

S U S A N

C O M B S

TEXAS COMPTROLLER *of* PUBLIC ACCOUNTS

P.O. Box 13528 • AUSTIN, TX 78711-3528



July 31, 2014

Dr. Karin Holacka
Superintendent
Brazosport Independent School District
PO Box Drawer Z
Freeport, Texas 77542

Dear Superintendent Holacka:

On June 24, 2014, the Comptroller issued written notice that BASF Corporation (the applicant) submitted a completed application (Application #1007) for a limitation on appraised value under the provisions of Tax Code Chapter 313¹. This application was originally submitted on May 16, 2014, to the Brazosport Independent District (the school district) by the applicant.

This presents the results of the Comptroller's review of the application and determinations required:

- 1) under Section 313.025(h) to determine if the property meets the requirements of Section 313.024 for eligibility for a limitation on appraised value under Chapter 313, Subchapter C; and
- 2) under Section 313.025(d), to issue a certificate for a limitation on appraised value of the property and provide the certificate to the governing body of the school district or provide the governing body a written explanation of the comptroller's decision not to issue a certificate, using the criteria set out in Section 313.026.

Determination required by 313.025(h)

- | | |
|-------------------|--|
| Sec. 313.024(a) | Applicant is subject to tax imposed by Chapter 171. |
| Sec. 313.024(b) | Applicant is proposing to use the property for an eligible project. |
| Sec. 313.024(d) | Applicant has committed to create the required number of new qualifying jobs and pay all jobs created that are not qualifying jobs a wage that exceeds the county average weekly wage for all jobs in the county where the jobs are located. |
| Sec. 313.024(d-2) | Not applicable to Application #1007. |

Based on the information provided by the applicant, the Comptroller has determined that the property meets the requirements of Section 313.024 for eligibility for a limitation on appraised value under Chapter 313, Subchapter C.

Certificate decision required by 313.025(d)

Determination required by 313.026(c)(1)

The Comptroller has determined that the project proposed by the applicant is reasonably likely to generate tax revenue in an amount sufficient to offset the school district maintenance and operations ad valorem tax revenue lost as a result of the agreement before the 25th anniversary of the beginning of the limitation period. See Attachment B.

¹ All statutory references are to the Texas Tax Code, unless otherwise noted.

Determination required by 313.026(c)(2)

The Comptroller has determined that the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in this state. See Attachment C.

Based on these determinations, the Comptroller issues a certificate for a limitation on appraised value. This certificate is contingent on the school district's receipt and acceptance of the Texas Education Agency's determination per 313.025(b-1).

The Comptroller's review of the application assumes the accuracy and completeness of the statements in the application. If the application is approved by the school district, the applicant shall perform according to the provisions of the Texas Economic Development Act Agreement (Form 50-286) executed with the school district. The school district shall comply with and enforce the stipulations, provisions, terms, and conditions of the agreement, applicable Texas Administrative Code and Chapter 313, per TAC 9.1054(i)(3).

This certificate is no longer valid if the application is modified, the information presented in the application changes, or the limitation agreement does not conform to the application. Additionally, this certificate is contingent on the school district approving and executing the agreement within a year from the date of this letter.

Note that any building or improvement existing as of the application review start date of June 24, 2014, or any tangible personal property placed in service prior to that date may not become "Qualified Property" as defined by 313.021(2) and the Texas Administrative Code.

Should you have any questions, please contact Robert Wood, director of Economic Development & Analysis Division, by email at robert.wood@cpa.state.tx.us or by phone at 1-800-531-5441, ext. 3-3973, or direct in Austin at 512-463-3973.

Sincerely,



Martin A. Hubert
Deputy Comptroller

Enclosure

cc: Robert Wood

Attachment A – Economic Impact Analysis

This following tables summarizes the Comptroller’s economic impact analysis of BASF Corporation (the project) applying to Brazosport Independent School District (the district), as required by Tax Code, 313.026 and Texas Administrative Code 9.1055(d)(2).

Table 1 is a summary of investment, employment and tax impact of BASF Corporation.

Applicant	BASF Corporation
Tax Code, 313.024 Eligibility Category	Manufacturing
School District	Brazosport ISD
2011-12 Enrollment in School District	12,498
County	Brazoria
Proposed Total Investment in District	\$630,000,000
Proposed Qualified Investment	\$630,000,000
Limitation Amount	\$30,000,000
Number of new qualifying jobs committed to by applicant	10
Number of new non-qualifying jobs estimated by applicant	0
Average weekly wage of qualifying jobs committed to by applicant	\$1,173.08
Minimum weekly wage required for each qualifying job by Tax Code, 313.021(5)(B)	\$1,170.17
Minimum annual wage committed to by applicant for qualified jobs	\$61,000
Minimum weekly wage required for non-qualifying jobs	
Minimum annual wage required for non-qualifying jobs	
Investment per Qualifying Job	\$63,000,000
Estimated M&O levy without any limit (15 years)	\$58,149,347
Estimated M&O levy with Limitation (15 years)	\$14,931,795
Estimated gross M&O tax benefit (15 years)	\$43,217,551

Table 4 examines the estimated direct impact on ad valorem taxes to the school district and Brazoria County, with all property tax incentives sought being granted using estimated market value from the application. The project has applied for a value limitation under Chapter 313, Tax Code and tax abatement with Brazoria County, Brazos Jr. College, Velasco Drainage District and the Brazos River Harbor Navigation District.

The difference noted in the last line is the difference between the totals in Table 3 and Table 4.

Table 4 Estimated Direct Ad Valorem Taxes with all property tax incentives sought												
Year	Estimated Taxable Value for I&S	Estimated Taxable Value for M&O	Tax Rate ¹	Brazosport ISD I&S Tax Levy	Brazosport ISD M&O Tax Levy	Brazosport ISD M&O and I&S Tax Levies	Brazoria County Tax Levy	Brazosport College Tax Levy	Velasco Drainage District Tax Levy	Brazos River Harbor Navigation District Tax Levy	Estimated Total Property Taxes	
			0.2153	1.0400			0.4920	0.2673	0.1002	0.4500		
2015	\$349,910	\$349,910		\$753	\$3,639	\$4,392	\$1,722	\$935	\$351	\$1,575	\$8,975	
2016	\$283,849,910	\$283,849,910		\$611,129	\$2,952,039	\$3,563,168	\$0	\$0	\$0	\$0	\$3,563,168	
2017	\$453,949,910	\$30,000,000		\$977,354	\$312,000	\$1,289,354	\$0	\$0	\$0	\$0	\$1,289,354	
2018	\$483,834,590	\$30,000,000		\$1,041,696	\$312,000	\$1,353,696	\$0	\$0	\$0	\$0	\$1,353,696	
2019	\$538,999,910	\$30,000,000		\$1,160,467	\$312,000	\$1,472,467	\$0	\$0	\$0	\$0	\$1,472,467	
2020	\$510,649,910	\$30,000,000		\$1,099,429	\$312,000	\$1,411,429	\$0	\$0	\$0	\$0	\$1,411,429	
2021	\$481,849,910	\$30,000,000		\$1,037,423	\$312,000	\$1,349,423	\$0	\$0	\$0	\$0	\$1,349,423	
2022	\$453,949,910	\$30,000,000		\$977,354	\$312,000	\$1,289,354	\$0	\$0	\$0	\$0	\$1,289,354	
2023	\$425,599,910	\$30,000,000		\$916,317	\$312,000	\$1,228,317	\$2,094,037	\$1,137,667	\$426,562	\$1,915,200	\$6,801,782	
2024	\$397,249,910	\$30,000,000		\$855,279	\$312,000	\$1,167,279	\$1,954,549	\$1,061,885	\$398,148	\$1,787,625	\$6,369,485	
2025	\$368,899,910	\$30,000,000		\$794,242	\$312,000	\$1,106,242	\$1,815,061	\$986,103	\$369,734	\$1,660,050	\$5,937,189	
2026	\$340,549,910	\$30,000,000		\$733,204	\$312,000	\$1,045,204	\$1,675,574	\$910,321	\$341,320	\$1,532,475	\$5,504,892	
2027	\$312,199,910	\$312,199,910		\$672,166	\$3,246,879	\$3,919,045	\$1,536,086	\$834,538	\$312,905	\$1,404,900	\$8,007,475	
2028	\$283,849,910	\$283,849,910		\$611,129	\$2,952,039	\$3,563,168	\$1,396,598	\$758,756	\$284,491	\$1,277,325	\$7,280,339	
2029	\$255,499,910	\$255,499,910		\$550,091	\$2,657,199	\$3,207,290	\$1,257,111	\$682,974	\$256,077	\$1,149,750	\$6,553,202	
						Total	\$26,969,828	\$11,730,737	\$6,373,179	\$2,389,588	\$10,728,897	\$58,192,229
						Diff	\$43,217,551	\$15,779,495	\$8,572,824	\$3,214,332	\$14,431,878	\$85,216,081

Assumes School Value Limitation and Tax Abatements with the County, Brazos Jr. College, Velasco Drainage District and Brazos River Harbor Navigation District.

Source: CPA, BASF Corporation

¹Tax Rate per \$100 Valuation

Disclaimer: This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

Attachment B – Tax Revenue over 25 Years

This represents the Comptroller’s determination that BASF CORPORATION (project) is reasonably likely to generate, before the 25th anniversary of the beginning of the limitation period, tax revenue in an amount sufficient to offset the school district maintenance and operations ad valorem tax revenue lost as a result of the agreement. This evaluation is based on an analysis of the estimated M&O portion of the school district property tax levy directly related to this project, using estimated taxable values provided in the application.

	Tax Year	Estimated ISD M&O Tax Levy Generated (Annual)	Estimated ISD M&O Tax Levy Generated (Cumulative)	Estimated ISD M&O Tax Levy Loss as Result of Agreement (Annual)	Estimated ISD M&O Tax Levy Loss as Result of Agreement (Cumulative)
Limitation Pre-Years	2014	\$3,639	\$3,639	\$0	\$0
	2015	\$3,639	\$7,278	\$0	\$0
	2016	\$2,952,039	\$2,959,317	\$0	\$0
Limitation Period (10 Years)	2017	\$312,000	\$3,271,317	\$4,409,079	\$4,409,079
	2018	\$312,000	\$3,583,317	\$4,719,880	\$9,128,959
	2019	\$312,000	\$3,895,317	\$5,293,599	\$14,422,558
	2020	\$312,000	\$4,207,317	\$4,998,759	\$19,421,317
	2021	\$312,000	\$4,519,317	\$4,699,239	\$24,120,556
	2022	\$312,000	\$4,831,317	\$4,409,079	\$28,529,635
	2023	\$312,000	\$5,143,317	\$4,114,239	\$32,643,874
	2024	\$312,000	\$5,455,317	\$3,819,399	\$36,463,273
	2025	\$312,000	\$5,767,317	\$3,524,559	\$39,987,832
	2026	\$312,000	\$6,079,317	\$3,229,719	\$43,217,551
Maintain Viable Presence (5 Years)	2027	\$3,246,879	\$9,326,196	\$0	\$43,217,551
	2028	\$2,952,039	\$12,278,235	\$0	\$43,217,551
	2029	\$2,657,199	\$14,935,434	\$0	\$43,217,551
	2030	\$2,657,199	\$17,592,633	\$0	\$43,217,551
	2031	\$2,657,199	\$20,249,833	\$0	\$43,217,551
Additional Years as Required by 313.026(c)(1) (10 Years)	2032	\$2,657,199	\$22,907,032	\$0	\$43,217,551
	2033	\$2,657,199	\$25,564,231	\$0	\$43,217,551
	2034	\$2,598,231	\$28,162,462	\$0	\$43,217,551
	2035	\$2,598,231	\$30,760,693	\$0	\$43,217,551
	2036	\$2,598,231	\$33,358,924	\$0	\$43,217,551
	2037	\$2,598,231	\$35,957,155	\$0	\$43,217,551
	2038	\$2,539,263	\$38,496,418	\$0	\$43,217,551
	2039	\$2,539,263	\$41,035,681	\$0	\$43,217,551
	2040	\$2,539,263	\$43,574,944	\$0	\$43,217,551
	2041	\$2,539,263	\$46,114,207	\$0	\$43,217,551

\$46,114,207

is greater than

\$43,217,551

Analysis Summary

Is the project reasonably likely to generate tax revenue in an amount sufficient to offset the M&O levy loss as a result of the limitation agreement?

Yes

Source: CPA, BASF CORPORATION

Disclaimer: This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

Attachment C – Limitation as a Determining Factor

Tax Code 313.026 states that the Comptroller may not issue a certificate for a limitation on appraised value under this chapter for property described in an application unless the comptroller determines that “the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in this state.” This represents the basis for the Comptroller’s determination.

Methodology

Texas Administrative Code 9.1055(d) states the Comptroller shall review any information available to the Comptroller including:

- the application, including the responses to the questions in Section 8 (Limitation as a Determining Factor);
- public documents or statements by the applicant concerning business operations or site location issues or in which the applicant is a subject;
- statements by officials of the applicant, public documents or statements by governmental or industry officials concerning business operations or site location issues;
- existing investment and operations at or near the site or in the state that may impact the proposed project;
- announced real estate transactions, utility records, permit requests, industry publications or other sources that may provide information helpful in making the determination; and
- market information, raw materials or other production inputs, availability, existing facility locations, committed incentives, infrastructure issues, utility issues, location of buyers, nature of market, supply chains, other known sites under consideration.

Determination

The Comptroller has determined that the limitation on appraised value is a determining factor in the BASF Corporation decision to invest capital and construct the project in this state. This is based on information available, including information provided by the applicant. Specifically, the comptroller notes the following:

- According to the company it is considering location on the US Gulf Coast for this project.
- Per the applicant, it has received a sizable incentive package from another Gulf Coast State in which it has a significant presence that includes in part a 10 year/100% property tax abatement including school property tax.
- Per the applicant, it has received a Texas Enterprise Zone Fund commitment for this project.

Supporting Information

- a) Section 8 of the Application for a Limitation on Appraised Value
- b) Attachments provided in Tab 5 of the Application for a Limitation on Appraised Value
- c) Additional information provided by the Applicant or located by the Comptroller

Disclaimer: This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

Supporting Information

**Section 8 of the Application for
a Limitation on Appraised Value**

Application for Appraised Value Limitation on Qualified Property

SECTION 6: Eligibility Under Tax Code Chapter 313.024

1. Are you an entity subject to the tax under Tax Code, Chapter 171? Yes No
2. The property will be used for one of the following activities:
 - (1) manufacturing Yes No
 - (2) research and development Yes No
 - (3) a clean coal project, as defined by Section 5.001, Water Code Yes No
 - (4) an advanced clean energy project, as defined by Section 382.003, Health and Safety Code Yes No
 - (5) renewable energy electric generation Yes No
 - (6) electric power generation using integrated gasification combined cycle technology Yes No
 - (7) nuclear electric power generation Yes No
 - (8) a computer center that is used as an integral part or as a necessary auxiliary part for the activity conducted by applicant in one or more activities described by Subdivisions (1) through (7) Yes No
 - (9) a Texas Priority Project, as defined by 313.024(e)(7) and TAC 9.1051 Yes No
3. Are you requesting that any of the land be classified as qualified investment? Yes No
4. Will any of the proposed qualified investment be leased under a capitalized lease? Yes No
5. Will any of the proposed qualified investment be leased under an operating lease? Yes No
6. Are you including property that is owned by a person other than the applicant? Yes No
7. Will any property be pooled or proposed to be pooled with property owned by the applicant in determining the amount of your qualified investment? Yes No

SECTION 7: Project Description

1. In **Tab 4**, attach a detailed description of the scope of the proposed project, including, at a minimum, the type and planned use of real and tangible personal property, the nature of the business, a timeline for property construction or installation, and any other relevant information.
- *2. Check the project characteristics that apply to the proposed project:

<input checked="" type="checkbox"/> Land has no existing improvements	<input checked="" type="checkbox"/> Land has existing improvements (<i>complete Section 13</i>) *Please see Tab 10
<input type="checkbox"/> Expansion of existing operation on the land (<i>complete Section 13</i>)	<input type="checkbox"/> Relocation within Texas

SECTION 8: Limitation as Determining Factor

1. Does the applicant currently own the land on which the proposed project will occur? Yes No
2. Has the applicant entered into any agreements or contracts for work to be performed related to the proposed project? Yes No
- * 3. Does the applicant have current business activities at the location where the proposed project will occur? Yes No
*Please see Tab 10
4. Has the applicant made public statements in SEC filings or other official documents regarding its intentions regarding the proposed project location? Yes No
5. Has the applicant received any local or state permits for activities on the proposed project site? Yes No
6. Has the applicant received commitments for state or local incentives for activities at the proposed project site? Yes No
7. Are you submitting information to assist in the determination as to whether the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in Texas? Yes No
8. Has the applicant considered or is the applicant considering other locations not in Texas for the proposed project? Yes No
9. Has the applicant provided capital investment or return on investment information for the proposed project in comparison with other alternative investment opportunities? Yes No
10. Has the applicant provided information related to the applicant's inputs, transportation and markets for the proposed project? Yes No

If you answered "yes" to any of the questions in Section 8, attach supporting information in Tab 5.

Supporting Information

Attachments provided in Tab 5
of the Application for a
Limitation on Appraised Value

TAB 05

Limitation as a determining factor

LIMITATION AS A DETERMINING FACTOR:

BASF Corporation is considering locations on the US Gulf Coast for this project (see attached). BASF has received a sizable incentive package from another Gulf Coast state in which it has a significant presence that includes in part a 10 year /100% Property Tax Abatement including school property tax. Additionally, BASF has received from the Governor's Office of Economic Development a Texas Enterprise Zone Fund commitment for this project.

BASF SE is the world's leading chemical company with more than 110,000 employees and approximately 380 additional production sites worldwide. BASF Corporation (Applicant) is the primary US subsidiary of BASF SE. As of November 2013, BASF Corporation's Freeport site employs 752 employees and serves customers and partners in almost all countries of the world. BASF Corporation has 5 sites in Texas, 9 sites in the gulf coast states, and over 30 facilities in the greater United States. These attributes allow for the flexibility to invest in a variety of locations and in addition creates competition for capital investment worldwide. Tax incentives are considered favorably in the analysis of the investment.

Supporting Information

**Additional information
provided by the Applicant or
located by the Comptroller**

BASF, Yara eyeing Gulf Coast for ammonia plant

Chemical giants BASF and Yara are talking about building “a world-scale ammonia plant” on the Gulf Coast, although few other details are available.

BASF, the world’s largest chemical company, uses ammonia in its United States manufacturing facilities. Oslo-based Yara, which has a global fertilizer network, is looking to strengthen its U.S. presence.

BASF spokesman John Schmidt said the joint project, if it happens, would be the first between BASF and Yara.

The BASF-Yara plant, if built in Louisiana, would join a handful of major ammonia projects announced in the last year. The projects include CF Industries \$2.1 billion expansion in Donaldsonville; Russian fertilizer company EuroChem’s proposed \$1.5 billion plant that will be built in either Carville or St. John the Baptist Parish; Dyno Nobel America and parent company Incitec Pivot Ltd.’s \$850 million anhydrous ammonia production facility in Waggaman; and Mosaic’s proposed \$700 million expansion of the Faustina site in St. James Parish.

Rusty Braziel, president of RBN Energy, expects BASF and Yara will choose between Louisiana and Texas, with neither state having much of an advantage over the other.

“For competitive reasons and to protect confidential company information, we can’t comment on current or potential prospects,” said Stephen Moret, Louisiana’s economic development secretary.

“In both states, there are a lot of industrials that have already announced expansions Also, both states have the lion’s share of the LNG exports that have already been announced,” Braziel said.

But both those things mean that the demand and the price for natural gas, the feedstock for the ammonia plant, will be higher in Louisiana and Texas than in other parts of the country.

Natural gas prices have historically been 3 cents to 5 cents cheaper at the Houston Ship Channel than at Louisiana's Henry Hub. But the Ship Channel has some air quality issues, unlike most of Louisiana, that could increase the new plant's cost, he said.

Federal regulations require companies planning new plants in areas with air quality issues, such as Houston, to buy emission reduction credits to offset the additional emissions from the plants.

The problem is that those credits are in short supply. In June, RBN Energy reported that the cost for the credits had risen from \$4,500 per ton in 2011 to \$300,000 per ton. The scarcity of those credits and the rising prices threaten to limit or delay new petrochemical plant construction, as well as hampering plant development and expansions.

Braziel said no one knows how many of the projects that have been announced will actually be built.

"Our feeling is that a lot of these plants that have been announced probably won't make it off the drawing board," he said.