Attachment E

Summary of Financial Impact

SUMMARY OF FINANCIAL IMPACT OF THE PROPOSED TXP OPERATIONS, LP PROJECT ON THE FINANCES OF THE COMAL INDEPENDENT SCHOOL DISTRICT UNDER A REQUESTED CHAPTER 313 PROPERTY VALUE LIMITATION

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PREPARED BY

Estimated Impact of the Proposed TXP Operations, LP Project on the Finances of the Comal Independent School District under a Requested Chapter 313 Property Value Limitation

Introduction

TXP Operations, LP (TXP) has requested that the Comal Independent School District (CISD) consider granting a property value limitation under Chapter 313 of the Tax Code for a new manufacturing project. An application was submitted to CISD on October 7, 2010. TXP proposes to invest $181 million to construct a new manufacturing project in CISD.

The TXP 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, the original language in Chapter 313 of the Tax Code made companies engaged in manufacturing, research and development, and renewable electric energy production eligible 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.

School Finance Mechanics

Under the provisions of Chapter 313, CISD may offer a minimum value limitation of $100 million, which has been revised upward from $80 million in the initial application. Based on the revised application, the qualifying time period would begin with the 2012-13 school year. The full value of the investment is expected to reach $181 million in 2020-21, with the project value expected to remain relatively stable once it has reach this level.

The provisions of Chapter 313 call for the project to be fully taxable in the 2012-13 and 2013-14 school years, unless the District and the Company agree to an extension of the start of the qualifying time period. For the purpose of this analysis, it is assumed that the qualifying time period will be the 2012-13 and 2013-14 school years. Beginning in 2014-15, the project would go on the local tax roll at $100 million and remain at that level of taxable value for eight years for maintenance and operations taxes. The full taxable value of the project could be assessed for debt service taxes on voter-approved bond issues throughout the limitation period, with CISD currently levying a $0.330 I&S tax rate.

Under the current school finance system, the property values established by the Comptroller's Office that are used to calculate state aid and recapture lag by one year, a practical consequence of the fact that the Comptroller's Office needs this time to conduct their property value study and now the planned audits of appraisal district operations in alternating years. A taxpayer receiving a value limitation pays M&O taxes on the reduced value for the project in years 3-10 and receives a tax bill for I&S taxes based on the full project value throughout the qualifying and value limitation period (and thereafter). The school funding formulas use the Comptroller's property values that reflect a reduction due to the property value limitation in years 4-11 as a result of the one-year lag in property values.

For the school finance system that operated prior to the approval of House Bill 1 (HB 1) in the 2006 special session, the third year was typically problematical for a school district that approved a Chapter 313 value limitation. In this case, TXP indicates that $70.8 million in taxable value would be in place in the second year under the agreement, with the qualified investment of $120.7 million made for the 2014-15 school year, when the value limitation takes effect. Given that the value limitation of $100 million exceeds the second-year taxable value, a relatively small annual school district revenue loss would be expected during the third year and the remaining seven years that the value limitation is in effect.

HB 1 established a "target" revenue system per student that has the effect of largely neutralizing the third-year revenue losses associated with Chapter 313 property value limitations, at least up to a district's compressed M&O tax rate. The additional four to six cents of tax effort that a district may levy are subject to an enriched level of equalization (or no recapture in the case of Chapter 41 school district) and operate more like the pre-HB 1 system. A value limitation must be analyzed for any potential revenue loss associated with this component of the M&O tax levy. For tax effort in excess of the compressed plus six cents rate, equalization and recapture occur at the level of $319,500 per weighted student in average daily attendance (WADA).

Under HB 3646—the school finance system changes approved by the Legislature in 2009—the starting point is the target revenue provisions from HB 1, that are then expanded through the addition of a series of school funding provisions that had operated previously outside the basic allotment and the traditional formula structure, as well as an additional $120 per WADA guarantee.

Under the provisions of HB 3646, school districts do have the potential to earn revenue above the $120 per WADA level, up to a maximum of $350 per WADA above current law. Initial estimates for the indicate that about 750 school districts are funded at the minimum $120 per WADA level, while approximately 250 school districts are expected to generate higher revenue amounts per WADA. This is significant because changes in property values and related tax collections under a Chapter 313 agreement once again have the potential to affect a school district's base revenue, although probably not to the degree experienced prior to the HB 1 target revenue system. Based on the analysis presented here, CISD is expected to remain a hold-harmless district at the minimum $120 per WADA level.

One key element in any analysis of the school finance implications is the provision for revenue protection in the agreement between the school district and the applicant. In the case of the TXP project, the agreement calls for a calculation of the revenue impact of the value limitation in years 3-10 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.

Underlying Assumptions

There are several approaches that can be used to analyze the future revenue stream of a school district under a value limitation. Whatever method is used, a reasonable analysis requires the use of a multi-year forecasting model that covers the years in which the agreement is in effect. The Chapter 313 application now requires 15 years of data and analysis on the project being considered for a property value limitation.

The approach used here is to maintain static enrollment and property values in order to isolate the effects of the value limitation under the school finance system. While the new target revenue

system appears to limit the impact of property value changes for a majority of school districts, changes in underlying property value growth have the potential to influence the revenue stream of a number of school districts.

Student enrollment counts are held constant at 16,142 students in average daily attendance (ADA) in analyzing the effects of the TXP project on the finances of CISD. The District's local tax base reached $9.7 billion for the 2010 tax year. The $9.7 billion taxable value for 2010-11 is maintained for the forecast period in order to isolate the effects of the property value limitation. CISD is a property-wealthy district, with wealth per weighted ADA or WADA of approximately $493,673 for the 2010-11 school year, classifying the District as a Chapter 41 school district subject to recapture. These assumptions are summarized in Table 1.

School Finance Impact

A baseline model was prepared for CISD under the assumptions outlined above through the 2025-26 school year. Beyond the 2010-11 school year, no attempt was made to forecast the 88th percentile or Austin yield that influence future state funding. In the analyses for other districts and applicants on earlier projects, these changes appeared to have little impact on the revenue associated with the implementation of the property value limitation, since the baseline and other models incorporate the same underlying assumptions.

Under the proposed agreement, a second model is established to make a calculation of the "Baseline Revenue" by adding the value of the proposed TXP facility to the model, but without assuming that a value limitation is approved. The results of the model are shown in Table 2.

A third model is developed which adds the TXP value but imposes the proposed property value limitation effective in the third year, which in this case is the 2014-15 school year. The results of this model are identified as "Value Limitation Revenue Model" under the revenue protection provisions of the proposed agreement (see Table 3). An M&O tax rate of $1.04 is used throughout this analysis.

A summary of the differences between these models is shown in Table 4. The model results show approximately $127.2 million a year in net General Fund revenue, after recapture and other adjustments have been made.

Under these assumptions, CISD would experience a revenue loss as a result of the implementation of the value limitation in the 2014-15 school year (-$10,004). The revenue reduction results from the mechanics of six cents not subject to recapture, which reflect the one-year lag in value associated with the property value study. It appears that similar differences persist between the two models over the course of the agreement, in part due to deductions made in state property value study that do not sufficiently offset the reduction in M&O taxes resulting from the impact of the value limitation agreement.

One change that has been incorporated into these models is a more precise estimate of the deduction from the property value study conducted by the Comptroller's Office. At the school district level, a taxpayer benefiting from a property value limitation has two property values assigned by the local appraisal district for their property covered by the limitation: (1) a reduced value for M&O taxes, and (2) the full taxable value for I&S taxes. This situation exists for the eight years that the value limitation is in effect.

Under the property value study conducted by the Comptroller's Office, however, only a single deduction amount is calculated for a property value limitation and the same value is assigned for the M&O and I&S calculations under the school funding formulas. The contention that has been made is the language of Section 403.302(d)(10)(B) of the Government Code, which provides for deducting value associated with actions taken under Chapter 313 of the Tax Code in determining taxable value, does not permit the flexibility of establishing two state property values for the M&O and I&S components for a school districts that have granted a property value limitation.

The result of this interpretation is that a "composite" value for a school district with a Chapter 313 agreement is calculated, by averaging the impact of the value reduction across the M&O and I&S tax levies. The result of the composite deduction calculation is that the amount deducted for the value limitation from the state value study is always less than the tax benefit that has been provided for the taxpayer receiving the value limitation in school districts that levy M&O taxes.

In the case of CISD, the calculated lower reduction in the state property value relative to the M&O benefit to be received by the taxpayer does not appear to be substantial. In large part this results because the underlying tax base is substantially larger than the proposed project.

Impact on the Taxpayer

Table 5 summarizes the impact of the proposed property value limitation in terms of the potential tax savings under the property value limitation agreement. The focus of this table is on the M&O tax rate only. As noted previously, the property is fully taxable in the first two years under the agreement. A $1.04 per $100 of taxable value M&O rate is assumed in 2010-11 and thereafter.

Under the assumptions used here, the potential tax savings from the value limitation total $5.3 million over the life of the agreement. In addition, TXP would be eligible for a tax credit for taxes paid on value in excess of the value limitation in each of the first two years. The credit amount is paid out slowly through years 4-10 due to statutory limits on the scale of these payments over these seven years, with catch-up payments permitted in years 11-13. Because the values in the first two years are below the value limitation, there are no tax credits expected. The key CISD revenue losses are associated with the additional four-cent levy not subject to recapture and expected to total approximately $99,046 over the course of the agreement, with the school district to be reimbursed by the state for any tax credit payments, if the investment schedule changes and TXP becomes eligible for the tax credit. In total, the potential net tax benefits are estimated to total $5.2 million over the life of the agreement.

Facilities Funding Impact

The TXP project remains fully taxable for debt services taxes, with CISD currently levying a $0.330 I&S rate. The value of the TXP project is expected to appreciate over the life of the agreement and beyond, and full access to the additional value will add to the District's projected wealth per ADA that is currently well above what is provided for through the state's facilities program. This project has the potential of slightly decreasing the district's I&S tax rate.

The TXP project is not expected to affect CISD in terms of enrollment. Continued expansion of this type of manufacturing 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.

Conclusion

The proposed TXP manufacturing project enhances the tax base of CISD. It reflects continued capital investment, one of the goals of Chapter 313 of the Tax Code, also known as the Texas Economic Development Act.

Under the assumptions outlined above, the potential tax benefits under a Chapter 313 agreement could reach an estimated $5.2 million over the course of the agreement. This amount is net of any anticipated revenue losses for the District. The additional taxable value also enhances the tax base of CISD in meeting its future debt service obligations.

Table 1 – Base District Information with TXP Operations, LP 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
1	2012-13	17,125.31	20,823.68	$1.0400	$0.3300	$9,687,321,254	$9,687,321,254	$10,280,086,341	$10,280,086,341	$493,673	$493,673
2	2013-14	17,125.31	20,823.68	$1.0400	$0.3300	$9,728,077,754	$9,728,077,754	$10,310,086,341	$10,310,086,341	$495,113	$495,113
3	2014-15	17,125.31	20,823.68	$1.0400	$0.3300	$9,778,077,754	$9,757,321,254	$10,350,842,841	$10,350,842,841	$497,071	$497,071
4	2015-16	17,125.31	20,823.68	$1.0400	$0.3300	$9,808,077,754	$9,757,321,254	$10,400,842,841	$10,385,086,082	$499,472	$498,715
5	2016-17	17,125.31	20,823.68	$1.0400	$0.3300	$9,818,077,754	$9,757,321,254	$10,430,842,841	$10,392,312,359	$500,912	$499,062
6	2017-18	17,125.31	20,823.68	$1.0400	$0.3300	$9,823,077,754	$9,757,321,254	$10,440,842,841	$10,394,721,118	$501,393	$499,178
7	2018-19	17,125.31	20,823.68	$1.0400	$0.3300	$9,828,077,754	$9,757,321,254	$10,445,842,841	$10,395,925,498	$501,633	$499,236
8	2019-20	17,125.31	20,823.68	$1.0400	$0.3300	$9,833,077,754	$9,757,321,254	$10,450,842,841	$10,397,129,877	$501,873	$499,293
9	2020-21	17,125.31	20,823.68	$1.0400	$0.3300	$9,838,077,754	$9,757,321,254	$10,455,842,841	$10,398,334,257	$502,113	$499,351
10	2021-22	17,125.31	20,823.68	$1.0400	$0.3300	$9,838,077,754	$9,757,321,254	$10,460,842,841	$10,399,538,637	$502,353	$499,409
11	2022-23	17,125.31	20,823.68	$1.0400	$0.3300	$9,838,077,754	$9,838,077,754	$10,460,842,841	$10,399,538,637	$502,353	$499,409
12	2023-24	17,125.31	20,823.68	$1.0400	$0.3300	$9,838,077,754	$9,838,077,754	$10,460,842,841	$10,460,842,841	$502,353	$502,353
13	2024-25	17,125.31	20,823.68	$1.0400	$0.3300	$9,838,077,754	$9,838,077,754	$10,460,842,841	$10,460,842,841	$502,353	$502,353
14	2025-26	17,125.31	20,823.68	$1.0400	$0.3300	$9,838,077,754	$9,838,077,754	$10,460,842,841	$10,460,842,841	$502,353	$502,353
15	2026-27	17,125.31	20,823.68	$1.0400	$0.3300	$9,838,077,754	$9,838,077,754	$10,460,842,841	$10,460,842,841	$502,353	$502,353

*Tier II Yield: $47.65; AISD Yield: $59.97; Equalized Wealth: $476,500 per WADA

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	Excess Formula Reduction	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Total General Fund
1	2012-13	$98,740,522	$6,619,041	$19,264,868	$0	-$1,924,861	$3,944,487	$847,166	$0	$127,491,222
2	2013-14	$96,701,533	$6,631,203	$21,487,321	$0	-$2,247,988	$3,863,033	$816,017	$0	$127,251,120
3	2014-15	$96,489,630	$7,829,975	$20,851,289	$0	-$2,598,824	$3,854,568	$795,846	$0	$127,222,483
4	2015-16	$96,789,645	$6,631,203	$22,200,108	$0	-$3,048,887	$3,866,553	$775,895	$0	$127,214,517
5	2016-17	$96,889,650	$7,829,975	$21,166,741	$0	-$3,314,296	$3,870,548	$763,331	$0	$127,205,948
6	2017-18	$96,939,652	$6,631,203	$22,404,590	$0	-$3,403,376	$3,872,545	$759,284	$0	$127,203,899
7	2018-19	$96,989,655	$7,829,975	$21,201,578	$0	-$3,449,139	$3,874,543	$757,458	$0	$127,204,070
8	2019-20	$97,039,657	$6,631,203	$22,396,114	$0	-$3,494,906	$3,876,540	$755,631	$0	$127,204,240
9	2020-21	$97,089,660	$7,829,975	$21,193,109	$0	-$3,540,675	$3,878,538	$753,804	$0	$127,204,411
10	2021-22	$97,089,660	$6,631,203	$22,435,081	$0	-$3,583,875	$3,878,538	$751,590	$0	$127,202,197
11	2022-23	$97,081,584	$7,829,975	$21,243,970	$0	-$3,583,459	$3,878,215	$751,527	$0	$127,201,812
12	2023-24	$97,081,584	$6,631,203	$22,442,742	$0	-$3,583,459	$3,878,215	$751,527	$0	$127,201,812
13	2024-25	$97,081,584	$7,829,975	$21,243,970	$0	-$3,583,459	$3,878,215	$751,527	$0	$127,201,812
14	2025-26	$97,081,584	$7,829,975	$21,243,970	$0	-$3,583,459	$3,878,215	$751,527	$0	$127,201,812
15	2026-27	$97,081,584	$7,829,975	$21,243,970	$0	-$3,583,459	$3,878,215	$751,527	$0	$127,201,812

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	Excess Formula Reduction	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Total General Fund
1	2012-13	$98,740,522	$6,619,041	$19,264,868	$0	-$1,924,861	$3,944,487	$847,166	$0	$127,491,222
2	2013-14	$96,701,533	$6,631,203	$21,487,321	$0	-$2,247,988	$3,863,033	$816,017	$0	$127,251,120
3	2014-15	$96,282,054	$7,829,975	$21,050,274	$0	-$2,590,234	$3,846,276	$794,134	$0	$127,212,479
4	2015-16	$96,282,054	$6,631,203	$22,547,634	$0	-$2,888,822	$3,846,276	$778,833	$0	$127,197,177
5	2016-17	$96,282,054	$7,829,975	$21,411,616	$0	-$2,951,576	$3,846,276	$775,617	$0	$127,193,961
6	2017-18	$96,282,054	$6,631,203	$22,631,286	$0	-$2,972,474	$3,846,276	$774,546	$0	$127,192,890
7	2018-19	$96,282,054	$7,829,975	$21,442,960	$0	-$2,982,920	$3,846,276	$774,010	$0	$127,192,355
8	2019-20	$96,282,054	$6,631,203	$22,652,175	$0	-$2,993,363	$3,846,276	$773,475	$0	$127,191,820
9	2020-21	$96,282,054	$7,829,975	$21,463,843	$0	-$3,003,803	$3,846,276	$772,940	$0	$127,191,285
10	2021-22	$96,282,054	$6,631,203	$22,673,053	$0	-$3,014,241	$3,846,276	$772,405	$0	$127,190,750
11	2022-23	$97,081,584	$7,829,975	$20,711,428	$0	-$3,050,918	$3,878,215	$778,819	$0	$127,229,103
12	2023-24	$97,081,584	$6,631,203	$22,442,742	$0	-$3,583,459	$3,878,215	$751,527	$0	$127,201,812
13	2024-25	$97,081,584	$7,829,975	$21,243,970	$0	-$3,583,459	$3,878,215	$751,527	$0	$127,201,812
14	2025-26	$97,081,584	$7,829,975	$21,243,970	$0	-$3,583,459	$3,878,215	$751,527	$0	$127,201,812
15	2026-27	$97,081,584	$7,829,975	$21,243,970	$0	-$3,583,459	$3,878,215	$751,527	$0	$127,201,812

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	Excess Formula Reduction	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Total General Fund
1	2012-13	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	2013-14	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	2014-15	-$207,576	$0	$198,985	$0	$8,590	-$8,292	-$1,712	$0	-$10,004
4	2015-16	-$507,591	$0	$347,526	$0	$160,065	-$20,277	$2,938	$0	-$17,339
5	2016-17	-$607,596	$0	$244,876	$0	$362,720	-$24,272	$12,286	$0	-$11,986
6	2017-18	-$657,598	$0	$226,697	$0	$430,902	-$26,270	$15,262	$0	-$11,008
7	2018-19	-$707,601	$0	$241,381	$0	$466,219	-$28,267	$16,553	$0	-$11,714
8	2019-20	-$757,603	$0	$256,060	$0	$501,543	-$30,265	$17,844	$0	-$12,420
9	2020-21	-$807,606	$0	$270,734	$0	$536,872	-$32,262	$19,136	$0	-$13,126
10	2021-22	-$807,606	$0	$237,972	$0	$569,633	-$32,262	$20,815	$0	-$11,447
11	2022-23	$0	$0	-$532,541	$0	$532,541	$0	$27,292	$0	$27,292
12	2023-24	$0	$0	$0	$0	$0	$0	$0	$0	$0
13	2024-25	$0	$0	$0	$0	$0	$0	$0	$0	$0
14	2025-26	$0	$0	$0	$0	$0	$0	$0	$0	$0
15	2026-27	$0	$0	$0	$0	$0	$0	$0	$0	$0

Table 5 - Estimated Financial impact of the TXP Operations, LP Project Property Value Limitation Request Submitted to CISD at $1.04 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 Credits for First Two Years Above Limit	Tax Benefit to Company Before Revenue Protection	School District Revenue Losses	Estimated Net Tax Benefits
1	2012-13	$30,000,000	$30,000,000	$0	$1.040	$312,000	$312,000	$0	$0	$0	$0	$0
2	2013-14	$70,756,500	$70,756,500	$0	$1.040	$735,868	$735,868	$0	$0	$0	$0	$0
3	2014-15	$120,756,500	$100,000,000	$20,756,500	$1.040	$1,255,868	$1,040,000	$215,868	$0	$215,868	-$10,004	$205,863
4	2015-16	$150,756,500	$100,000,000	$50,756,500	$1.040	$1,567,868	$1,040,000	$527,868	$0	$527,868	-$17,339	$510,528
5	2016-17	$160,756,500	$100,000,000	$60,756,500	$1.040	$1,671,868	$1,040,000	$631,868	$0	$631,868	-$11,986	$619,881
6	2017-18	$165,756,500	$100,000,000	$65,756,500	$1.040	$1,723,868	$1,040,000	$683,868	$0	$683,868	-$11,008	$672,859
7	2018-19	$170,756,500	$100,000,000	$70,756,500	$1.040	$1,775,868	$1,040,000	$735,868	$0	$735,868	-$11,714	$724,153
8	2019-20	$175,756,500	$100,000,000	$75,756,500	$1.040	$1,827,868	$1,040,000	$787,868	$0	$787,868	-$12,420	$775,447
9	2020-21	$180,756,500	$100,000,000	$80,756,500	$1.040	$1,879,868	$1,040,000	$839,868	$0	$839,868	-$13,126	$826,741
10	2021-22	$180,756,500	$100,000,000	$80,756,500	$1.040	$1,879,868	$1,040,000	$839,868	$0	$839,868	-$11,447	$828,421
11	2022-23	$180,756,500	$180,756,500	$0	$1.040	$1,879,868	$1,879,868	$0	$0	$0	$0	$0
12	2023-24	$180,756,500	$180,756,500	$0	$1.040	$1,879,868	$1,879,868	$0	$0	$0	$0	$0
13	2024-25	$180,756,500	$180,756,500	$0	$1.040	$1,879,868	$1,879,868	$0	$0	$0	$0	$0
14	2025-26	$180,756,500	$180,756,500	$0	$1.040	$1,879,868	$1,879,868	$0	$0	$0	$0	$0
15	2026-27	$180,756,500	$180,756,500	$0	$1.040	$1,879,868	$1,879,868	$0	$0	$0	$0	$0
						$24,030,146	**$18,767,206**	**$5,262,941**	**$0**	**$5,262,941**	**-$99,046**	**$5,163,894**

Tax Credit for Value Over Limit in First 2 Years	Year 1	Year 2	Max Credits
	$0	$0	$0
	Credits Earned		$0
	Credits Paid		$0
	Excess Credits Unpaid		$0