

# **FINAL REPORT**

## **Summary of the Financial Impact of the Proposed ETC Texas Pipeline, LTD Gas Processing Plant on the Kenedy ISD Under a Requested Chapter 313 Property Value Limitation**

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## **Introduction**

ETC Texas Pipeline, LTD (ETC) has requested that the Kenedy ISD (KISD) grant a property value limitation under Chapter 313 of the Texas Tax Code for the construction and operation of a gas processing plant. An application has been submitted by ETC to KISD and the KISD Board of Trustees approved that application on June 18, 2012. ETC proposes a minimum qualified investment of \$10 million in this project with a total estimated qualified investment of \$176,400,000 as set forth in the application. This project is consistent with the state's goal for economic development, the expanded intent of House Bill 1200 as passed by the Texas Legislature in 2001, and Chapter 313 of the Texas Tax Code.

## **Background**

In accordance with the application, this project will be fully taxable for both maintenance and operations (M&O) and debt service (I&S) purposes in the first two years (school years 2013-14 and 2014-15) which represent the project's qualifying time period. KISD intends to offer a value limitation for this project of \$10 million effective school year 2015-16 through 2022-23. As a result, the project will impact the local tax roll of the school district at that same amount for M&O taxes only. Taxes for debt service, voter approved projects financed by the sale of bonds, will continue at the full taxable value. I&S taxes for any future projects approved by the voters of the district will also be assessed against the full taxable value. Depreciation will reduce the taxable value of the project over time.

While taxes are collected by the district on the current year county appraisal district (CAD) value, the state funding formulas use the comptroller's property tax division (CPTD) value for the purpose of calculating the district's required local shares within the funding tiers of that formula. The CPTD is a reflection of last year's CAD value; therefore, it lags behind the CAD value in all years. As a result, state and local revenues are generated by two different values in any given year.

With the passage of House Bill 1 in the 2006 special legislative session, the school finance system in Texas moved from one that was formula driven with a maximum M&O tax rate of \$1.50 to one that was, and continues to be, target revenue driven at a maximum tax rate of generally \$1.04, voter approval for a higher tax rate up to \$1.17 notwithstanding. This means that most districts now receive additional state aid for tax reduction (ASATR) to offset the loss in state and local funds at the new maximum \$1.04 M&O tax cap vs. what was previously generated at the \$1.50 maximum M&O tax cap.

With the passage of Senate Bill 1 in the 2011 special legislative session, funding reductions to the school finance system in Texas amounted to \$4 billion for the biennium or \$2 billion each year of the biennium. To accomplish these reductions, schools' regular program allotments are reduced by 7.61 percent in school year 2011-12 while those same calculated allotments are reduced by 2 percent in school year 2012-13 in addition to the ASATR funding also being reduced by 7.65%. The stated goal is for ASATR revenue to be completely eliminated by school year 2017-18. Currently filed legal challenges and

future legislative sessions will determine the course of school finance beginning in school year 2013-14 and beyond.

### **Assumptions**

As required of chapter 313 projects, 15 years of data must be assimilated in order to produce revenue projections for that same number of years. The revenue projections for the KISD that accompany this project, therefore, adhere the following general assumptions:

1. The current school funding system and formulas as set forth in Senate Bill 1 were used to project state aid; although, no guarantee exists that this system or these formulas will remain in effect after the 2012-13 school year.
2. This system and its formulas are driven by student data, property values, and tax collections. As a result, certain assumptions were made concerning each of these details.
3. The student counts were held constant across the 15 years.
4. The certified CAD taxable value for school year 2012-13 as released on or about July 25, 2012 was used as the base value to which the estimated project values for each year as set forth in schedule B of the application were added. These projected CAD values were then used for the CPTD values in each of the following years based on the lag between these two values as heretofore explained.
5. Tax collections each year were based on the district's 2012-13 projected M&O rate of \$1.04, projected I&S rates each year ranging from \$0.041 to \$0.340, and an assumed collection rate of 100 percent each year.

These assumptions allow for the isolation of the effects of the property value limitation on the district's finances. The detail of these assumptions are summarized and depicted in Table I.

### **School Finance Impact on the District**

In accordance with the proposed agreement and under the assumptions heretofore outlined, two models were prepared for comparison purposes in an effort to determine the projected financial impact, if any, to KISD resulting from this agreement.

The first model projects state and local revenue to the district under the agreement. In it, the taxable value of the project each year is added to the district's baseline taxable value including those years in which the value limitation is applicable.

The second model projects state and local revenue to the district without the provisions of the agreement. In this model, no value limitation is applied to the district's base taxable value; instead, the full taxable value of the project when added to the district's base year taxable value is used in place of the value limitation.

A summary of the differences is depicted in separate spreadsheet entitled "Exhibit B." Losses to the district are noted in years 3 - 8 resulting from the agreement due to the inverted value lag between the CPTD and CAD values during the first year of the value

limitation and due to recapture in the following years. Gains are noted in years 9-11. The larger gain noted in year 11 is due primarily to another value lag between the CPTD and CAD values, the inverse of that observed in year 3. ASATR funding is not a factor for KISD as the district's revenue is completely formula driven in all years of the agreement, except for year 3 which is again attributable to the aforementioned inverted value lag. It should be noted, however, that this source of funding will come under future legislative review as early as the 2013 legislative session. **NOTE:** Because ASATR funding has the effect of offsetting school district revenue losses arising from limitations on the value of a qualified investment, any reduction of ASATR funding after the 2012-13 school year, if applicable, 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.

### **Impact on the Taxpayer (ETC)**

As heretofore mentioned, the property resulting from this project is fully taxable in the first two years under this agreement. In year three, the tax value limitation applies, but only to the M&O taxes collected at the assumed M&O tax rate of \$1.04 per \$100 of taxable value.

Under the assumptions used herein, the potential tax savings resulting from the value limitation total \$12,975,263. In addition, ETC is eligible for a tax credit on taxes paid on value in excess of the value limitation in each of the first two years. The cumulative tax credits are projected to be approximately \$1,987,236; although, the Texas Education Agency (TEA) issues the reminder that these estimates will be recalculated based on current data prior to any issuance of the tax credits. The school district is to be reimbursed by the state for tax credit payments.

A separate spreadsheet entitled "Kenedy ISD & ETC Texas Pipeline (Comptroller's Beta Spreadsheet)" illustrates both the projected tax savings and tax credits.

### **Facilities Funding Impact**

The ETC project remains fully taxable for I&S taxes. This stipulation applies not only to the district's current debt, but also to any future debt the district's voters may choose to incur.

KISD is currently not eligible for facilities assistance from the state in the form of either existing debt allotment (EDA) and/or instructional facilities allotment (IFA). Increasing CPTD values resulting from taxable value added by the project will, therefore, not obliterate future EDA and IFA state share payments through school year 2026-27, the final year of the current debt service obligation for the district. As modeled, the increase in taxable value net of depreciation resulting from the project and the fact that the full value of this project remains fully taxable for I&S purposes will effectively decrease the I&S tax rate on a trend of escalating annual debt service payments beginning in year 1 ranging from \$0.041 at the highest to \$0.031 at the lowest.

### **Summary**

While some uncertainty exists with regard to the future of the state's public school finance system, the following points appear to currently apply to the ETC project and the KISD:

1. It meets the intent of the economic development initiative for the State of Texas.
2. It increases the district's I&S tax base without creating substantial financial loss for the district with regard to M&O earnings over the term of the project.
3. It produces substantial tax incentives and savings for ETC.

Table I - Data Assumptions for KISD & ETC Texas Pipeline, LTD Chapter 313 Project

Year of Agreement	School Year	Tax Year	ADA	WADA	M&O Tax Rate	I&S Tax Rate	CAD Value	CAD Value	CPTD Value	CPTD Value
							With Limitation	Without Limitation	With Limitation	Without Limitation
0	2012-13	2012	609.362	1014.343	\$1.04	\$0.041	\$477,474,200	\$477,474,200	\$238,263,216	\$238,263,216
1	2013-14	2013	609.362	1014.343	\$1.04	\$0.034	\$566,674,200	\$566,674,200	\$477,474,200	\$477,474,200
2	2014-15	2014	609.362	1014.343	\$1.04	\$0.033	\$598,174,200	\$598,174,200	\$566,674,200	\$566,674,200
3	2015-16	2015	609.362	1014.343	\$1.04	\$0.030	\$486,884,015	\$600,974,200	\$598,174,200	\$598,174,200
4	2016-17	2016	609.362	1014.343	\$1.04	\$0.030	\$486,884,015	\$655,474,200	\$486,884,015	\$660,974,200
5	2017-18	2017	609.362	1014.343	\$1.04	\$0.031	\$486,884,015	\$650,174,200	\$486,884,015	\$655,474,200
6	2018-19	2018	609.362	1014.343	\$1.04	\$0.031	\$486,884,015	\$644,974,200	\$486,884,015	\$650,174,200
7	2019-20	2019	609.362	1014.343	\$1.04	\$0.032	\$486,884,015	\$639,874,200	\$486,884,015	\$644,974,200
8	2020-21	2020	609.362	1014.343	\$1.04	\$0.032	\$486,884,015	\$635,074,200	\$486,884,015	\$639,874,200
9	2021-22	2021	609.362	1014.343	\$1.04	\$0.032	\$486,884,015	\$630,374,200	\$486,884,015	\$635,074,200
10	2022-23	2022	609.362	1014.343	\$1.04	\$0.032	\$486,884,015	\$625,774,200	\$486,884,015	\$630,374,200
11	2023-24	2023	609.362	1014.343	\$1.04	\$0.033	\$621,274,200	\$621,274,200	\$486,884,015	\$625,774,200
12	2024-25	2024	609.362	1014.343	\$1.04	\$0.034	\$617,074,200	\$617,074,200	\$621,274,200	\$621,274,200
13	2025-26	2025	609.362	1014.343	\$1.04	\$0.034	\$612,874,200	\$612,874,200	\$617,074,200	\$617,074,200
14	2026-27	2026	609.362	1014.343	\$1.04	\$0.034	\$608,774,200	\$608,774,200	\$612,874,200	\$612,874,200
15	2027-28	2027	609.362	1014.343	\$1.04	\$0.0	\$604,874,200	\$604,874,200	\$608,774,200	\$608,774,200





Year of Project	Year of Tax Credit	Year of Tax Credit Settle-Up	Year of Limit	School Year	Tax Year	Estimated Market Value with no Exemptions	Exemptions (Not Including Ch. 313 Value Limitation)(Est.)	I&S Taxable Value of Investment (Est.)	Difference from previous year's value	Annual Depreciation Rate	M&O Property Value Limitation Amount	M&O Exempt Value of Property	M&O Tax Base Years 1-13	M&O Tax Rate	M&O Tax Levy without Limitation	M&O Tax Levy with Limitation
School District: <b>Kenedy ISD</b> Project: <b>ETC Texas Pipeline, LTD</b> County: <b>Karnes</b> Eligibility Category: <b>Manufacturing</b> • From Application; enter #1 - 10 in cell D to activate						From schedule B of application under heading "exempted columns under value" "Qualified Property" Heading <b>Limitation Amount: \$10,000,000</b>					<b>NOTE:</b> This is a BETA test estimating spreadsheet for a Chapter 313 project qualifying time period in 2013. Variables to plug in are: Estimated Market Value (such as Pollution Control), the school district limitation amount, and M&O SAMPLES. This sheet generates estimated gross tax benefit BEFORE any rec district for Revenue Protection, Extraordinary Educational Expenses, or other					
0				2012-13	2012	\$590,185	\$0	\$590,185			\$0	\$0	\$590,185	\$1.0400	\$6,138	\$6,138
1				2013-14	2013	\$94,490,185	\$4,700,000	\$89,790,185			\$0	\$0	\$89,790,185	\$1.0400	\$933,818	\$933,818
2				2014-15	2014	\$127,690,185	\$6,400,000	\$121,290,185	-\$31,500,000	-35.08%	\$0	\$0	\$121,290,185	\$1.0400	\$1,261,418	\$1,261,418
3			1	2015-16	2015	\$193,790,185	\$9,700,000	\$184,090,185	-\$62,800,000	-51.78%	\$10,000,000	\$174,090,185	\$10,000,000	\$1.0400	\$1,914,538	\$104,000
4	1		2	2016-17	2016	\$187,990,185	\$9,400,000	\$178,590,185	\$5,500,000	2.99%	\$10,000,000	\$168,590,185	\$10,000,000	\$1.0400	\$1,857,338	\$104,000
5	2		3	2017-18	2017	\$182,390,185	\$9,100,000	\$173,290,185	\$5,300,000	2.97%	\$10,000,000	\$163,290,185	\$10,000,000	\$1.0400	\$1,802,218	\$104,000
6	3		4	2018-19	2018	\$176,890,185	\$8,800,000	\$168,090,185	\$5,200,000	3.00%	\$10,000,000	\$158,090,185	\$10,000,000	\$1.0400	\$1,748,138	\$104,000
7	4		5	2019-20	2019	\$171,590,185	\$8,600,000	\$162,990,185	\$5,100,000	3.03%	\$10,000,000	\$152,990,185	\$10,000,000	\$1.0400	\$1,695,098	\$104,000
8	5		6	2020-21	2020	\$166,490,185	\$8,300,000	\$158,190,185	\$4,800,000	2.94%	\$10,000,000	\$148,190,185	\$10,000,000	\$1.0400	\$1,645,178	\$104,000
9	6		7	2021-22	2021	\$161,490,185	\$8,000,000	\$153,490,185	\$4,700,000	2.97%	\$10,000,000	\$143,490,185	\$10,000,000	\$1.0400	\$1,596,298	\$104,000
10	7		8	2022-23	2022	\$156,690,185	\$7,800,000	\$148,890,185	\$4,600,000	3.00%	\$10,000,000	\$138,890,185	\$10,000,000	\$1.0400	\$1,548,458	\$104,000
11		1		2023-24	2023	\$151,990,185	\$7,600,000	\$144,390,185			\$0	\$0	\$144,390,185	\$1.0400	\$1,501,658	\$1,501,658
12		2		2024-25	2024	\$147,490,185	\$7,300,000	\$140,190,185			\$0	\$0	\$140,190,185	\$1.0400	\$1,457,978	\$1,457,978
13		3		2025-26	2025	\$143,090,185	\$7,100,000	\$135,990,185			\$0	\$0	\$135,990,185	\$1.0400	\$1,414,298	\$1,414,298
								Column I should equal the final taxable value for I&S after all reductions on Schedule B of the application								

I&S Tax Rate	I&S Tax Levy	Sum of M&O and I&S Tax Levies BEFORE CREDIT CREDITED	Sum of M&O and I&S Tax Levies AFTER CREDIT CREDITED	Tax Savings Due to Limitation	Value upon which tax credits are based	M&O Tax amount applicant is eligible to receive as credits in years 4-13	Tax Credits possible to be received by company each year based on taxes paid and 50% cap	Total Levy Loss from Tax credit amount per year	Cumulative Tax Credit Applied to Company's Total Taxes	Gross Tax Savings (Limitation Savings + Credit Savings)	Funds for Protection of Future District Revenues ("Revenue Protection") (from school finance model)	Educational Expenses	Net Tax Savings	PILT/PILOT
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with a first complete tax year of the values, Non-Chapter 313 exemptions and I&S tax rates. VALUES HERE ARE reductions due to payments to the negotiated supplemental

NOT INCL. HERE NOT INCL. HERE NOT INCL. HERE

\$0.0410	\$242	\$6,380	\$6,380	\$0			\$0	\$0		\$0	\$0	\$0	\$0	\$0
\$0.0342	\$30,708	\$964,526	\$964,526	\$0	\$79,790,185	\$829,818	\$0	\$0		\$0	\$0	\$0	\$0	\$0
\$0.0328	\$39,783	\$1,301,201	\$1,301,201	\$0	\$111,290,185	\$1,157,418	\$0	\$0		\$0	\$0	\$0	\$0	\$0
\$0.0300	\$55,227	\$159,227	\$159,227	\$1,810,538			\$0	\$0		\$1,810,538	\$0	\$0	\$1,810,538	\$0
\$0.0300	\$53,577	\$157,577	\$78,789	\$1,753,338			\$78,789	\$78,789	\$78,789	\$1,832,126	\$0	\$0	\$1,832,126	\$0
\$0.0312	\$54,067	\$158,067	\$79,033	\$1,698,218			\$79,033	\$79,033	\$157,822	\$1,777,251	\$0	\$0	\$1,777,251	\$0
\$0.0310	\$52,108	\$156,108	\$78,054	\$1,644,138			\$78,054	\$78,054	\$235,876	\$1,722,192	\$0	\$0	\$1,722,192	\$0
\$0.0312	\$50,853	\$154,853	\$77,426	\$1,591,098			\$77,426	\$77,426	\$313,302	\$1,668,524	\$0	\$0	\$1,668,524	\$0
\$0.0322	\$50,937	\$154,937	\$77,469	\$1,541,178			\$77,469	\$77,469	\$390,771	\$1,618,647	\$0	\$0	\$1,618,647	\$0
\$0.0322	\$49,424	\$153,424	\$76,712	\$1,492,298			\$76,712	\$76,712	\$467,483	\$1,569,010	\$0	\$0	\$1,569,010	\$0
\$0.0322	\$47,943	\$151,943	\$75,971	\$1,444,458			\$75,971	\$75,971	\$543,454	\$1,520,429	\$0	\$0	\$1,520,429	\$0
\$0.0330	\$47,649	\$1,549,307	\$105,525	\$0			\$1,549,307	\$1,443,782	\$1,987,236	\$1,443,782	\$0	\$0	\$1,443,782	\$0
\$0.0340	\$47,665	\$1,505,643	\$1,505,643	\$0			\$1,505,643	\$0	\$1,987,236	\$0	\$0	\$0	\$0	\$0
\$0.0340	\$46,237	\$1,460,535	\$1,460,535	\$0			\$1,460,535	\$0	\$1,987,236	\$0	\$0	\$0	\$0	\$0

Bonded debt payment less EDA &/or IFA state share(s) divided by the combined base & project I&S taxable value	Limitation Tax Savings: \$12,975,263	Accrued Credits: \$1,987,236	Credits/7: \$283,891	Credits Savings: \$1,987,236	Sum of taxes paid in first two years on base > limit: \$1,987,236	Amount of tax credits "lost": \$0	M&O tax levy for the two years before tax benefits result in levy loss: \$2,195,236	13 year total levy without any limit or credit: \$20,376,433	13 year total tax savings/Levy Loss: \$14,962,499	Taxes actually paid: \$5,413,934	26.57%	is the percentage of taxes applicant pays with 313 agreement compared to what they would have paid without 313 agreement	86.72%	is the percentage of the total savings due to the limitation	13.28%	is the percentage of the total savings due to the credit.
<b>Totals:</b>											\$14,962,499	\$0	\$0	\$14,962,499	\$0	

Other Supplemental Payments to District	Net Net Tax Savings (Savings for Company)
NOT INCL. HERE	
	\$0
	\$0
	\$0
	\$1,810,538
	\$1,832,126
	\$1,777,251
	\$1,722,192
	\$1,668,524
	\$1,618,647
	\$1,569,010
	\$1,520,429
	\$1,443,782
	\$0
	\$0
\$0	\$14,962,499
ment	