

**Summary of the District's Financial Impact  
of Chapter 313 Agreement  
with Crosby County Wind Farm, LLC**

Prepared by

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# Lorenzo ISD Financial Impact of Chapter 313 Agreement

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## **Summary of Lorenzo ISD Financial Impact of the Limited Appraised Value Application from Crosby County Wind Farm, LLC**

### **Introduction**

Crosby County Wind Farm, LLC, applied for a property value limitation from Lorenzo Independent School District under Chapter 313 of the Tax Code. The application was submitted on November 3, 2011 and subsequently approved for consideration by the Lorenzo ISD Board of Trustees. Crosby County Wind Farm, LLC (“Crosby Wind”), is requesting the property value limitation as a “renewable energy electric generation” company as listed in Sec. 313.024.(b) of the Tax Code.

“The Economic Development Act”, Tax Code Chapter 313, was created by House Bill 1200 of the 77<sup>th</sup> Texas Legislature in 2001. Further amendments were made to Chapter 313 as a result of House Bill 1470 from the 80<sup>th</sup> Texas Legislative Session in 2007.

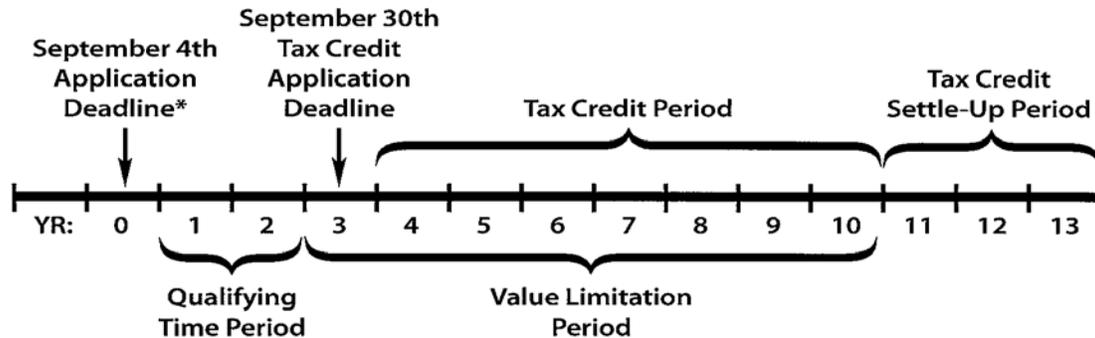
The Economic Development Act was created to attract qualifying businesses to Texas by allowing school districts the option of approving a property value limitation to these qualifying entities. The purpose of the property value limitation is to reduce the maintenance and operations taxes paid by the company, to a school district during the applicable years as displayed below.

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## Timeline for Companies Applying for Tax Credit (in 3rd Year) After June 15, 2007

### Appraised Value Limitation and Credit Under Tax Code Chapter 313



\* Companies may apply throughout the year by agreement with the school district. Sept. 4th is the deadline for applications with agreements commencing in the following tax year.

The company must file an application with the school district by September 4 to qualify for consideration of a Limited Appraised Value Agreement (“LAVA” or “Agreement”) to begin the following tax year. The first two years of the agreement are considered the qualifying time period and the company’s school district taxes will be levied at one-hundred percent of the appraised value. The applicant may then file a separate application with the school district to request tax credits (for taxes paid during the qualifying time period) to be applied during years four through ten of the LAVA, but not to exceed 50% of their tax levy for those years. Any tax credit balance remaining after this period can then be applied during years eleven through thirteen of the agreement, but cannot exceed the actual amount of taxes paid to the school district during the Settle-Up Period. After year thirteen, any leftover credits will not be applied and will expire.

During years three through ten of the LAVA, the qualifying entity’s taxable value will be reduced to the minimum qualified investment for the applicable school district as determined by the State Comptroller’s Office. Lorenzo ISD is considered a Rural category 3 District as categorized with total taxable value of industrial property of at least \$1 million and less than \$90 million, thus Lorenzo ISD has a minimum qualified investment amount of \$10 million. A qualifying entity’s taxable value would be reduced to \$10 million during years three through ten of the agreement for the purposes of computing the tax levy for the maintenance and operations (M&O) tax of Lorenzo ISD. The entire appraised value will be used for computing the interest and sinking (I&S) tax levy.

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## Taxable Value Impact from LAVA

The “Additional Value from Crosby Wind” represents the values that the company estimated as their taxable values in the application that was filed with the district. During years three through ten, the company’s taxable value will be limited to the \$10,000,000 minimum qualified investment of Lorenzo ISD.

**TABLE I- Calculation of Taxable Value:**

<b>Tax Year</b>	<b>Additional Value from Crosby Wind</b>	<b>Minimum Qualified Investment</b>	<b>Abated Value</b>	<b>Taxable Value</b>
Jan. 1, 2012	37,000,000	n/a	0	37,000,000
Jan. 1, 2013	35,150,000	n/a	0	35,150,000
Jan. 1, 2014	33,300,000	(10,000,000)	23,300,000	10,000,000
Jan. 1, 2015	31,450,000	(10,000,000)	21,450,000	10,000,000
Jan. 1, 2016	29,600,000	(10,000,000)	19,600,000	10,000,000
Jan. 1, 2017	27,750,000	(10,000,000)	17,750,000	10,000,000
Jan. 1, 2018	25,900,000	(10,000,000)	15,900,000	10,000,000
Jan. 1, 2019	24,050,000	(10,000,000)	14,050,000	10,000,000
Jan. 1, 2020	22,200,000	(10,000,000)	12,200,000	10,000,000
Jan. 1, 2021	20,350,000	(10,000,000)	10,350,000	10,000,000
Jan. 1, 2022	18,500,000	n/a	0	18,500,000
Jan. 1, 2023	16,650,000	n/a	0	16,650,000
Jan. 1, 2024	14,800,000	n/a	0	14,800,000

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## Crosby County Wind Farm's Tax Benefit from Agreement

The projected amount of the net tax savings for Crosby Wind is \$1.873 million over the life of the Agreement. This net savings is after all tax credits have been applied and after estimated payments have been made to the district to offset their revenue losses that were a direct result of entering into this Agreement.

**TABLE II- Computation of Net Tax Savings:**

Fiscal Year	Taxes w/o Agreement	Tax Savings with Agreement	Tax Credits	Payment of District's Revenue Losses	Net Tax Savings
2012-2013	373,959	0	n/a	0	0
2013-2014	355,261	0	n/a	0	0
2014-2015	336,563	235,493	n/a	(14,527)	220,966
2015-2016	317,865	216,795	50,535	0	267,330
2016-2017	299,167	198,097	50,535	0	248,632
2017-2018	280,469	179,399	50,535	0	229,934
2018-2019	261,771	160,701	50,535	0	211,236
2019-2020	243,073	142,003	50,535	0	192,538
2020-2021	224,375	123,305	50,535	0	173,840
2021-2022	205,677	104,607	50,535	0	155,142
2022-2023	186,980	0	173,335	0	173,335
2023-2024	168,282	0	0	0	0
2024-2025	149,584	0	0	0	0
<b>Totals</b>	<b>3,403,027</b>	<b>1,360,402</b>	<b>527,080</b>	<b>(14,527)</b>	<b>1,872,955</b>

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## Financial Impact Study

This Financial Impact Study was performed to determine the financial impact of the Limited Appraised Value Agreement on Lorenzo ISD. First, a thirteen year financial forecast was prepared to establish a baseline without the added values of the renewable energy electric generation company. Second, a thirteen year financial forecast was prepared that incorporated the additional taxable value of the company without a LAVA in effect. Third, a thirteen year financial forecast was prepared that incorporates the additional taxable value of the company with an approved LAVA. These three forecasts are detailed in Appendix B. The following assumptions were used to compare the financial impact of the LAVA:

- The current state funding formulas (in effect for 2011-2012 fiscal year) were used for state aid and recapture calculation purposes
  - Level 2 of Tier II yield - \$59.97 per weighted student in average daily attendance (WADA) per penny of tax effort
- The district's tax rate for maintenance & operations (M&O) will remain at the same rate as for tax year 2011
- A tax collection rate of 100% on current year tax levy with no projected delinquent taxes
- A constant taxable value was used with no projected increase or decrease, except as it related to the requested LAVA. The district's 2011 taxable value was used as a baseline for all projections
- The district's enrollment is projected to decrease slightly; therefore, the projected ADA and WADA for school year 2011-2012 was decreased by .5% per year for the life of the agreement.

Although these assumptions were used to develop a baseline scenario for comparison purposes, many of these factors will not remain constant for the thirteen years of this proposed agreement. Also, Legislative changes to the school finance formulas are likely during the near future and almost certain during the life of this agreement.

## Lorenzo ISD Financial Impact of Chapter 313 Agreement

The tables displayed below (Table III, IV, V) are excerpts from Appendix B. These scenarios were computed to compare the District's revenue without the additional taxable value of Crosby Wind (Table III), the addition of Crosby Wind taxable values without a Chapter 313 Agreement (Table IV), and the addition of Crosby Wind taxable values with a Chapter 313 Agreement (Table V).

**TABLE III – District Revenues without Crosby Wind:**

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Total District Revenue
		Compressed Rate	State Revenue				
2012-2013	185,000,000	1,789,135	846,651	(0)	2,635,786	144,491	2,780,277
2013-2014	185,000,000	1,789,135	841,379	(0)	2,630,514	137,533	2,768,047
2014-2015	185,000,000	1,789,135	836,118	(0)	2,625,253	137,258	2,762,511
2015-2016	185,000,000	1,789,135	830,868	(0)	2,620,003	136,983	2,756,986
2016-2017	185,000,000	1,789,135	825,628	(0)	2,614,763	136,709	2,751,472
2017-2018	185,000,000	1,789,135	820,398	(0)	2,609,533	136,436	2,745,969
2018-2019	185,000,000	1,789,135	815,179	(0)	2,604,314	136,163	2,740,477
2019-2020	185,000,000	1,789,135	809,971	(0)	2,599,106	135,891	2,734,996
2020-2021	185,000,000	1,789,135	804,772	(0)	2,593,907	135,619	2,729,526
2021-2022	185,000,000	1,789,135	799,585	(0)	2,588,720	135,348	2,724,067
2022-2023	185,000,000	1,789,135	794,407	(0)	2,583,542	135,077	2,718,619
2023-2024	185,000,000	1,789,135	789,240	(0)	2,578,375	134,807	2,713,182
2024-2025	185,000,000	1,789,135	784,083	(0)	2,573,218	134,537	2,707,756

**TABLE IV- District Revenues with Crosby Wind without Chapter 313 Agreement:**

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Total District Revenue
		Compressed Rate	State Revenue				
2012-2013	222,000,000	2,146,962	488,824	(0)	2,635,786	173,389	2,809,175
2013-2014	220,150,000	2,129,071	501,444	(0)	2,630,514	136,387	2,766,901
2014-2015	218,300,000	2,111,179	514,074	(0)	2,625,253	136,104	2,761,358
2015-2016	216,450,000	2,093,288	526,715	(0)	2,620,003	135,822	2,755,825
2016-2017	214,600,000	2,075,397	539,366	(0)	2,614,763	135,541	2,750,304
2017-2018	212,750,000	2,057,505	552,028	(0)	2,609,533	135,260	2,744,793
2018-2019	210,900,000	2,039,614	564,700	(0)	2,604,314	134,979	2,739,293
2019-2020	209,050,000	2,021,723	577,383	(0)	2,599,106	134,699	2,733,804
2020-2021	207,200,000	2,003,831	590,076	(0)	2,593,907	134,419	2,728,326
2021-2022	205,350,000	1,985,940	602,780	(0)	2,588,720	134,139	2,722,859
2022-2023	203,500,000	1,968,049	615,494	(0)	2,583,542	133,860	2,717,402
2023-2024	201,650,000	1,950,157	628,218	(0)	2,578,375	133,581	2,711,956
2024-2025	199,800,000	1,932,266	640,953	(0)	2,573,218	133,303	2,706,521

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**TABLE V – District Revenues with Crosby Wind with Chapter 313 Agreement:**

Fiscal Year	Total Taxable Value	M&O Taxes			Hold Harmless Revenue	M&O Taxes > Comp Rate	Payment for District Losses	Total District Revenue
		After Credits	State Revenue	Recapture Amount				
2012-2013	222,000,000	2,146,962	488,824	(0)	2,635,786	173,389	0	2,809,175
2013-2014	220,150,000	2,129,071	501,444	(0)	2,630,514	136,387	0	2,766,901
2014-2015	195,000,000	1,885,845	739,408	(0)	2,625,253	121,577	14,527	2,761,358
2015-2016	195,000,000	1,885,845	734,158	(0)	2,620,003	136,983	0	2,756,986
2016-2017	195,000,000	1,885,845	728,918	(0)	2,614,763	136,709	0	2,751,472
2017-2018	195,000,000	1,885,845	723,688	(0)	2,609,533	136,436	0	2,745,969
2018-2019	195,000,000	1,885,845	718,469	(0)	2,604,314	136,163	0	2,740,477
2019-2020	195,000,000	1,885,845	713,261	(0)	2,599,106	135,891	0	2,734,996
2020-2021	195,000,000	1,885,845	708,062	(0)	2,593,907	135,619	0	2,729,526
2021-2022	195,000,000	1,885,845	702,875	(0)	2,588,720	135,348	0	2,724,067
2022-2023	203,500,000	1,968,049	615,494	(0)	2,583,542	140,965	0	2,724,507
2023-2024	201,650,000	1,950,157	628,218	(0)	2,578,375	133,581	0	2,711,956
2024-2025	199,800,000	1,932,266	640,953	(0)	2,573,218	133,303	0	2,706,521

## Current School Finance Law

A major overhaul of the school finance formulas was implemented as a result of House Bill 1 of the 79<sup>th</sup> Legislative Session and became effective for the 2006-2007 school year. These formula changes have had an effect on the district’s financial impact from granting a property value limitation. Due to the district’s “Hold Harmless” provision that was enacted in the new funding formulas, it is presumed that the majority of the district’s revenue losses in year three of the LAVA will be offset with additional state funding or a reduction of recapture payments made to the State. Prior to these recent formula changes, school districts felt a significant loss in revenues in year three because the state funding formulas considered the district more property wealthy based on their prior year taxable value. However, districts were only able to tax on the lower value that was a result of the LAVA. Districts are currently “held harmless” for the majority amount of loss in year three; however, it is possible that a future legislative session could eliminate this provision. If the “hold harmless” provision is eliminated, then the company would be required to offset the district’s losses as computed in Article III of the Agreement.

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## Payments in Lieu of Taxes

Assuming that the District and Crosby County Wind Farm, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) of the net tax savings will be paid to Lorenzo ISD by Crosby County Wind Farm, LLC, the projected amount of these payments over the life of the agreement is \$249,000 of the \$1.87 million net tax savings amount. This amount will be computed annually according to Section IV of the Agreement.

**TABLE VI - Calculation of the Payment in Lieu of Taxes:**

Fiscal Year	Net Tax Savings	Lorenzo ISD Share \$100/ADA	Crosby County Wind Share
2012-2013	0	0	0
2013-2014	0	0	0
2014-2015	220,966	27,932	193,034
2015-2016	267,330	27,876	239,454
2016-2017	248,632	27,820	220,812
2017-2018	229,934	27,764	202,170
2018-2019	211,236	27,709	183,527
2019-2020	192,538	27,654	164,885
2020-2021	173,840	27,598	146,242
2021-2022	155,142	27,543	127,599
2022-2023	173,335	27,488	145,847
2023-2024	0	0	0
2024-2025	0	0	0
<b>Totals</b>	<b>1,872,955</b>	<b>249,384</b>	<b>1,623,571</b>

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## Impact of Projected Student Growth

### On District Facilities

**TABLE VII – Campus Capacity and Available Growth**

<b>Grade Level</b>	<b># of Regular Classrooms</b>	<b>Building Capacity</b>	<b>Current Enrollment</b>	<b>Enrollment Growth Available</b>
<b>Pre-K thru 6</b>	16	352	198	154
<b>7 thru 12</b>	12	240	107	133
<b>Total</b>	<b>28</b>	<b>592</b>	<b>305</b>	<b>287</b>

The building capacities are based on 22 students per classroom for the elementary campuses, 20 students for the Jr. High and high school. Lorenzo ISD is a pre-kindergarten through 12<sup>th</sup> grade district.

Crosby County Wind Farm, LLC provided supplemental information with their application that projected the number of full-time employees that are expected for permanent employment after construction of the project is completed. They projected that three full-time employees are expected. It is not known whether these would be new employees to the Lorenzo ISD, or if current residents would occupy these positions; however, it is assumed that these employees would be new residents to the district.

Based on average statewide figures provided by a demographer, it is projected that each new household would produce .5 students. Thus the new three positions equates to 2 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Lorenzo ISD as displayed in Table VII above.

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## Conclusion

This Financial Impact Study displays that entering into a Limited Appraised Value Agreement with Crosby County Wind Farm, LLC, would be beneficial to both Crosby Wind and Lorenzo ISD under the current school finance system.

Crosby Wind would benefit from reduced property taxes during years three through ten of the LAVA. Although some of the tax savings would be used to offset district's revenue losses and payments in lieu of taxes to the District, Crosby Wind is projected to benefit from a 61% tax savings over the eleven year period of this agreement. Crosby Wind also has the option of terminating the Agreement if the amount paid to the District during a tax year is greater than the amount of taxes that would have been paid without the agreement; therefore, there is no inherent risk for the company from entering into the Agreement.

Lorenzo ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Crosby Wind to offset any district losses caused by the LAVA. An annual calculation will be performed each year to determine if a loss to the District has been incurred. The revenue impact to the District will be computed by comparing the District's revenues with and without the LAVA in effect.