Attachment E

Summary of Financial Impact

SUMMARY OF FINANCIAL IMPACT OF THE PROPOSED WKN MOZART, LLC PROJECT ON THE FINANCES OF THE ROTAN INDEPENDENT SCHOOL DISTRICT UNDER A REQUESTED CHAPTER 313 PROPERTY VALUE LIMITATION

April 28, 2011 | **Final Report**

PREPARED BY

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TEXAS SCHOOL FINANCE EXPERTS

Estimated Impact of the Proposed WKN Mozart, LLC Project on the Finances of the Rotan Independent School District under a Requested Chapter 313 Property Value Limitation

Introduction

WKN Mozart, LLC (WKN Mozart) has requested that the Rotan Independent School District (RISD) consider granting a property value limitation under Chapter 313 of the Tax Code for a new renewable electric wind generation project. An application was submitted to RISD on April 5, 2011. WKN Mozart proposes to invest $45 million to construct a new wind energy project in RISD.

The WKN Mozart 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, RISD may offer a minimum value limitation of $10 million. Based on the application, the qualifying time period would begin with the 2012-13 school year. The full value of the investment is expected to reach $45 million in 2013-14, with depreciation expected to reduce the taxable value of the project over the course of the value limitation agreement.

The provisions of Chapter 313 call for the project to be fully taxable in the 2012-13 and 2013-14 school years during the two-year qualifying time period. Beginning in 2014-15, the project would go on the local tax roll at $10 million and remain at that level of taxable value for eight years for maintenance and operations (M&O) 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 RISD currently levying a $0.045 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. Based on the data provided in the application, WKN Mozart indicates that $45.0 million in taxable value would be in place in the second year under the agreement. In year three (2014-15) of the agreement, the project is expected to go on the tax roll at $10 million or, if applicable, a higher value limitation amount approved by the RISD Board of Trustees. This difference would result in a revenue loss to the school district in the third year of the agreement that would not be reimbursed by the state, but require some type of compensation from the applicant in the revenue protection provisions of the agreement. In years 4-10, no additional revenue losses would be anticipated in the case of RISD when the state 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.

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 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). RISD currently levies a $1.17 per $100 M&O tax rate.

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 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. RISD is a formula district under these estimates in most years for the projections shown.

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 WKN Mozart 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 294 students in average daily attendance (ADA) in analyzing the effects of the WKN Mozart project on the finances of RISD. The District's local tax base reached $78.5 million for the 2010 tax year. The underlying $78.5 million taxable value for 2010-11 is maintained for the forecast period in order to isolate the effects of the property value limitation. RISD is not a property-wealthy district, with wealth per weighted ADA or WADA of approximately $118,174 for the 2010-11 school year. These assumptions are summarized in Table 1.

School Finance Impact

A baseline model was prepared for RISD 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 WKN Mozart 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 WKN Mozart 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 $1.17 is used throughout this analysis.

A summary of the differences between these models is shown in Table 4. The model results show approximately $3.6 million a year in net General Fund revenue.

Under these assumptions, RISD would experience a revenue loss as a result of the implementation of the value limitation in the 2014-15 school year (-$180,798). The revenue reduction results from the mechanics of six cents equalized to the Austin ISD yield, which reflect the one-year lag in value associated with the property value study. It appears that this reduction does not persist between the two models beyond the third year of the 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 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 RISD, 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.

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 and a $1.17 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 $2.1 million over the life of the agreement. In addition, WKN Mozart 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. The tax credits are expected to total $702,000 over the life of the agreement, with no unpaid tax credits anticipated. The key RISD revenue losses are associated with the additional six-cent levy not subject to recapture and expected to total approximately -$180,798 over the course of the agreement, with the school district to be reimbursed by the state for the tax credit payments. The potential net tax benefits are estimated to total $2.7 million over the life of the agreement.

Facilities Funding Impact

The WKN Mozart project remains fully taxable for debt services taxes, with RISD currently levying a $0.045 I&S tax rate. The value of the WKN Mozart project is expected to depreciate over the life of the agreement and beyond, but full access to the additional value will add to the District's projected wealth per ADA. The additional value is expected to help reduce the District's current I&S tax rate to $0.0335 per $100 in 2012-13—$0.012 cents of tax effort—with the rate reduction diminishing as the project value depreciates. State facilities support for the reduction of debt service taxes in RISD remains relatively modest, assuming the project is completed.

The WKN Mozart project is not expected to affect RISD in terms of enrollment. Continued expansion of the renewable energy industry 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 WKN Mozart wind energy project enhances the tax base of RISD. It reflects continued capital investment in renewable electric energy generation, 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 $2.7 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 RISD in meeting its future debt service obligations.

Table 1 – Base District Information with WKN Mozart, LLC 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	294.00	634.66	$1.1700	$0.0335	$113,528,088	$113,528,088	$75,000,000	$75,000,000	$118,174	$118,174
2	2013-14	294.00	634.66	$1.1700	$0.0420	$123,528,088	$123,528,088	$110,000,000	$110,000,000	$173,322	$173,322
3	2014-15	294.00	634.66	$1.1700	$0.0456	$120,378,088	$88,528,088	$120,000,000	$120,000,000	$189,078	$189,078
4	2015-16	294.00	634.66	$1.1700	$0.0355	$117,448,588	$88,528,088	$116,850,000	$86,194,768	$184,115	$135,813
5	2016-17	294.00	634.66	$1.1700	$0.0365	$114,724,153	$88,528,088	$113,920,500	$85,851,661	$179,499	$135,272
6	2017-18	294.00	634.66	$1.1700	$0.0370	$112,190,429	$88,528,088	$111,196,065	$85,792,504	$175,206	$135,179
7	2018-19	294.00	634.66	$1.1700	$0.0380	$109,834,066	$88,528,088	$108,662,341	$85,725,358	$171,214	$135,073
8	2019-20	294.00	634.66	$1.1700	$0.0385	$107,642,648	$88,528,088	$106,305,978	$85,670,221	$167,501	$134,986
9	2020-21	294.00	634.66	$1.1700	$0.0395	$105,604,629	$88,528,088	$104,114,560	$85,608,945	$164,048	$134,890
10	2021-22	294.00	634.66	$1.1700	$0.0405	$103,709,272	$88,528,088	$102,076,541	$85,557,688	$160,837	$134,809
11	2022-23	294.00	634.66	$1.1700	$0.0405	$101,946,590	$101,946,590	$100,181,184	$85,507,921	$157,851	$134,731
12	2023-24	294.00	634.66	$1.1700	$0.0475	$100,307,295	$100,307,295	$98,418,502	$98,418,502	$155,073	$155,073
13	2024-25	294.00	634.66	$1.1700	$0.0475	$98,782,751	$98,782,751	$96,779,207	$96,779,207	$152,490	$152,490
14	2025-26	294.00	634.66	$1.1700	$0.0475	$97,364,924	$97,364,924	$95,254,663	$95,254,663	$150,088	$150,088
15	2026-27	294.00	634.66	$1.1700	$0.0475	$96,046,346	$96,046,346	$93,836,836	$93,836,836	$147,854	$147,854

*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	$1,096,517	$2,383,793	$0	-$139,831	$0	$186,344	$473,451	$0	$4,000,274
2	2013-14	$1,192,938	$2,033,776	$0	$0	$0	$202,730	$286,689	$0	$3,716,132
3	2014-15	$1,173,652	$1,933,771	$0	$0	$0	$199,452	$241,928	$0	$3,548,803
4	2015-16	$1,144,454	$1,965,273	$0	$0	$0	$194,490	$247,512	$0	$3,551,730
5	2016-17	$1,117,198	$1,994,569	$0	$0	$0	$189,858	$252,713	$0	$3,554,339
6	2017-18	$1,091,855	$2,021,815	$0	$0	$0	$185,552	$257,578	$0	$3,556,800
7	2018-19	$1,068,281	$2,047,153	$0	$0	$0	$181,545	$262,126	$0	$3,559,105
8	2019-20	$1,046,360	$2,070,718	$0	$0	$0	$177,820	$266,380	$0	$3,561,278
9	2020-21	$1,025,969	$2,092,633	$0	$0	$0	$174,355	$270,356	$0	$3,563,314
10	2021-22	$1,007,005	$2,113,015	$0	$0	$0	$171,132	$274,074	$0	$3,565,226
11	2022-23	$984,680	$2,131,969	$0	$0	$0	$167,338	$276,234	$0	$3,560,222
12	2023-24	$968,792	$2,149,597	$0	$0	$0	$164,638	$279,593	$0	$3,562,620
13	2024-25	$954,080	$2,165,991	$0	$0	$0	$162,138	$282,757	$0	$3,564,966
14	2025-26	$940,397	$2,181,237	$0	$0	$0	$159,812	$285,721	$0	$3,567,167
15	2026-27	$927,672	$2,195,416	$0	$0	$0	$157,650	$288,495	$0	$3,569,233

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	$1,096,517	$2,383,793	$0	-$139,831	$0	$186,344	$473,451	$0	$4,000,274
2	2013-14	$1,192,938	$2,033,776	$0	$0	$0	$202,730	$286,689	$0	$3,716,132
3	2014-15	$855,136	$1,933,771	$257,504	$0	$0	$145,323	$176,272	$0	$3,368,005
4	2015-16	$855,235	$2,271,840	$0	$0	$0	$145,340	$302,435	$0	$3,574,849
5	2016-17	$855,225	$2,275,271	$0	$0	$0	$145,338	$304,221	$0	$3,580,055
6	2017-18	$855,220	$2,275,863	$0	$0	$0	$145,337	$304,529	$0	$3,580,949
7	2018-19	$855,210	$2,276,535	$0	$0	$0	$145,336	$304,878	$0	$3,581,959
8	2019-20	$855,205	$2,277,086	$0	$0	$0	$145,335	$305,166	$0	$3,582,792
9	2020-21	$855,195	$2,277,699	$0	$0	$0	$145,333	$305,485	$0	$3,583,712
10	2021-22	$855,185	$2,278,211	$0	$0	$0	$145,332	$305,751	$0	$3,584,479
11	2022-23	$984,680	$2,278,709	$0	$0	$0	$167,338	$352,352	$0	$3,783,079
12	2023-24	$968,792	$2,149,597	$0	$0	$0	$164,638	$279,593	$0	$3,562,620
13	2024-25	$954,080	$2,165,991	$0	$0	$0	$162,138	$282,757	$0	$3,564,966
14	2025-26	$940,397	$2,181,237	$0	$0	$0	$159,812	$285,721	$0	$3,567,167
15	2026-27	$927,672	$2,195,416	$0	$0	$0	$157,650	$288,495	$0	$3,569,233

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	-$318,516	$0	$257,504	$0	$0	-$54,129	-$65,657	$0	-$180,798
4	2015-16	-$289,220	$306,567	$0	$0	$0	-$49,150	$54,922	$0	$23,120
5	2016-17	-$261,974	$280,702	$0	$0	$0	-$44,520	$51,508	$0	$25,716
6	2017-18	-$236,635	$254,048	$0	$0	$0	-$40,214	$46,951	$0	$24,149
7	2018-19	-$213,071	$229,382	$0	$0	$0	-$36,210	$42,752	$0	$22,854
8	2019-20	-$191,155	$206,368	$0	$0	$0	-$32,485	$38,786	$0	$21,514
9	2020-21	-$170,774	$185,066	$0	$0	$0	-$29,022	$35,128	$0	$20,399
10	2021-22	-$151,820	$165,196	$0	$0	$0	-$25,800	$31,678	$0	$19,253
11	2022-23	$0	$146,740	$0	$0	$0	$0	$76,118	$0	$222,858
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 WKN Mozart, LLC Project Property Value Limitation Request Submitted to RISD at $1.17 M&O Tax Rate

Year of Agreement	School Year	Project Value	Estimated Taxable Value	Value Savings	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	$35,000,000	$35,000,000	$0	$409,500	$409,500	$0	$0	$0	$0	$0
2	2013-14	$45,000,000	$45,000,000	$0	$526,500	$526,500	$0	$0	$0	$0	$0
3	2014-15	$41,850,000	$10,000,000	$31,850,000	$489,645	$117,000	$372,645	$0	$372,645	-$180,798	$191,847
4	2015-16	$38,920,500	$10,000,000	$28,920,500	$455,370	$117,000	$338,370	$65,408	$403,778	$0	$403,778
5	2016-17	$36,196,065	$10,000,000	$26,196,065	$423,494	$117,000	$306,494	$65,106	$371,600	$0	$371,600
6	2017-18	$33,662,341	$10,000,000	$23,662,341	$393,849	$117,000	$276,849	$64,728	$341,577	$0	$341,577
7	2018-19	$31,305,978	$10,000,000	$21,305,978	$366,280	$117,000	$249,280	$64,448	$313,728	$0	$313,728
8	2019-20	$29,114,560	$10,000,000	$19,114,560	$340,640	$117,000	$223,640	$64,105	$287,745	$0	$287,745
9	2020-21	$27,076,541	$10,000,000	$17,076,541	$316,796	$117,000	$199,796	$63,848	$263,643	$0	$263,643
10	2021-22	$25,181,184	$10,000,000	$15,181,184	$294,620	$117,000	$177,620	$63,599	$241,219	$0	$241,219
11	2022-23	$23,418,502	$23,418,502	$0	$273,996	$273,996	$0	$250,759	$250,759	$0	$250,759
12	2023-24	$21,779,207	$21,779,207	$0	$254,817	$254,817	$0	$0	$0	$0	$0
13	2024-25	$20,254,663	$20,254,663	$0	$236,980	$236,980	$0	$0	$0	$0	$0
14	2025-26	$18,836,836	$18,836,836	$0	$220,391	$220,391	$0	$0	$0	$0	$0
15	2026-27	$17,518,258	$17,518,258	$0	$204,964	$204,964	$0	$0	$0	$0	$0
					$5,207,841	**$3,063,147**	**$2,144,694**	**$702,000**	**$2,846,694**	**-$180,798**	**$2,665,895**

Tax Credit for Value Over Limit in First 2 Years	Year 1	Year 2	Max Credits
	$292,500	$409,500	$702,000
Credits Earned			$702,000
Credits Paid			$702,000
Excess Credits Unpaid			$0