FINAL REPORT

Summary of the Financial Impact of The Proposed Magic Valley Wind Farm on the San Perlita ISD Under a Requested Chapter 313 Property Value Limitation

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Introduction

Magic Valley Wind Farm 1, LLC, has requested that the San Perlita Independent School District consider granting a property value limitation under Chapter 313 of the Tax Code for a wind farm project. Magic Valley Wind Farm 1, LLC, has submitted an application to the San Perlita ISD Board of Trustees. That application was approved on September 13, 2011. Magic Valley Wind Farm proposes to initially invest $38,115,000 in this project.

The state of Texas has a goal of "encouraging large scale capital investments" and the Magic Valley Wind Farm project is consistent with that goal. The Texas Legislature enacted House Bill 1200 in 2001 which established Chapter 313 of the tax code. This made companies engaged in renewable energy production eligible to apply to school districts for property value limitations.

Texas Public School Funding

In 2006, a special session of the Texas Legislature enacted House Bill 1. House Bill 1 replaced a school funding system that was formula driven with a maximum M&O tax rate of $1.50 with one that has most districts subject to a system of Hold Harmless Target Revenue. This established a maximum tax rate of $1.04 unless district voters authorized higher M&O levies up to $1.17. Most Texas School Districts are currently subject to Hold Harmless Target Revenue and now receive additional state aid for tax reduction to make up for revenue that was previously generated by tax levies up to $1.50.

A special session of the Texas Legislature in the summer of 2011 made significant changes to the school funding system to implement approximately $4 billion dollars in cuts to the system for the 2011-2012 and 2012-2013 school years. State Revenue reductions for the 2011-2012 school year were accomplished by reducing the Tier 1 Regular Program Allotment by 7.61%. In 2012-2013, the Regular Program Allotments will be reduced by 2% along with a 7.65% reduction in additional state aid for tax reduction. The legislature has set a goal of completely eliminating additional state aid for tax reduction over the next five years, however future legislative sessions will determine the distribution of Foundation School Program revenues after the 2012-2013 school year. It should be noted that because ASATR funding has the effect of off-setting school district revenue losses arising from limitations on the valuation of a qualified investment, any reduction of ASATR funding after the 2012-2013 school year may result in significant increases in the amount of estimated revenue protection payable by the applicant to the district pursuant to the tax limitation agreement.

State and local revenues for Texas School Districts are determined by two different property values in any given year. Under the current school funding system, school districts levy and collect local property taxes based on the current tax roll as determined by the County Appraisal District. State funding formulas use previous year (CPTD values) to determine local fund assignments in the 3 funding tiers. The CPTD value reflects the CAD value from the previous year.

Program Specifics

The first two years, 2012-13 and 2013-14, the project will be fully taxable for both maintenance and operation (M&O) and debt service (I&S). These two school years represent the qualifying time period for the project. San Perlita ISD intends to offer a value limitation of $10 million effective school year 2014-15 through 2021-22. During those years the project amount will be $10m for M&O taxes. Taxes for debt service, voter approved projects financed by the sale of bonds, will continue to be taxed at full taxable value. Depreciation is expected to reduce the taxable value of the project over the course of the value limitation agreement.

Project Assumptions

The Chapter 313 application now requires fifteen years of data and analysis on the project being considered for a property value limitation. The approach used in this study is to maintain static enrollment and property values in order to isolate the effects of the value limitation under the school finance system. In this study, it is assumed that student counts, average daily attendance, would remain at 246, the current level. The local district tax base for San Perlita ISD was $62,363,995 in the 2011 tax year. The $62,363,995 tax base for 2011-2012 is maintained for the study period in order to highlight the effects of the property value limitation. The projected CAD values are used for the CPTD values in each of the following years based on the one year lag between these values that was explained earlier in this report. It is also assumed that the current M&O tax rate, $1.04, and the current I&S rate, $.28 will prevail during the project period. The forecasts contained in this report assume that the current school funding system and formulas will remain in place throughout the project period. It is likely that political pressures and possibly court decisions will force the Texas Legislature to modify the current formulas. The assumptions discussed here are summarized in Table 1 of this report.

School Funding Impact on San Perlita ISD

Two models for comparison purposes were developed under the guidelines of the proposed agreement and using the assumptions outlined previously in this report. The models are designed to illustrate the financial impact, if any, to the San Perlita ISD resulting from this agreement.

The first model adds the taxable value of the project to the district's baseline taxable value. In the years where the tax limitation was applicable, the project value was held at $10m. State and local revenue is calculated based on the resulting taxable values.

The second model projects state and local revenue to the district without the provisions of the tax limitation agreement. This model adds the full taxable value of the project to the baseline taxable value for the purpose of calculating state and local revenue. It assumes no tax limitation in any year of the study.

Exhibit A summarizes the differences between the 2 models. Year three of the agreement shows a significant loss in revenue with the agreement due to the previous year CPTD value being significantly higher than the projected current year CAD value. Very small gains are evident in years 4-10 (less than 1%). Year 11 shows a significant gain with the agreement again due to a state funding system that uses previous year CPTD values to calculate state funding and a current CAD value to generate current year taxes. As noted earlier, future sessions of the Texas Legislature are committed to modifying the funding formulas used in these models with the goal of eliminating Additional State Aid for Tax Reduction by 2017.

Impact on the Taxpayer (MVW)

The proposed tax limitation agreement calls for the project property value to be fully taxable in the first two years of the agreement. The agreement also stipulates that the taxable value of the project would be limited to $10m in years three through ten. This limitation would apply only to M&O taxes with taxes being levied on the full value of the property for debt service payments.

The calculations in the models mentioned earlier show that the potential tax savings for Magic Valley Wind Farm 1, LLC would be $1,702,956 over the course of the agreement. Magic Valley Wind Farm would also be eligible for a tax credit on taxes paid in excess of the value limitation in each of the first two years of the agreement. The cumulative tax credits are estimated to be approximately $300,000. Calculations to determine these tax credits are shown on a spreadsheet entitled Exhibit B. Prior to any issuance of tax credits, the Texas Education Agency will recalculate these tax credits based on current data. Tax credit payments will be reimbursed to the school district by the state.

Impact on San Perlita ISD Facilities Funding

During this proposed agreement, the full value of the project's appraised value remains taxable for the purposes of taxation required to service bonded debt. San Perlita ISD is eligible for the Instructional Facilities Allotment. This program guarantees a certain yield per penny in state and local aid for any debt eligible under the program. Increasing CPTD values due to the addition of the project's appraised value will have the effect of reducing or possibly even eliminating the state revenue from the Instructional Facilities Allotment. However the benefit that the district will receive from increasing property values that are subject to I&S taxation will at least offset this loss of state aid.

Summary

The proposed Magic Valley Wind Farm project is consistent with one of the goals of Chapter 313 of the tax code, also known as the Texas Economic Development Act, in that it encourages large scale capital investment in projects that promote renewable electric energy production. The project will provide Magic Valley Wind Farm 1, LLC, with a significant tax benefit over the course of the agreement and the school district will be compensated for any loss of revenue as a result of the agreement. The school district will also benefit from increasing tax values which will enhance the ability of the district to meet future debt service obligations.