023-2024	322,298	81,097	241,201
2024-2025	27,017	81,300	(81,300)
2025-2026	0	81,503	(81,503)
2026-2027	0	81,707	(81,707)
Totals	3,338,162	1,046,440	2,291,722

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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
EE thru 5	27	540	428	112
6-8	26	468	178	290
9-12	68	1,224	237	987
Total	121	2,232	843	1,389

The building capacities are based on 20 students per classroom for the elementary campuses, 18 students for the middle and high school. Reagan County ISD is a early education through 12th grade district.

DCP Midstream, LP 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 ten full-time employees are expected. It is not known whether these would be new employees to the Reagan County 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 ten positions equates to 5 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Reagan County 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 DCP Midstream, LP, would be beneficial to both DCP Midstream and Reagan County ISD under the current school finance system.

DCP Midstream, LP 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, DCP Midstream is projected to benefit from a 61% tax savings over the first ten year period of this agreement. DCP Midstream 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.

Reagan County ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require DCP Midstream 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.