Attachment E

Summary of Financial Impact

Summary of Financial Impact of the Proposed DEGS WIND I, LLC Project on the Finances of the Rio Hondo ISD Under A Requested Chapter 313 Property Value Limitation

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Prepared by

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TEXAS SCHOOL FINANCE EXPERTS

Estimated Impact of the Proposed DEGS WIND I, LLC Project on the Finances of the Rio Hondo ISD under a Requested Chapter 313 Property Value Limitation

Introduction

DEGS Wind I, LLC (Duke Energy) has requested that the Rio Hondo ISD (RHISD) consider granting a property value limitation under Chapter 313 of the Tax Code for a new renewable electric wind energy generation project. An application was submitted to RHISD on August 8, 2011. Duke Energy proposes to invest $27.7 million to construct a new wind energy project in RHISD.

The Duke Energy 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, RHISD 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 $27.7 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, 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 $10 million and remain at that level of taxable value for eight years for maintenance and operations taxes. (If the project value falls below $10 million, the actual value would be the basis for the limitation, although no tax savings would result.) The full taxable value of the project could be assessed for debt service taxes on voter-approved bond issues throughout the limitation period, with RHISD currently levying a $0.119 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. This generally resulted 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, smaller revenue losses would be anticipated 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, assuming a similar deduction is made in the state property values.

Under the HB 1 system, most school districts received additional state aid for tax reduction (ASATR) that was used to maintain their target revenue amounts established at the revenue levels under old law for the 2005-06 or 2006-07 school years, whichever was highest. In terms of new Chapter 313 property value limitation agreements, adjustments to ASATR funding often moderated the impact of the reduced M&O collections as a result of the limitation, in contrast with the earlier formula-driven finance system. RHISD has a relatively low target revenue of $4,817 per WADA—compared with a state average of $5,185 per WADA—and was not a beneficiary of much ASATR funding, especially in recent years since the passage of HB 3646.

In the case of HB 3646—the school finance system changes approved by the Legislature in 2009—the starting point was the target revenue provisions from HB 1, that were 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 did 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 70 percent of all school districts were funded at the minimum $120 per WADA level, while approximately 30 percent school districts were expected to generate higher revenue amounts per WADA in the 2009-10 school year. 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.

The formula reductions enacted under Senate Bill 1 (SB 1) as approved in the First Called Session in 2011 are designed to make $4 billion in reductions to the existing school funding formulas for the 2011-12 and 2012-13 school years. For the 2011-12 school year, across-the-board reductions were made that reduced each district's WADA count and resulted in an estimated 797 school districts still receiving ASATR to maintain their target revenue funding levels, while an estimated 227 districts operating directly on the state formulas.

For the 2012-13 school year, the SB 1 changes called for smaller across-the-board reductions and funding ASATR-receiving target revenue districts at 92.35 percent of the level provided for under the existing funding formula. For the 2013-14 school year and beyond, the ASATR reduction percentage will be set in the appropriations bill. The recent legislative session also saw the adoption of a statement of legislative intent to no longer fund target revenue (through ASATR) by the 2017-18 school year.

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 Duke Energy 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. The current SB 1 reductions are reflected in the underlying models. Student enrollment counts are held constant at 2,095 students in average daily attendance (ADA) in analyzing the effects of the Duke Energy project on the finances of RHISD. The District's local tax base reached an estimated $211 million for the 2011 tax year. The underlying $211 million taxable value for 2011-12 is maintained for the forecast period in order to isolate the effects of the property value limitation. RHISD is not a property-wealthy district, with estimated wealth per weighted ADA or WADA of approximately $68,138 for the 2012-13 school year. These assumptions are summarized in Table 1.

School Finance Impact

A baseline model was prepared for RHISD 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—now a yield of $59.97 per WADA for the current biennium—that influences 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 Duke Energy 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 Duke Energy 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 $17.8 million a year in net General Fund revenue.

Under these assumptions, RHISD would experience a revenue loss as a result of the implementation of the value limitation in the 2014-15 school year (-$323,161). The revenue reduction results from the mechanics of six cents equalized to the Austin ISD yield, as well as local M&O taxes and related state aid for tax effort up to the $1.17 M&O rate.

The estimated tax savings for the 2014-15 tax year are estimated to total $190,641 under the value limitation, which is less than the combined state and local revenue loss for RHISD. This comes about because there are no funding formula offsets in the 2014-15 school year. Once the state property value study begins to recognize the $10 million limitation, however, formula changes result that offset the reduction in M&O taxes beginning with the 2015-16 school year and thereafter. . (See Table 4.)

The Comptroller's Property Tax Assistance Division announced recently that it would be adopting a rule this fall that would implement the use of two values for school districts for its 2011 state property value study. These are the state values that will be used to calculate state aid and recapture in the 2012-13 school year.

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 through the 2010 tax year, however, only a single deduction amount was 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 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 only.

Under the Duke Energy request for a value limitation, the 2014 state property value used for the 2015-16 school year would be the first year that this change in the value study would be reflected in funding formula calculations for the new Duke Energy project. This change has been made in the models presented here and benefits both the District and the Company.

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 $1.17 per $100 of taxable value M&O rate is assumed in 2011-12 and thereafter.

Under the assumptions used here, the potential tax savings from the value limitation total $1.1 million over the life of the agreement. In addition, Duke Energy 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 approximately $207,000 over the life of the agreement, with no unpaid tax credits anticipated. The District is to be reimbursed by the state for the tax credit payments.

The key RHISD revenue losses are associated with a reduction in local M&O tax effort and its impact on state funding above the $0.98 compressed M&O tax effort. These losses are estimated

to total -$323,161 in the first year the $10 million llimitation takes effect under the agreement. The potential net tax benefits are estimated to total $1.0 million over the life of the agreement. While the hold-harmless amount exceeds the amount of tax savings in the 2014-15 school year, there would still be a substantial tax benefit to Duke Energy under the value limitation agreement for the remaining years that the limitation is in effect.

Facilities Funding Impact

The Duke Energy project remains fully taxable for debt services taxes, with RHISD currently levying a $0.119 I&S rate. The value of the Duke Energy 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. At its peak taxable value, the project adds about 13.8 percent to RHISD's current tax base. At the same time, however, the District's wealth per ADA remains well below the $350,000 per ADA guarantee under the state's facilities programs. Any initial help on facilities funding is expected to occur the first year the project's value appears on the local tax roll for I&S purposes.

The Duke Energy project is not expected to affect RHISD 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 Duke Energy renewable electric wind energy project enhances the tax base of RHISD. 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 $1.0 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 RHISD, which may assist the District when the project first appears on the local I&S tax roll.

Table 1 – Base District Information with Duke Energy 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	2,091.71	3,037.36	$1.1700	$0.1191	$211,263,551	$211,263,551	$206,958,634	$206,958,634	$68,138	$68,138
2	2013-14	2,091.71	3,037.36	$1.1700	$0.1191	$238,941,551	$238,941,551	$206,958,634	$206,958,634	$68,138	$68,138
3	2014-15	2,091.71	3,037.36	$1.1700	$0.1191	$237,557,651	$221,263,551	$234,636,634	$234,636,634	$77,250	$77,250
4	2015-16	2,091.71	3,037.36	$1.1700	$0.1191	$236,242,946	$221,263,551	$233,252,734	$216,958,634	$76,794	$71,430
5	2016-17	2,091.71	3,037.36	$1.1700	$0.1191	$234,993,976	$221,263,551	$231,938,029	$216,958,634	$76,362	$71,430
6	2017-18	2,091.71	3,037.36	$1.1700	$0.1191	$233,807,455	$221,263,551	$230,689,059	$216,958,634	$75,950	$71,430
7	2018-19	2,091.71	3,037.36	$1.1700	$0.1191	$232,680,260	$221,263,551	$229,502,538	$216,958,634	$75,560	$71,430
8	2019-20	2,091.71	3,037.36	$1.1700	$0.1191	$231,609,424	$221,263,551	$228,375,343	$216,958,634	$75,189	$71,430
9	2020-21	2,091.71	3,037.36	$1.1700	$0.1191	$230,592,131	$221,263,551	$227,304,507	$216,958,634	$74,836	$71,430
10	2021-22	2,091.71	3,037.36	$1.1700	$0.1191	$229,625,702	$221,263,551	$226,287,214	$216,958,634	$74,501	$71,430
11	2022-23	2,091.71	3,037.36	$1.1700	$0.1191	$228,707,594	$228,707,594	$225,320,785	$216,958,634	$74,183	$71,430
12	2023-24	2,091.71	3,037.36	$1.1700	$0.1191	$227,835,392	$227,835,392	$224,402,677	$224,402,677	$73,881	$73,881
13	2024-25	2,091.71	3,037.36	$1.1700	$0.1191	$227,006,800	$227,006,800	$223,530,475	$223,530,475	$73,594	$73,594
14	2025-26	2,091.71	3,037.36	$1.1700	$0.1191	$226,219,638	$226,219,638	$222,701,883	$222,701,883	$73,321	$73,321
15	2026-27	2,091.71	3,037.36	$1.1700	$0.1191	$225,471,833	$225,471,833	$221,914,721	$221,914,721	$73,062	$73,062

*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	$2,117,260	$13,245,791	$0	$0	$0	$410,363	$2,046,884	$0	$17,820,298
2	2013-14	$2,383,093	$13,245,791	$0	$0	$0	$461,886	$2,303,881	$0	$18,394,650
3	2014-15	$2,372,995	$12,974,533	$0	$0	$0	$459,929	$1,969,248	$0	$17,776,705
4	2015-16	$2,360,368	$12,988,096	$0	$0	$0	$457,481	$1,973,105	$0	$17,779,051
5	2016-17	$2,348,372	$13,000,981	$0	$0	$0	$455,156	$1,976,785	$0	$17,781,295
6	2017-18	$2,336,976	$13,013,221	$0	$0	$0	$452,948	$1,980,295	$0	$17,783,440
7	2018-19	$2,326,150	$13,024,850	$0	$0	$0	$450,849	$1,983,643	$0	$17,785,493
8	2019-20	$2,315,865	$13,035,897	$0	$0	$0	$448,856	$1,986,835	$0	$17,787,454
9	2020-21	$2,306,095	$13,046,391	$0	$0	$0	$446,962	$1,989,879	$0	$17,789,327
10	2021-22	$2,296,813	$13,056,361	$0	$0	$0	$445,163	$1,992,781	$0	$17,791,118
11	2022-23	$2,287,995	$13,065,833	$0	$0	$0	$443,454	$1,995,546	$0	$17,792,829
12	2023-24	$2,279,618	$13,074,831	$0	$0	$0	$441,831	$1,998,182	$0	$17,794,462
13	2024-25	$2,271,660	$13,083,379	$0	$0	$0	$440,288	$2,000,694	$0	$17,796,021
14	2025-26	$2,264,099	$13,091,499	$0	$0	$0	$438,823	$2,003,087	$0	$17,797,509
15	2026-27	$2,256,917	$13,099,214	$0	$0	$0	$437,431	$2,005,368	$0	$17,798,929

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	$2,117,260	$13,245,791	$0	$0	$0	$410,363	$2,046,884	$0	$17,820,298
2	2013-14	$2,383,093	$13,245,791	$0	$0	$0	$461,886	$2,303,881	$0	$18,394,650
3	2014-15	$2,213,305	$12,974,533	$0	$0	$0	$428,978	$1,836,728	$0	$17,453,544
4	2015-16	$2,213,305	$13,147,786	$0	$0	$0	$428,978	$2,021,340	$0	$17,811,409
5	2016-17	$2,213,305	$13,147,786	$0	$0	$0	$428,978	$2,021,340	$0	$17,811,409
6	2017-18	$2,213,305	$13,147,786	$0	$0	$0	$428,978	$2,021,340	$0	$17,811,409
7	2018-19	$2,213,305	$13,147,786	$0	$0	$0	$428,978	$2,021,340	$0	$17,811,409
8	2019-20	$2,213,305	$13,147,786	$0	$0	$0	$428,978	$2,021,340	$0	$17,811,409
9	2020-21	$2,213,305	$13,147,786	$0	$0	$0	$428,978	$2,021,340	$0	$17,811,409
10	2021-22	$2,213,305	$13,147,786	$0	$0	$0	$428,978	$2,021,340	$0	$17,811,409
11	2022-23	$2,284,801	$13,147,786	$0	$0	$0	$442,835	$2,086,635	$0	$17,962,057
12	2023-24	$2,276,424	$13,074,831	$0	$0	$0	$441,212	$1,995,383	$0	$17,787,849
13	2024-25	$2,268,466	$13,083,379	$0	$0	$0	$439,669	$1,997,881	$0	$17,789,395
14	2025-26	$2,260,905	$13,091,499	$0	$0	$0	$438,204	$2,000,262	$0	$17,790,870
15	2026-27	$2,253,723	$13,099,214	$0	$0	$0	$436,812	$2,002,530	$0	$17,792,279

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	-$159,690	$0	$0	$0	$0	-$30,951	-$132,520	$0	-$323,161
4	2015-16	-$147,063	$159,690	$0	$0	$0	-$28,503	$48,235	$0	$32,358
5	2016-17	-$135,068	$146,805	$0	$0	$0	-$26,179	$44,555	$0	$30,114
6	2017-18	-$123,672	$134,565	$0	$0	$0	-$23,970	$41,045	$0	$27,968
7	2018-19	-$112,846	$122,936	$0	$0	$0	-$21,871	$37,697	$0	$25,916
8	2019-20	-$102,561	$111,889	$0	$0	$0	-$19,878	$34,505	$0	$23,955
9	2020-21	-$92,790	$101,395	$0	$0	$0	-$17,984	$31,461	$0	$22,081
10	2021-22	-$83,508	$91,425	$0	$0	$0	-$16,185	$28,559	$0	$20,291
11	2022-23	-$3,194	$81,953	$0	$0	$0	-$619	$91,089	$0	$169,229
12	2023-24	-$3,194	$0	$0	$0	$0	-$619	-$2,800	$0	-$6,613
13	2024-25	-$3,194	$0	$0	$0	$0	-$619	-$2,813	$0	-$6,626
14	2025-26	-$3,194	$0	$0	$0	$0	-$619	-$2,826	$0	-$6,639
15	2026-27	-$3,194	$0	$0	$0	$0	-$619	-$2,838	$0	-$6,651

Table 5 - Estimated Financial impact of the Duke Energy Project Property Value Limitation Request Submitted to RHISD 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	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	2013-14	$27,678,000	$27,678,000	$0	$323,833	$323,833	$0	$0	$0	$0	$0
3	2014-15	$26,294,100	$10,000,000	$16,294,100	$307,641	$117,000	$190,641	$0	$190,641	-$323,161	-$132,520
4	2015-16	$24,979,395	$10,000,000	$14,979,395	$292,259	$117,000	$175,259	$29,548	$204,806	$0	$204,806
5	2016-17	$23,730,425	$10,000,000	$13,730,425	$277,646	$117,000	$160,646	$29,548	$190,193	$0	$190,193
6	2017-18	$22,543,904	$10,000,000	$12,543,904	$263,764	$117,000	$146,764	$29,548	$176,311	$0	$176,311
7	2018-19	$21,416,709	$10,000,000	$11,416,709	$250,575	$117,000	$133,575	$29,548	$163,123	$0	$163,123
8	2019-20	$20,345,873	$10,000,000	$10,345,873	$238,047	$117,000	$121,047	$29,548	$150,594	$0	$150,594
9	2020-21	$19,328,580	$10,000,000	$9,328,580	$226,144	$117,000	$109,144	$29,548	$138,692	$0	$138,692
10	2021-22	$18,362,151	$10,000,000	$8,362,151	$214,837	$117,000	$97,837	$29,548	$127,385	$0	$127,385
11	2022-23	$17,444,043	$17,444,043	$0	$204,095	$204,095	$0	$0	$0	$0	$0
12	2023-24	$16,571,841	$16,571,841	$0	$193,891	$193,891	$0	$0	$0	$0	$0
13	2024-25	$15,743,249	$15,743,249	$0	$184,196	$184,196	$0	$0	$0	$0	$0
14	2025-26	$14,956,087	$14,956,087	$0	$174,986	$174,986	$0	$0	$0	$0	$0
15	2026-27	$14,208,282	$14,208,282	$0	$166,237	$166,237	$0	$0	$0	$0	$0
				Totals	$3,318,151	$2,183,238	$1,134,913	$206,833	$1,341,746	-$323,161	$1,018,585

Tax Credit for Value Over Limit in First 2 Years	Year 1	Year 2	Max Credits
	$0	$206,833	$206,833
Credits Earned			$206,833
Credits Paid			$206,833
Excess Credits Unpaid			$0