

**Summary of the District's Financial Impact
of Chapter 313 Agreement
with Spinning Spur Wind Two, LLC**

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Summary of Adrian ISD Financial Impact of the Limited Appraised Value Application from Spinning Spur Wind Two, LLC

Introduction

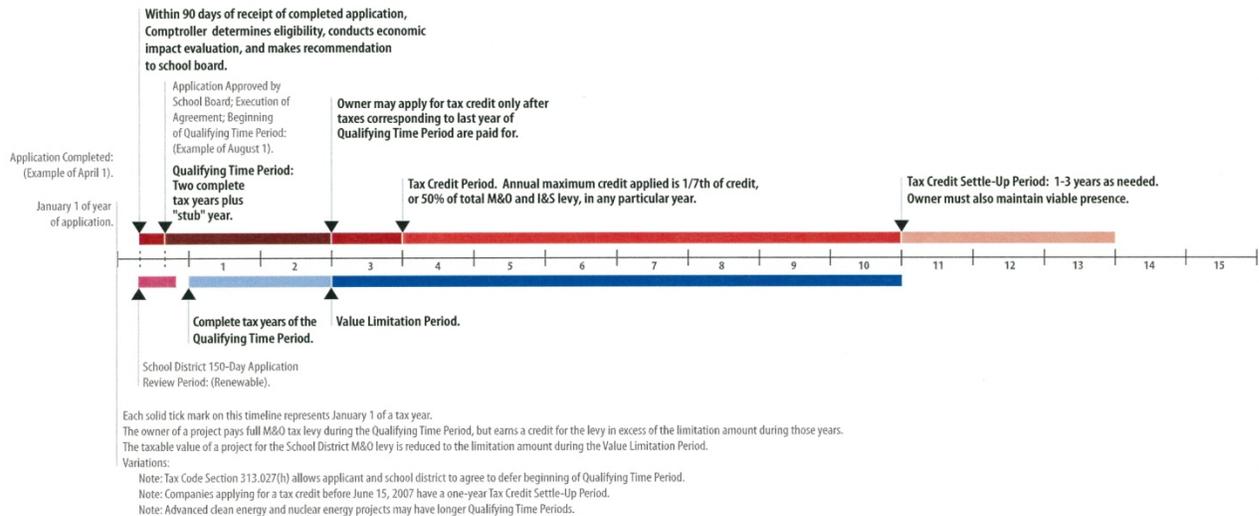
Spinning Spur Wind Two, LLC applied for a property value limitation from Adrian Independent School District under Chapter 313 of the Tax Code. The application was submitted on December 10, 2012 and subsequently approved for consideration by the Adrian ISD Board of Trustees. Spinning Spur Wind Two, LLC (“Spinning Spur”), is requesting the property value limitation as a “renewable energy electric generation” project 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 77th Texas Legislature in 2001. Further amendments were made to Chapter 313 as a result of House Bill 1470 from the 80th 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. Adrian ISD is considered a Rural category 4 District as categorized with total taxable value of industrial property of at least \$100,000 but less than \$1 million, thus Adrian ISD has a

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minimum qualified investment amount of \$5 million. A qualifying entity’s taxable value would be reduced to \$5 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 Adrian 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 Spinning Spur” 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 \$5,000,000 minimum qualified investment of Adrian ISD.

TABLE I- Calculation of Taxable Value:

| Tax Year | Additional Value From Spinning Spur | Minimum Qualified Investment | Abated Value | Taxable Value |
|--------------|--|------------------------------------|-----------------|------------------|
| Jan. 1, 2014 | 49,113,000 | n/a | 0 | 49,113,000 |
| Jan. 1, 2015 | 45,666,741 | n/a | 0 | 45,666,741 |
| Jan. 1, 2016 | 44,037,663 | (5,000,000) | 39,037,663 | 5,000,000 |
| Jan. 1, 2017 | 42,408,584 | (5,000,000) | 37,408,584 | 5,000,000 |
| Jan. 1, 2018 | 40,779,506 | (5,000,000) | 35,779,506 | 5,000,000 |
| Jan. 1, 2019 | 39,150,428 | (5,000,000) | 34,150,428 | 5,000,000 |
| Jan. 1, 2020 | 37,521,350 | (5,000,000) | 32,521,350 | 5,000,000 |
| Jan. 1, 2021 | 35,892,272 | (5,000,000) | 30,892,272 | 5,000,000 |
| Jan. 1, 2022 | 34,263,193 | (5,000,000) | 29,263,193 | 5,000,000 |
| Jan. 1, 2023 | 32,634,115 | (5,000,000) | 27,634,115 | 5,000,000 |
| Jan. 1, 2024 | 31,005,037 | n/a | 0 | 31,005,037 |
| Jan. 1, 2025 | 29,375,959 | n/a | 0 | 29,375,959 |
| Jan. 1, 2026 | 27,746,880 | n/a | 0 | 27,746,880 |

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Spinning Spur Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Spinning Spur is \$3.52 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 | 510,775 | 0 | n/a | 0 | 0 |
| 2015-2016 | 474,934 | 0 | n/a | 0 | 0 |
| 2016-2017 | 457,992 | 405,992 | n/a | (134,772) | 271,219 |
| 2017-2018 | 441,049 | 389,049 | 26,000 | 0 | 415,049 |
| 2018-2019 | 424,107 | 372,107 | 26,000 | 0 | 398,107 |
| 2019-2020 | 407,164 | 355,164 | 26,000 | 0 | 381,164 |
| 2020-2021 | 390,222 | 338,222 | 26,000 | 0 | 364,222 |
| 2021-2022 | 373,280 | 321,280 | 26,000 | 0 | 347,280 |
| 2022-2023 | 356,337 | 304,337 | 26,000 | 0 | 330,337 |
| 2023-2024 | 339,395 | 287,395 | 26,000 | 0 | 313,395 |
| 2024-2025 | 322,452 | 0 | 322,452 | 0 | 322,452 |
| 2025-2026 | 305,510 | 0 | 305,510 | 0 | 305,510 |
| 2026-2027 | 288,568 | 0 | 71,747 | 0 | 71,747 |
| Totals | 5,091,785 | 2,773,546 | 881,709 | (134,772) | 3,520,483 |

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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 Adrian 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 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 1% 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 Spinning Spur (Table III), the addition of Spinning Spur's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Spinning Spur's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues *without* Spinning Spur Wind Two:

| Fiscal Year | Total Taxable Value | M&O Taxes | | | Recapture Amount | Tier I Revenue | Revenue | Total |
|-------------|---------------------|-----------------|---------------|-----------------|------------------|----------------|------------------|-------|
| | | Compressed Rate | State Revenue | Above Comp Rate | | | District Revenue | |
| 2014-2015 | 46,986,672 | 454,220 | 927,394 | 0 | 1,381,614 | 114,873 | 1,496,487 | |
| 2015-2016 | 47,456,539 | 458,762 | 919,698 | 0 | 1,378,460 | 114,993 | 1,493,453 | |
| 2016-2017 | 47,931,104 | 463,350 | 911,964 | 0 | 1,375,314 | 114,706 | 1,490,020 | |
| 2017-2018 | 48,410,415 | 467,983 | 904,192 | 0 | 1,372,176 | 114,419 | 1,486,595 | |
| 2018-2019 | 48,894,519 | 472,663 | 896,382 | 0 | 1,369,045 | 114,133 | 1,483,178 | |
| 2019-2020 | 49,383,464 | 477,390 | 888,533 | 0 | 1,365,922 | 113,848 | 1,479,770 | |
| 2020-2021 | 49,877,299 | 482,164 | 880,644 | 0 | 1,362,808 | 113,563 | 1,476,371 | |
| 2021-2022 | 50,376,072 | 486,985 | 872,715 | 0 | 1,359,701 | 113,279 | 1,472,980 | |
| 2022-2023 | 50,879,833 | 491,855 | 864,746 | 0 | 1,356,601 | 112,996 | 1,469,597 | |
| 2023-2024 | 51,388,631 | 496,774 | 856,736 | 0 | 1,353,510 | 112,713 | 1,466,223 | |
| 2024-2025 | 51,902,517 | 501,742 | 848,684 | 0 | 1,350,426 | 112,432 | 1,462,858 | |
| 2025-2026 | 52,421,543 | 506,759 | 840,591 | 0 | 1,347,350 | 112,151 | 1,459,501 | |
| 2026-2027 | 52,945,758 | 511,827 | 832,455 | 0 | 1,344,282 | 111,870 | 1,456,152 | |

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TABLE IV- District Revenues *with* Spinning Spur Wind Two *without* Chapter 313 Agreement:

| Fiscal Year | M&O Taxes | | | | Revenue | | Total District Revenue |
|-------------|---------------------|-----------------|---------------|------------------|----------------|-----------------|------------------------|
| | Total Taxable Value | Compressed Rate | State Revenue | Recapture Amount | Tier I Revenue | Above Comp Rate | |
| | 2014-2015 | 96,099,672 | 928,996 | 908,618 | 0 | 1,837,614 | |
| 2015-2016 | 93,123,280 | 900,223 | 427,237 | 0 | 1,327,460 | 111,061 | 1,438,521 |
| 2016-2017 | 91,968,767 | 889,062 | 453,252 | 0 | 1,342,314 | 112,547 | 1,454,861 |
| 2017-2018 | 90,818,999 | 877,947 | 461,228 | 0 | 1,339,176 | 112,133 | 1,451,308 |
| 2018-2019 | 89,674,025 | 866,879 | 469,166 | 0 | 1,336,045 | 111,720 | 1,447,765 |
| 2019-2020 | 88,533,892 | 855,857 | 477,065 | 0 | 1,332,922 | 111,308 | 1,444,230 |
| 2020-2021 | 87,398,649 | 844,883 | 484,925 | 0 | 1,329,808 | 110,997 | 1,440,805 |
| 2021-2022 | 86,268,344 | 833,956 | 492,745 | 0 | 1,326,701 | 110,707 | 1,437,408 |
| 2022-2023 | 85,143,026 | 823,078 | 500,524 | 0 | 1,323,601 | 110,418 | 1,434,019 |
| 2023-2024 | 84,022,746 | 812,248 | 508,262 | 0 | 1,320,510 | 110,129 | 1,430,639 |
| 2024-2025 | 82,907,554 | 801,467 | 515,959 | 0 | 1,317,426 | 109,841 | 1,427,267 |
| 2025-2026 | 81,797,502 | 790,736 | 523,614 | 0 | 1,314,350 | 109,553 | 1,423,903 |
| 2026-2027 | 80,692,638 | 780,056 | 531,226 | 0 | 1,311,282 | 109,266 | 1,420,548 |

TABLE V – District Revenues *with* Spinning Spur Wind Two *with* Chapter 313 Agreement:

| Fiscal Year | M&O Taxes | | | | Revenue | | Payment | Total District Revenue |
|-------------|---------------------|-----------------|---------------|------------------|----------------|-----------------|---------------------|------------------------|
| | Total Taxable Value | Taxes Comp Rate | State Revenue | Recapture Amount | Tier I Revenue | Above Comp Rate | for District Losses | |
| | 2014-2015 | 96,099,672 | 928,996 | 908,618 | 0 | 1,837,614 | 234,944 | |
| 2015-2016 | 93,123,280 | 900,223 | 427,237 | 0 | 1,327,460 | 111,061 | 0 | 1,438,521 |
| 2016-2017 | 52,931,104 | 511,685 | 743,629 | 0 | 1,255,314 | 64,775 | 134,772 | 1,454,861 |
| 2017-2018 | 53,410,415 | 516,318 | 822,857 | 0 | 1,339,176 | 114,312 | 0 | 1,453,488 |
| 2018-2019 | 53,894,519 | 520,998 | 815,047 | 0 | 1,336,045 | 114,027 | 0 | 1,450,072 |
| 2019-2020 | 54,383,464 | 525,725 | 807,198 | 0 | 1,332,922 | 113,743 | 0 | 1,446,666 |
| 2020-2021 | 54,877,299 | 530,499 | 799,309 | 0 | 1,329,808 | 113,460 | 0 | 1,443,267 |
| 2021-2022 | 55,376,072 | 535,320 | 791,380 | 0 | 1,326,701 | 113,177 | 0 | 1,439,878 |
| 2022-2023 | 55,879,833 | 540,190 | 783,411 | 0 | 1,323,601 | 112,895 | 0 | 1,436,496 |
| 2023-2024 | 56,388,631 | 545,109 | 775,401 | 0 | 1,320,510 | 112,614 | 0 | 1,433,123 |
| 2024-2025 | 82,907,554 | 801,467 | 515,959 | 0 | 1,317,426 | 163,670 | 0 | 1,481,096 |
| 2025-2026 | 81,797,502 | 790,736 | 523,614 | 0 | 1,314,350 | 109,553 | 0 | 1,423,903 |
| 2026-2027 | 80,692,638 | 780,056 | 531,226 | 0 | 1,311,282 | 109,266 | 0 | 1,420,548 |

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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 79th 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 Spinning Spur Wind Two, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Adrian ISD by Spinning Spur, the projected amount of these payments over the life of the agreement is \$161,834 of the \$3.52 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 | Adrian ISD Share \$100/ADA | Spinning Spur Wind Share |
|---------------|------------------|-------------------------------|-----------------------------|
| 2014-2015 | 0 | 12,637 | (12,637) |
| 2015-2016 | 0 | 12,605 | (12,605) |
| 2016-2017 | 271,219 | 12,573 | 258,646 |
| 2017-2018 | 415,049 | 12,542 | 402,507 |
| 2018-2019 | 398,107 | 12,511 | 385,596 |
| 2019-2020 | 381,164 | 12,479 | 368,685 |
| 2020-2021 | 364,222 | 12,448 | 351,774 |
| 2021-2022 | 347,280 | 12,417 | 334,863 |
| 2022-2023 | 330,337 | 12,386 | 317,951 |
| 2023-2024 | 313,395 | 12,355 | 301,040 |
| 2024-2025 | 322,452 | 12,324 | 310,128 |
| 2025-2026 | 305,510 | 12,293 | 293,217 |
| 2026-2027 | 71,747 | 12,263 | 59,484 |
| Totals | 3,520,483 | 161,834 | 3,358,649 |

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Impact of Projected Student Growth

On District Facilities

TABLE VII – Campus Capacity and Available Growth

| Grade Level | # of Regular Classrooms | Building Capacity | Current Enrollment | Enrollment Growth Available |
|---------------------|--------------------------------|--------------------------|---------------------------|------------------------------------|
| Pre-K thru 5 | 7 | 154 | 134 | 20 |
| 6-12 | 9 | 180 | 83 | 97 |
| Total | 16 | 334 | 217 | 117 |

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

Spinning Spur Wind Two, 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 two full-time employees are expected. It is not known whether these would be new employees to the Adrian 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 two positions equates to 1 new student.

This minimal projected student growth can easily be accommodated with the current facilities of Adrian 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 Spinning Spur Wind Two, LLC, would be beneficial to both Spinning Spur and Adrian ISD under the current school finance system.

Spinning Spur Wind Two, LLC 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, Spinning Spur is projected to benefit from a 71% tax savings over the thirteen year period of this agreement. Spinning Spur 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.

Adrian ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Spinning Spur 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.