

**Summary of the District's Financial Impact  
of Chapter 313 Agreement  
with Cargill Incorporated**

**Prepared by**

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# Bovina ISD Financial Impact of Chapter 313 Agreement

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## **Summary of Bovina ISD Financial Impact of the Limited Appraised Value Application from Cargill Incorporated**

### **Introduction**

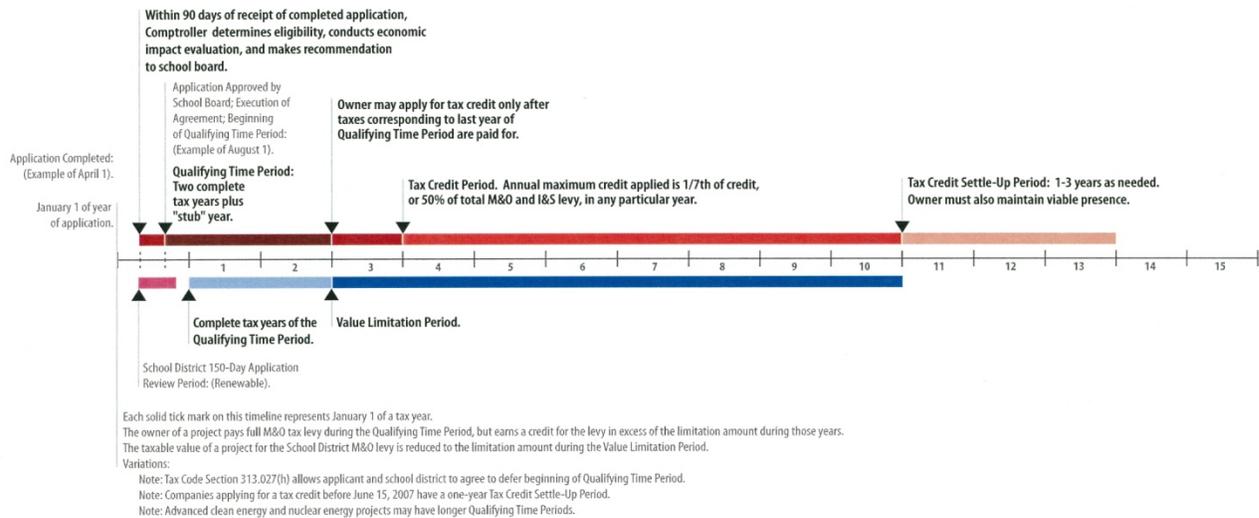
Cargill Incorporated, applied for a property value limitation from Bovina Independent School District under Chapter 313 of the Tax Code. The application was submitted on October 8, 2012 and subsequently approved for consideration by the Bovina ISD Board of Trustees. Cargill Incorporated (“Cargill Inc”), is requesting the property value limitation as a “manufacturing” 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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## Appraised Value Limitation and Credit under Tax Code Chapter 313 for School District Maintenance & Operations (M&O) Tax



The company must file an application with the school district to qualify for consideration of a Limited Appraised Value Agreement (“LAVA” or “Agreement”) to begin the following tax year or a later year if agreed upon by the District and the Company. 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. Bovina 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 Bovina ISD has a

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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 Bovina ISD. The entire appraised value will be used for computing the interest and sinking (I&S) tax levy.

### Taxable Value Impact from LAVA

The “Additional Value from Cargill Inc” 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 Bovina ISD.

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

Tax Year	Additional Value from Cargill Inc	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	31,536,550	n/a	0	31,536,550
Jan. 1, 2015	28,766,828	n/a	0	28,766,828
Jan. 1, 2016	25,997,826	(10,000,000)	15,997,826	10,000,000
Jan. 1, 2017	23,229,538	(10,000,000)	13,229,538	10,000,000
Jan. 1, 2018	20,461,958	(10,000,000)	10,461,958	10,000,000
Jan. 1, 2019	17,695,079	(10,000,000)	7,695,079	10,000,000
Jan. 1, 2020	16,280,495	(10,000,000)	6,280,495	10,000,000
Jan. 1, 2021	16,218,198	(10,000,000)	6,218,198	10,000,000
Jan. 1, 2022	16,156,584	(10,000,000)	6,156,584	10,000,000
Jan. 1, 2023	16,095,646	(10,000,000)	6,095,646	10,000,000
Jan. 1, 2024	16,035,377	n/a	0	16,035,377
Jan. 1, 2025	15,975,771	n/a	0	15,975,771
Jan. 1, 2026	15,916,823	n/a	0	15,916,823

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## Cargill Incorporated's Tax Benefit from Agreement

The projected amount of the net tax savings for Cargill Inc. is \$1.09 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
2014-2015	327,980	0	n/a	0	0
2015-2016	299,175	0	n/a	0	0
2016-2017	270,377	166,377	n/a	(79,088)	87,289
2017-2018	241,587	137,587	52,000	0	189,587
2018-2019	212,804	108,804	52,000	0	160,804
2019-2020	184,029	80,029	52,000	0	132,029
2020-2021	169,317	65,317	52,000	0	117,317
2021-2022	168,669	64,669	52,000	0	116,669
2022-2023	168,028	64,028	52,000	0	116,028
2023-2024	167,395	63,395	52,000	0	115,395
2024-2025	166,768	0	55,155	0	55,155
2025-2026	166,148	0	0	0	0
2026-2027	165,535	0	0	0	0
<b>Totals</b>	<b>2,707,813</b>	<b>750,207</b>	<b>419,155</b>	<b>(79,088)</b>	<b>1,090,274</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 Bovina ISD. First, a thirteen year financial forecast was prepared to establish a baseline without the added values of the manufacturing 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 the “Calculation of LAVA Impact on District’s Finances” section. The following assumptions were used to compare the financial impact of the LAVA:

- The current state funding formulas (in effect for 2012-2013 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 2012.
- A tax collection rate of 100% on current year tax levy with no projected delinquent taxes
- An annual taxable value increase of .5% was used to project the district’s taxable value, except as it related to the requested LAVA. The district’s 2012 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 2012-2013 was decreased by .25% 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.

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## Calculation of LAVA Impact on District's Finances

The tables displayed below (Table III, IV, V) show the different impacts on the school district's finances. These scenarios were computed to compare the District's revenue without the additional taxable value of Cargill Inc. (Table III), the addition of Cargill Inc's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Cargill Inc's taxable values with a Chapter 313 Agreement (Table V).

**TABLE III – District Revenues without Cargill Inc:**

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Hold	M&O	Total District Revenue
		Compressed Rate	State Revenue		Harmless Revenue	Taxes > Comp Rate	
2014-2015	78,080,049	676,720	2,492,335	0	3,169,055	534,518	3,703,574
2015-2016	78,470,449	680,103	2,481,029	0	3,161,132	534,132	3,695,264
2016-2017	78,862,801	683,504	2,469,726	0	3,153,230	532,797	3,686,026
2017-2018	79,257,115	686,921	2,458,425	0	3,145,347	531,465	3,676,811
2018-2019	79,653,401	690,356	2,447,127	0	3,137,483	530,136	3,667,619
2019-2020	80,051,668	693,808	2,435,832	0	3,129,639	528,811	3,658,450
2020-2021	80,451,926	697,277	2,424,539	0	3,121,815	527,489	3,649,304
2021-2022	80,854,186	700,763	2,413,248	0	3,114,011	526,170	3,640,181
2022-2023	81,258,457	704,267	2,401,959	0	3,106,226	524,854	3,631,080
2023-2024	81,664,749	707,788	2,390,672	0	3,098,460	523,542	3,622,003
2024-2025	82,073,073	711,327	2,379,387	0	3,090,714	522,234	3,612,948
2025-2026	82,483,438	714,884	2,368,103	0	3,082,987	520,928	3,603,915
2026-2027	82,895,856	718,458	2,356,821	0	3,075,280	519,626	3,594,905

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**TABLE IV- District Revenues with Cargill Inc 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	State Revenue				
2014-2015	109,616,599	950,047	2,219,008	0	3,169,055	750,411	3,919,466	
2015-2016	107,237,277	929,425	2,231,707	0	3,161,132	519,939	3,681,071	
2016-2017	104,860,627	908,827	2,244,403	0	3,153,230	518,397	3,671,626	
2017-2018	102,486,653	888,252	2,257,095	0	3,145,347	516,848	3,662,195	
2018-2019	100,115,359	867,700	2,269,783	0	3,137,483	515,293	3,652,777	
2019-2020	97,746,747	847,171	2,282,468	0	3,129,639	513,731	3,643,370	
2020-2021	96,732,421	838,380	2,283,435	0	3,121,815	519,418	3,641,233	
2021-2022	97,072,384	841,326	2,272,684	0	3,114,011	525,392	3,639,403	
2022-2023	97,415,041	844,296	2,261,930	0	3,106,226	524,087	3,630,313	
2023-2024	97,760,395	847,289	2,251,171	0	3,098,460	522,784	3,621,245	
2024-2025	98,108,450	850,306	2,240,408	0	3,090,714	521,485	3,612,199	
2025-2026	98,459,209	853,346	2,229,641	0	3,082,987	520,189	3,603,177	
2026-2027	98,812,679	856,409	2,218,870	0	3,075,280	518,897	3,594,176	

**TABLE V – District Revenues with Cargill Inc with Chapter 313 Agreement:**

Fiscal Year	Total Taxable Value	M&O Taxes			Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Payment for District Losses	Total District Revenue
		Taxes Comp Rate	State Revenue	State Revenue					
2014-2015	109,616,599	950,047	2,219,008	0	3,169,055	750,411	0	3,919,466	
2015-2016	107,237,277	929,425	2,231,707	0	3,161,132	519,939	0	3,681,071	
2016-2017	88,862,801	770,174	2,383,056	0	3,153,230	439,309	79,088	3,671,626	
2017-2018	89,257,115	773,591	2,371,755	0	3,145,347	531,167	0	3,676,514	
2018-2019	89,653,401	777,026	2,360,457	0	3,137,483	529,841	0	3,667,324	
2019-2020	90,051,668	780,478	2,349,162	0	3,129,639	528,517	0	3,658,157	
2020-2021	90,451,926	783,947	2,337,869	0	3,121,815	527,197	0	3,649,013	
2021-2022	90,854,186	787,433	2,326,578	0	3,114,011	525,881	0	3,639,891	
2022-2023	91,258,457	790,937	2,315,289	0	3,106,226	524,567	0	3,630,793	
2023-2024	91,664,749	794,458	2,304,002	0	3,098,460	523,257	0	3,621,717	
2024-2025	98,108,450	850,306	2,240,408	0	3,090,714	556,164	0	3,646,878	
2025-2026	98,459,209	853,346	2,229,641	0	3,082,987	520,189	0	3,603,177	
2026-2027	98,812,679	856,409	2,218,870	0	3,075,280	518,897	0	3,594,176	

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## **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 Cargill Incorporated mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Bovina ISD by Cargill Incorporated, the projected amount of these payments over the life of the agreement is \$520,299 of the \$1.09 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	Bovina ISD Share \$100/ADA	Cargill Incorporated Share
2014-2015	0	0	0
2015-2016	0	43,958	(43,958)
2016-2017	87,289	43,848	43,442
2017-2018	189,587	43,738	145,849
2018-2019	160,804	43,629	117,176
2019-2020	132,029	43,520	88,509
2020-2021	117,317	43,411	73,906
2021-2022	116,669	43,302	73,367
2022-2023	116,028	43,194	72,834
2023-2024	115,395	43,086	72,309
2024-2025	55,155	42,978	12,177
2025-2026	0	42,871	(42,871)
2026-2027	0	42,764	(42,764)
<b>Totals</b>	<b>1,090,274</b>	<b>520,299</b>	<b>569,975</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>K thru 5</b>	17	374	233	141
<b>6-8</b>	6	120	101	19
<b>9-12</b>	19	380	121	259
<b>Total</b>	<b>42</b>	<b>874</b>	<b>455</b>	<b>419</b>

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

Cargill Incorporated 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 twenty five full-time employees are expected. It is not known whether these would be new employees to the Bovina 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 twenty five positions equates to 13 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Bovina 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 Cargill Incorporated, would be beneficial to both Cargill Inc. and Bovina ISD under the current school finance system.

Cargill Inc. 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, Cargill Inc. is projected to benefit from a 49% tax savings over the eleven year period of this agreement. Cargill Inc. 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.

Bovina ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Cargill Inc. 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.