Chapter 313 Property Value Limitation Financial Impact of the Proposed ETC Texas Pipeline LTD Project in the Glasscock County Independent School District , Comptroller's Application No. 1032

Prepared by

MOAK, CASEY
& ASSOCIATES
TEXAS SCHOOL FINANCE EXPERTS

January 30, 2015

Executive Summary

ETC Texas Pipeline LTD (Company) has requested that the Glasscock County Independent School Distirct (GCISD) 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 GCISD on October 13, 2014, the Company plans to invest $90 million to construct a natural gas and natural gas liquids processing and manufacturing facility. 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 ETC Texas 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, GCISD may offer a minimum value limitation of $30 million. This value limitation, under the proposed application, will begin with the 2016-17 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.

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 GCISD	$254,593
Total Savings to Company after Revenue Loss Payment. (This does not include any supplemental benefit payments to the district.)	$4,707,930

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," the Comptroller will deliver a Completeness Letter to the company and the school district. The Completeness letter was issued by the Comptroller's Office on November 19, 2014.

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 ensure the best interests of GCISD 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 of the supplemental benefit payment with the Company. 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. In some instances, the school board may also be required to adopt a job waiver or create a reinvestment zone during this meeting. Prior to this meeting, O'Hanlon, McCollom & Demerath will provide the district with the necessary agenda language and any additional action items.

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.

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.

School districts that receive ASATR funding may not require as large of a company revenue-loss payment as those districts that are considered to be on "formula". **As ASATR is reduced, more districts will be considered on "formula" and the revenue losses may be greater than anticipated in the initial revenue-loss estimates.** GCISD is expected to receive ASATR funding in the 2016-17 school year under both sets of estimates presented below.

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.**

A taxpayer receiving a value limitation pays M&O taxes on the reduced value for the project in years 1-10 and receives 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 300 students in average daily attendance (ADA) in analyzing the effects of the project on the finances of GCISD. The District's local tax base reached $3.8 billion 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. Previously-approved Chapter 313 agreements are also factored into both the underlying baseline and limitation models.

An M&O tax rate of $1.0371 per $100 is used throughout this analysis. GCISD has estimated 2014-15 state property wealth per weighted ADA or WADA of approximately $5.2 million. As a result, GCISD is 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 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.

Table 1 - Base District Information with ETC Texas 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
QTP0	2015-16	300.00	560.35	$1.0371	$0.0700	$4,276,488,897	$4,276,488,897	$3,615,605,000	$3,615,605,000	$6,452,451	$6,452,451
QTP1/VL1	2016-17	300.00	560.35	$1.0371	$0.0700	$4,213,158,897	$4,153,158,897	$4,047,265,800	$4,047,265,800	$7,222,798	$7,222,798
QTP2/VL2	2017-18	300.00	560.35	$1.0371	$0.0700	$4,026,648,097	$3,969,348,097	$3,983,935,800	$3,923,935,800	$7,109,778	$7,002,702
VL3	2018-19	300.00	560.35	$1.0371	$0.0700	$4,023,948,097	$3,969,348,097	$3,797,425,000	$3,740,125,000	$6,776,929	$6,674,671
VL4	2019-20	300.00	560.35	$1.0371	$0.0700	$4,205,828,021	$4,153,928,021	$3,794,725,000	$3,740,125,000	$6,772,110	$6,674,671
VL5	2020-21	300.00	560.35	$1.0371	$0.0700	$4,199,236,423	$4,150,036,423	$3,976,604,924	$3,924,704,924	$7,096,695	$7,004,074
VL6	2021-22	300.00	560.35	$1.0371	$0.0700	$4,192,722,656	$4,146,222,656	$3,970,013,326	$3,920,813,326	$7,084,932	$6,997,129
VL7	2022-23	300.00	560.35	$1.0371	$0.0700	$4,202,240,165	$4,158,440,165	$3,963,499,559	$3,916,999,559	$7,073,307	$6,990,323
VL8	2023-24	300.00	560.35	$1.0371	$0.0700	$4,205,978,424	$4,164,878,424	$3,973,017,068	$3,929,217,068	$7,090,293	$7,012,127
VL9	2024-25	300.00	560.35	$1.0371	$0.0700	$4,338,467,557	$4,300,067,557	$3,976,755,327	$3,935,655,327	$7,096,964	$7,023,616
VL10	2025-26	300.00	560.35	$1.0371	$0.0700	$4,654,263,091	$4,618,563,091	$4,109,244,460	$4,070,844,460	$7,333,406	$7,264,876
VP1	2026-27	300.00	560.35	$1.0371	$0.0700	$4,615,367,930	$4,615,367,930	$4,425,039,994	$4,389,339,994	$7,896,978	$7,833,267
VP2	2027-28	300.00	560.35	$1.0371	$0.0700	$4,577,095,209	$4,577,095,209	$4,386,144,833	$4,386,144,833	$7,827,565	$7,827,565
VP3	2028-29	300.00	560.35	$1.0371	$0.0700	$4,539,403,366	$4,539,403,366	$4,347,872,113	$4,347,872,113	$7,759,263	$7,759,263
VP4	2029-30	300.00	560.35	$1.0371	$0.0700	$4,504,269,165	$4,504,269,165	$4,310,180,269	$4,310,180,269	$7,691,998	$7,691,998
VP5	2030-31	300.00	560.35	$1.0371	$0.0700	$4,471,462,863	$4,471,462,863	$4,275,046,069	$4,275,046,069	$7,629,297	$7,629,297

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

QT=	Qualifying Time Period
VL=	Value Limitation
VP=	Viable Presence

M&O Impact of the ETC Texas project on GCISD

School finance models were prepared for GCISD under these assumptions through the 2030-31 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
QTP0	2015-16	$41,043,101	$101,230	$0	-$37,781,196	$2,520,301	$0	$0	$10,167	$5,893,603
QTP1/VL1	2016-17	$40,448,404	$101,230	$361,078	-$37,569,918	$2,483,783	$0	$0	$10,167	$5,834,743
QTP2/VL2	2017-18	$38,661,928	$101,230	$0	-$35,865,216	$2,374,082	$0	$0	$10,167	$5,282,191
VL3	2018-19	$38,635,546	$101,230	$0	-$35,706,187	$2,372,462	$0	$0	$10,167	$5,413,217
VL4	2019-20	$40,376,624	$101,230	$0	-$37,315,645	$2,479,375	$0	$0	$10,167	$5,651,751
VL5	2020-21	$40,312,978	$101,230	$0	-$37,393,957	$2,475,467	$0	$0	$10,167	$5,505,884
VL6	2021-22	$40,250,077	$101,230	$0	-$37,330,777	$2,471,604	$0	$0	$10,167	$5,502,300
VL7	2022-23	$40,340,686	$101,230	$0	-$37,410,224	$2,477,168	$0	$0	$10,167	$5,519,026
VL8	2023-24	$40,375,954	$101,230	$0	-$37,449,871	$2,479,334	$0	$0	$10,167	$5,516,813
VL9	2024-25	$41,644,087	$101,230	$0	-$38,630,644	$2,557,205	$0	$0	$10,167	$5,682,044
VL10	2025-26	$44,667,484	$101,230	$0	-$41,541,605	$2,742,861	$0	$0	$10,167	$5,980,136
VP1	2026-27	$44,288,064	$101,230	$0	-$41,405,482	$2,719,562	$0	$0	$10,167	$5,713,540
VP2	2027-28	$43,921,581	$101,230	$0	-$41,037,531	$2,697,057	$0	$0	$10,167	$5,692,504
VP3	2028-29	$43,560,659	$101,230	$0	-$40,675,158	$2,674,895	$0	$0	$10,167	$5,671,792
VP4	2029-30	$43,224,229	$101,230	$0	-$40,336,029	$2,654,236	$0	$0	$10,167	$5,653,832
VP5	2030-31	$42,910,090	$101,230	$0	-$40,019,366	$2,634,946	$0	$0	$10,167	$5,637,066

QT= Qualifying Time Period
VL= Value Limitation
VP= Viable Presence

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
QTP0	2015-16	$41,043,101	$101,230	$0	-$37,781,196	$2,520,301	$0	$0	$10,167	$5,893,603
QTP1/VL1	2016-17	$39,862,144	$101,230	$401,987	-$37,024,567	$2,447,783	$0	$0	$10,167	$5,798,743
QTP2/VL2	2017-18	$38,102,049	$101,230	$0	-$35,303,725	$2,339,702	$0	$0	$10,167	$5,249,422
VL3	2018-19	$38,102,049	$101,230	$0	-$35,168,954	$2,339,702	$0	$0	$10,167	$5,384,194
VL4	2019-20	$39,869,509	$101,230	$0	-$36,802,954	$2,448,235	$0	$0	$10,167	$5,626,186
VL5	2020-21	$39,832,245	$101,230	$0	-$36,909,957	$2,445,947	$0	$0	$10,167	$5,479,631
VL6	2021-22	$39,795,726	$101,230	$0	-$36,873,224	$2,443,704	$0	$0	$10,167	$5,477,603
VL7	2022-23	$39,912,716	$101,230	$0	-$36,978,988	$2,450,888	$0	$0	$10,167	$5,496,013
VL8	2023-24	$39,974,366	$101,230	$0	-$37,045,154	$2,454,674	$0	$0	$10,167	$5,495,282
VL9	2024-25	$41,268,880	$101,230	$0	-$38,251,477	$2,534,165	$0	$0	$10,167	$5,662,964
VL10	2025-26	$44,318,660	$101,230	$0	-$41,188,023	$2,721,441	$0	$0	$10,167	$5,963,474
VP1	2026-27	$44,288,064	$101,230	$0	-$41,382,492	$2,719,562	$0	$0	$10,167	$5,736,530
VP2	2027-28	$43,921,581	$101,230	$0	-$41,037,531	$2,697,057	$0	$0	$10,167	$5,692,504
VP3	2028-29	$43,560,659	$101,230	$0	-$40,675,158	$2,674,895	$0	$0	$10,167	$5,671,792
VP4	2029-30	$43,224,229	$101,230	$0	-$40,336,029	$2,654,236	$0	$0	$10,167	$5,653,832
VP5	2030-31	$42,910,090	$101,230	$0	-$40,019,366	$2,634,946	$0	$0	$10,167	$5,637,066

QT= Qualifying Time Period
VL= Value Limitation
VP= Viable Presence

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 $254,593 over the course of the Agreement. Nearly all of the reduction in M&O taxes under the limitation agreement is offset through a reduction in recapture costs owed to the state under current law.

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
QTP0	2015-16	$0	$0	$0	$0	$0	$0	$0	$0	$0
QTP1/VL1	2016-17	-$586,260	$0	$40,909	$545,351	-$36,000	$0	$0	$0	-$36,000
QTP2/VL2	2017-18	-$559,879	$0	$0	$561,490	-$34,380	$0	$0	$0	-$32,769
VL3	2018-19	-$533,497	$0	$0	$537,233	-$32,760	$0	$0	$0	-$29,024
VL4	2019-20	-$507,115	$0	$0	$512,691	-$31,140	$0	$0	$0	-$25,564
VL5	2020-21	-$480,733	$0	$0	$484,000	-$29,520	$0	$0	$0	-$26,253
VL6	2021-22	-$454,351	$0	$0	$457,554	-$27,900	$0	$0	$0	-$24,697
VL7	2022-23	-$427,970	$0	$0	$431,237	-$26,280	$0	$0	$0	-$23,013
VL8	2023-24	-$401,588	$0	$0	$404,717	-$24,660	$0	$0	$0	-$21,531
VL9	2024-25	-$375,207	$0	$0	$379,167	-$23,040	$0	$0	$0	-$19,080
VL10	2025-26	-$348,824	$0	$0	$353,582	-$21,420	$0	$0	$0	-$16,662
VP1	2026-27	$0	$0	$0	$22,989	$0	$0	$0	$0	$22,989
VP2	2027-28	$0	$0	$0	$0	$0	$0	$0	$0	$0
VP3	2028-29	$0	$0	$0	$0	$0	$0	$0	$0	$0
VP4	2029-30	$0	$0	$0	$0	$0	$0	$0	$0	$0
VP5	2030-31	$0	$0	$0	$0	$0	$0	$0	$0	$0

QT=	Qualifying Time Period
VL=	Value Limitation
VP=	Viable Presence

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. As noted previously, a $1.0371 per $100 M&O tax rate is assumed in 2014-15 (the most recent year available) and thereafter.

Under the assumptions used here, the potential tax savings from the value limitation total $5 million over the life of the agreement. The GCISD revenue losses are expected to total approximately $254,593 over the course of the agreement. In total, the potential net tax benefits (after hold-harmless payments are made) are estimated to total $4.7 million. While legislative changes to ASATR funding could increase the hold-harmless amount owed in the initial limitation year under these estimates, there would still be a substantial tax benefit to the Company under the value limitation agreement for the remaining years that the limitation is in effect.

Table 5 - Estimated Financial Impact of the ETC Texas Project Property Value Limitation Request Submitted to GCISD at $1.0371 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	School District Revenue Losses	Estimated Net Tax Benefits
QTP0	2015-16	$0	$0	$0	$1.037	$0	$0	$0	$0	$0
QTP1/VL1	2016-17	$90,000,000	$30,000,000	$60,000,000	$1.037	$933,390	$311,130	$622,260	-$36,000	$586,260
QTP2/VL2	2017-18	$87,300,000	$30,000,000	$57,300,000	$1.037	$905,388	$311,130	$594,258	-$32,769	$561,490
VL3	2018-19	$84,600,000	$30,000,000	$54,600,000	$1.037	$877,387	$311,130	$566,257	-$29,024	$537,233
VL4	2019-20	$81,900,000	$30,000,000	$51,900,000	$1.037	$849,385	$311,130	$538,255	-$25,564	$512,690
VL5	2020-21	$79,200,000	$30,000,000	$49,200,000	$1.037	$821,383	$311,130	$510,253	-$26,253	$484,000
VL6	2021-22	$76,500,000	$30,000,000	$46,500,000	$1.037	$793,382	$311,130	$482,252	-$24,697	$457,554
VL7	2022-23	$73,800,000	$30,000,000	$43,800,000	$1.037	$765,380	$311,130	$454,250	-$23,013	$431,237
VL8	2023-24	$71,100,000	$30,000,000	$41,100,000	$1.037	$737,378	$311,130	$426,248	-$21,531	$404,717
VL9	2024-25	$68,400,000	$30,000,000	$38,400,000	$1.037	$709,376	$311,130	$398,246	-$19,080	$379,167
VL10	2025-26	$65,700,000	$30,000,000	$35,700,000	$1.037	$681,375	$311,130	$370,245	-$16,662	$353,583
VP1	2026-27	$63,000,000	$63,000,000	$0	$1.037	$653,373	$653,373	$0	$0	$0
VP2	2027-28	$60,300,000	$60,300,000	$0	$1.037	$625,371	$625,371	$0	$0	$0
VP3	2028-29	$57,600,000	$57,600,000	$0	$1.037	$597,370	$597,370	$0	$0	$0
VP4	2029-30	$54,900,000	$54,900,000	$0	$1.037	$569,368	$569,368	$0	$0	$0
VP5	2030-31	$52,200,000	$52,200,000	$0	$1.037	$541,366	$541,366	$0	$0	$0
						$11,060,672	**$6,098,148**	**$4,962,524**	**-$254,593**	**$4,707,930**

QT=	Qualifying Time Period
VL=	Value Limitation
VP=	Viable Presence

I&S Funding Impact on School District

The project remains fully taxable for debt services taxes, with GCISD currently levying a $0.07 per $100 I&S tax rate. The value of the ETC Texas project is expected to depreciate over the life of the agreement and beyond, but full access to the additional value should provide a benefit to the District in terms of increased I&S tax collections.

The project is not expected to affect GCISD in terms of enrollment. Continued expansion of the project and related development could result in additional employment in the area and an increase in the school-age population, but this project is unlikely to have much impact on a stand-alone basis.

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.**