Chapter 313 Property Value Limitation Financial Impact of the Proposed Buckthorn Westex Project in the Fort Stockton Independent School District

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Executive Summary

Buckthorn Westex (Company) has requested that the Fort Stockton Independent School Distirct (FSISD) 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 FSISD on February 23, 2015 the Company plans to invest $172.5 million to construct a renewable energy electric generation 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 Buckthorn Westex 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, FSISD may offer a minimum value limitation of $30 million. This value limitation, under the proposed application, will begin in 2017-18 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 FSISD	$1,514,693
Total Savings to Company after Revenue Loss Payment. (This does not include any supplemental benefit payments to the district.)	$4,970,689

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 ensure the best interests of FSISD 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.**

FSISD receives ASATR funding under current law. 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 2,233 students in average daily attendance (ADA) in analyzing the effects of the project on the finances of FSISD. The District's local tax base reached $1.145 billion for the 2014 tax year (the most recent year available) and is maintained for the forecast period in order to isolate the effects of the property value limitation. An M&O tax rate of $1.0400 is used throughout this analysis. FSISD has estimated 2014-15 state property wealth per weighted ADA or WADA of approximately $375,515. As a result, FSISD 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 M&O tax rate for 2014 is maintained at $1.0400 per $100. Although the impact of the Chapter 313 project value returning to the total tax roll for M&O funding purposes could result in a lower M&O tax rate that analysis is beyond the scope of this revenue report.

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 Buckthorn Westex 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	2,233.26	3,096.08	$1.0400	$0.1992	$1,219,970,070	$1,219,970,070	$1,189,642,663	$1,189,642,663	$384,242	$384,242
QTP1	2016-17	2,233.26	3,096.08	$1.0400	$0.1992	$1,174,970,070	$1,174,970,070	$1,264,642,663	$1,264,642,663	$408,466	$408,466
QTP2/VL1	2017-18	2,233.26	3,096.08	$1.0400	$0.1992	$1,467,470,070	$1,324,970,070	$1,219,642,663	$1,219,642,663	$393,932	$393,932
VL2	2018-19	2,233.26	3,096.08	$1.0400	$0.1992	$1,441,595,070	$1,324,970,070	$1,512,142,663	$1,369,642,663	$488,406	$442,380
VL3	2019-20	2,233.26	3,096.08	$1.0400	$0.1992	$1,761,785,502	$1,667,154,252	$1,486,267,663	$1,369,642,663	$480,049	$442,380
VL4	2020-21	2,233.26	3,096.08	$1.0400	$0.1992	$1,743,090,815	$1,667,154,252	$1,806,458,095	$1,711,826,845	$583,467	$552,902
VL5	2021-22	2,233.26	3,096.08	$1.0400	$0.1992	$1,725,486,544	$1,665,440,466	$1,787,763,408	$1,711,826,845	$577,429	$552,902
VL6	2022-23	2,233.26	3,096.08	$1.0400	$0.1992	$1,707,736,700	$1,661,197,534	$1,770,159,137	$1,710,113,059	$571,743	$552,349
VL7	2023-24	2,233.26	3,096.08	$1.0400	$0.1992	$1,692,649,332	$1,657,591,041	$1,752,409,293	$1,705,870,127	$566,010	$550,978
VL8	2024-25	2,233.26	3,096.08	$1.0400	$0.1992	$1,679,825,071	$1,654,525,523	$1,737,321,925	$1,702,263,634	$561,137	$549,813
VL9	2025-26	2,233.26	3,096.08	$1.0400	$0.1992	$1,693,656,973	$1,676,652,357	$1,724,497,664	$1,699,198,116	$556,995	$548,823
VL10	2026-27	2,233.26	3,096.08	$1.0400	$0.1992	$1,678,431,564	$1,668,477,641	$1,738,329,566	$1,721,324,950	$561,462	$555,970
VP1	2027-28	2,233.26	3,096.08	$1.0400	$0.1992	$1,763,675,911	$1,763,675,911	$1,723,104,157	$1,713,150,234	$556,545	$553,330
VP2	2028-29	2,233.26	3,096.08	$1.0400	$0.1992	$1,745,654,252	$1,745,654,252	$1,808,348,504	$1,808,348,504	$584,078	$584,078
VP3	2029-30	2,233.26	3,096.08	$1.0400	$0.1992	$1,745,654,252	$1,745,654,252	$1,790,326,845	$1,790,326,845	$578,257	$578,257
VP4	2030-31	2,233.26	3,096.08	$1.0400	$0.1992	$1,745,654,252	$1,745,654,252	$1,790,326,845	$1,790,326,845	$578,257	$578,257
VP5	2031-32	2,233.26	3,096.08	$1.0400	$0.1992	$1,745,654,252	$1,745,654,252	$1,790,326,845	$1,790,326,845	$578,257	$578,257

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

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

M&O Impact of the Buckthorn Westex project on FSISD

School finance models were prepared for FSISD 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
QTP0	2015-16	$12,044,805	$4,716,558	$2,572,213	$0	$481,792	$293,864	$0	$76,104	$20,185,336
QTP1	2016-17	$11,603,805	$3,966,558	$3,763,213	$0	$464,152	$238,766	$0	$76,104	$20,112,598
QTP2/VL1	2017-18	$14,498,805	$4,416,558	$0	$0	$579,952	$331,101	$0	$76,104	$19,902,520
VL2	2018-19	$14,240,055	$1,491,558	$0	$0	$569,602	$151,965	$0	$76,104	$16,529,284
VL3	2019-20	$17,373,523	$1,750,308	$0	$0	$694,941	$200,756	$0	$76,104	$20,095,632
VL4	2020-21	$17,186,576	$731,096	$0	-$2,223,737	$687,463	$41,443	$0	$76,104	$16,498,945
VL5	2021-22	$17,010,876	$731,096	$0	-$2,055,030	$680,435	$48,566	$0	$76,104	$16,492,047
VL6	2022-23	$16,834,226	$731,096	$0	-$1,894,869	$673,369	$55,128	$0	$76,104	$16,475,054
VL7	2023-24	$16,684,074	$731,096	$0	-$1,736,449	$667,363	$62,036	$0	$76,104	$16,484,224
VL8	2024-25	$16,556,444	$731,096	$0	-$1,601,538	$662,258	$67,784	$0	$76,104	$16,492,148
VL9	2025-26	$16,690,338	$731,096	$0	-$1,508,584	$667,614	$73,814	$0	$76,104	$16,730,382
VL10	2026-27	$16,539,719	$731,096	$0	-$1,608,101	$661,589	$67,400	$0	$76,104	$16,467,807
VP1	2027-28	$17,373,123	$731,096	$0	-$1,558,221	$694,925	$77,428	$0	$76,104	$17,394,455
VP2	2028-29	$17,196,510	$731,096	$0	-$2,239,774	$687,860	$40,616	$0	$76,104	$16,492,412
VP3	2029-30	$17,196,510	$731,096	$0	-$2,097,873	$687,860	$47,963	$0	$76,104	$16,641,660
VP4	2030-31	$17,196,510	$731,096	$0	-$2,097,873	$687,860	$47,963	$0	$76,104	$16,641,660
VP5	2031-32	$17,196,510	$731,096	$0	-$2,097,873	$687,860	$47,963	$0	$76,104	$16,641,660

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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	$12,044,805	$4,716,558	$2,572,213	$0	$481,792	$293,864	$0	$76,104	$20,185,336
QTP1	2016-17	$11,603,805	$3,966,558	$3,763,213	$0	$464,152	$238,766	$0	$76,104	$20,112,598
QTP2/VL1	2017-18	$13,073,805	$4,416,558	$0	$0	$522,952	$298,408	$0	$76,104	$18,387,827
VL2	2018-19	$13,073,805	$2,916,558	$0	$0	$522,952	$208,416	$0	$76,104	$16,797,835
VL3	2019-20	$16,427,210	$2,916,558	$0	$0	$657,088	$261,884	$0	$76,104	$20,338,844
VL4	2020-21	$16,427,210	$731,096	$0	-$1,380,278	$657,088	$78,107	$0	$76,104	$16,589,327
VL5	2021-22	$16,410,415	$731,096	$0	-$1,378,867	$656,417	$77,904	$0	$76,104	$16,573,070
VL6	2022-23	$16,368,834	$731,096	$0	-$1,361,167	$654,753	$78,561	$0	$76,104	$16,548,181
VL7	2023-24	$16,333,491	$731,096	$0	-$1,323,012	$653,340	$80,186	$0	$76,104	$16,551,205
VL8	2024-25	$16,303,449	$731,096	$0	-$1,290,563	$652,138	$81,567	$0	$76,104	$16,553,792
VL9	2025-26	$16,520,292	$731,096	$0	-$1,281,773	$660,812	$84,037	$0	$76,104	$16,790,568
VL10	2026-27	$16,440,179	$731,096	$0	-$1,459,925	$657,607	$74,073	$0	$76,104	$16,519,134
VP1	2027-28	$17,373,123	$731,096	$0	-$1,471,379	$694,925	$82,045	$0	$76,104	$17,485,914
VP2	2028-29	$17,196,510	$731,096	$0	-$2,239,774	$687,860	$40,616	$0	$76,104	$16,492,412
VP3	2029-30	$17,196,510	$731,096	$0	-$2,097,873	$687,860	$47,963	$0	$76,104	$16,641,660
VP4	2030-31	$17,196,510	$731,096	$0	-$2,097,873	$687,860	$47,963	$0	$76,104	$16,641,660
VP5	2031-32	$17,196,510	$731,096	$0	-$2,097,873	$687,860	$47,963	$0	$76,104	$16,641,660

QTP= 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 $1,514,693 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	2016-17	$0	$0	$0	$0	$0	$0	$0	$0	$0
QTP2/VL1	2017-18	-$1,425,000	$0	$0	$0	-$57,000	-$32,693	$0	$0	-$1,514,693
VL2	2018-19	-$1,166,250	$1,425,000	$0	$0	-$46,650	$56,451	$0	$0	$268,551
VL3	2019-20	-$946,313	$1,166,250	$0	$0	-$37,853	$61,128	$0	$0	$243,212
VL4	2020-21	-$759,366	$0	$0	$843,459	-$30,375	$36,664	$0	$0	$90,382
VL5	2021-22	-$600,461	$0	$0	$676,164	-$24,018	$29,338	$0	$0	$81,023
VL6	2022-23	-$465,392	$0	$0	$533,702	-$18,616	$23,433	$0	$0	$73,127
VL7	2023-24	-$350,583	$0	$0	$413,436	-$14,023	$18,150	$0	$0	$66,980
VL8	2024-25	-$252,995	$0	$0	$310,976	-$10,120	$13,783	$0	$0	$61,644
VL9	2025-26	-$170,046	$0	$0	$226,811	-$6,802	$10,223	$0	$0	$60,186
VL10	2026-27	-$99,540	$0	$0	$148,176	-$3,982	$6,673	$0	$0	$51,327
VP1	2027-28	$0	$0	$0	$86,842	$0	$4,617	$0	$0	$91,459
VP2	2028-29	$0	$0	$0	$0	$0	$0	$0	$0	$0
VP3	2029-30	$0	$0	$0	$0	$0	$0	$0	$0	$0
VP4	2030-31	$0	$0	$0	$0	$0	$0	$0	$0	$0
VP5	2031-32	$0	$0	$0	$0	$0	$0	$0	$0	$0

QTP= Qualifying Time Period
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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 $1.0400 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 $6.5 million over the life of the agreement. The FSISD revenue losses are expected to total approximately $1,514,693 over the course of the agreement. In total, the potential net tax benefits (after hold-harmless payments are made) are estimated to total $4,970,689 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 Buckthorn Westex Project Property Value Limitation Request Submitted to FSISD at $1.0400 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	$1.040	$0	$0	$0	$0	$0
QTP1	2016-17	$0	$0	$0	$1.040	$0	$0	$0	$0	$0
QTP2/VL1	2017-18	$172,500,000	$30,000,000	$142,500,000	$1.040	$1,794,000	$312,000	$1,482,000	-$1,482,000	$0
VL2	2018-19	$146,625,000	$30,000,000	$116,625,000	$1.040	$1,524,900	$312,000	$1,212,900	-$32,693	$1,180,207
VL3	2019-20	$124,631,250	$30,000,000	$94,631,250	$1.040	$1,296,165	$312,000	$984,165	$0	$984,165
VL4	2020-21	$105,936,563	$30,000,000	$75,936,563	$1.040	$1,101,740	$312,000	$789,740	$0	$789,740
VL5	2021-22	$90,046,078	$30,000,000	$60,046,078	$1.040	$936,479	$312,000	$624,479	$0	$624,479
VL6	2022-23	$76,539,166	$30,000,000	$46,539,166	$1.040	$796,007	$312,000	$484,007	$0	$484,007
VL7	2023-24	$65,058,291	$30,000,000	$35,058,291	$1.040	$676,606	$312,000	$364,606	$0	$364,606
VL8	2024-25	$55,299,548	$30,000,000	$25,299,548	$1.040	$575,115	$312,000	$263,115	$0	$263,115
VL9	2025-26	$47,004,616	$30,000,000	$17,004,616	$1.040	$488,848	$312,000	$176,848	$0	$176,848
VL10	2026-27	$39,953,923	$30,000,000	$9,953,923	$1.040	$415,521	$312,000	$103,521	$0	$103,521
VP1	2027-28	$34,500,000	$34,500,000	$0	$1.040	$358,800	$358,800	$0	$0	$0
VP2	2028-29	$34,500,000	$34,500,000	$0	$1.040	$358,800	$358,800	$0	$0	$0
VP3	2029-30	$34,500,000	$34,500,000	$0	$1.040	$358,800	$358,800	$0	$0	$0
VP4	2030-31	$34,500,000	$34,500,000	$0	$1.040	$358,800	$358,800	$0	$0	$0
VP5	2031-32	$34,500,000	$34,500,000	$0	$1.040	$358,800	$358,800	$0	$0	$0
						$11,399,382	$4,914,000	$6,485,382	-$1,514,693	$4,970,689

QTP=	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 FSISD currently levying a $0.1992 I&S rate. The value of the Buckthorn Westex project is expected to depreciate over the life of the agreement and beyond, but full access to the additional value is expected to increase the District's projected wealth per ADA to $566,277 in the peak year of I&S taxable project value. Even with depreciation in project values in future years, local taxpayers should benefit from the addition of the Buckthorn Westex project to the local I&S tax roll.

The project is not expected to affect FSISD 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.**