

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

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

Introduction

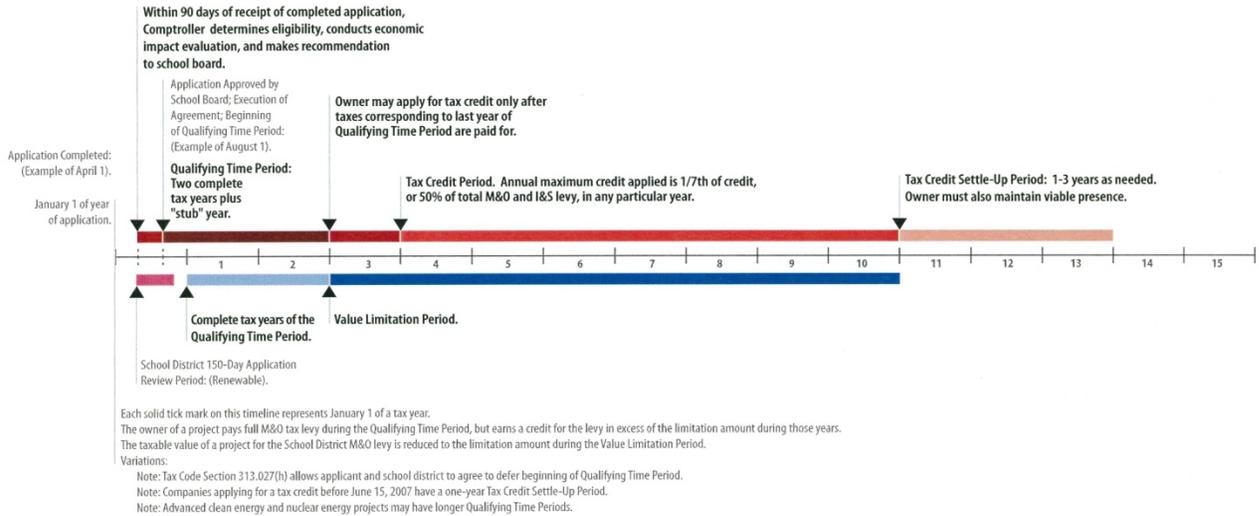
Spinning Spur Wind Two, LLC applied for a property value limitation from Vega Independent School District under Chapter 313 of the Tax Code. The application was submitted on December 13, 2012 and subsequently approved for consideration by the Vega ISD Board of Trustees. Spinning Spur Wind Two, LLC (“Spinning 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. Vega 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 Vega 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 Vega 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 \$10,000,000 minimum qualified investment of Vega ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From Spinning Spur	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	148,302,000	n/a	0	148,302,000
Jan. 1, 2015	137,895,649	n/a	0	137,895,649
Jan. 1, 2016	132,976,471	(10,000,000)	122,976,471	10,000,000
Jan. 1, 2017	128,057,294	(10,000,000)	118,057,294	10,000,000
Jan. 1, 2018	123,138,117	(10,000,000)	113,138,117	10,000,000
Jan. 1, 2019	118,218,939	(10,000,000)	108,218,939	10,000,000
Jan. 1, 2020	113,299,762	(10,000,000)	103,299,762	10,000,000
Jan. 1, 2021	108,380,585	(10,000,000)	98,380,585	10,000,000
Jan. 1, 2022	103,461,407	(10,000,000)	93,461,407	10,000,000
Jan. 1, 2023	103,461,407	(10,000,000)	93,461,407	10,000,000
Jan. 1, 2024	93,623,053	n/a	0	93,623,053
Jan. 1, 2025	88,703,875	n/a	0	88,703,875
Jan. 1, 2026	83,784,698	n/a	0	83,784,698

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Spinning Spur Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Spinning Spur is \$11.4 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	1,542,341	0	n/a	0	0
2015-2016	1,434,115	0	n/a	0	0
2016-2017	1,382,955	1,278,955	n/a	(140,993)	1,137,962
2017-2018	1,331,796	1,227,796	120,028	0	1,347,823
2018-2019	1,280,636	1,176,636	119,371	0	1,296,007
2019-2020	1,229,477	1,125,477	118,600	0	1,244,077
2020-2021	1,178,318	1,074,318	117,710	0	1,192,027
2021-2022	1,127,158	1,023,158	116,697	0	1,139,855
2022-2023	1,075,999	971,999	115,557	(24,972)	1,062,584
2023-2024	1,075,999	971,999	116,568	(21,596)	1,066,971
2024-2025	973,680	0	1,095,430	0	1,095,430
2025-2026	922,520	0	848,495	0	848,495
2026-2027	871,361	0	0	0	0
Totals	15,426,354	8,850,337	2,768,455	(187,560)	11,431,232

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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 Vega 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 1.0% 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 increase slightly; therefore, the projected ADA and WADA for school year 2012-2013 was increased 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	Hold Harmless Revenue	M&O Taxes > Comp Rate	Total District Revenue
		Compressed Rate	State Revenue				
2014-2015	124,074,482	1,158,024	1,590,560	0	2,748,584	302,604	3,051,189
2015-2016	125,315,227	1,169,605	1,585,851	0	2,755,456	304,030	3,059,486
2016-2017	126,568,379	1,181,301	1,581,044	0	2,762,344	304,790	3,067,134
2017-2018	172,037,961	1,605,682	1,163,568	0	2,769,250	411,209	3,180,459
2018-2019	171,548,146	1,601,110	1,175,063	0	2,776,173	302,420	3,078,593
2019-2020	171,141,840	1,597,318	1,185,796	0	2,783,114	303,321	3,086,435
2020-2021	170,816,342	1,594,280	1,195,791	0	2,790,072	304,222	3,094,293
2021-2022	299,047,078	2,791,096	5,951	0	2,797,047	534,948	3,331,995
2022-2023	292,451,647	2,729,539	179,675	153,891	2,755,323	348,288	3,103,611
2023-2024	286,250,784	2,671,664	177,833	83,974	2,765,523	346,108	3,111,631
2024-2025	280,426,160	2,617,301	200,776	42,511	2,775,566	344,107	3,119,674
2025-2026	274,960,346	2,566,287	258,835	39,661	2,785,461	342,276	3,127,737
2026-2027	269,836,770	2,518,468	313,718	36,971	2,795,214	340,608	3,135,822

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

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	272,376,482	2,542,171	1,523,693	0	4,065,864	664,297	4,730,161
2015-2016	263,210,876	2,456,626	298,830	37,613	2,717,843	328,503	3,046,346
2016-2017	259,544,850	2,422,410	339,934	33,945	2,728,399	331,515	3,059,914
2017-2018	300,095,255	2,800,879	242,880	37,569	3,006,190	387,362	3,393,552
2018-2019	294,686,263	2,750,395	167,181	191,676	2,725,900	348,090	3,073,990
2019-2020	289,360,779	2,700,691	167,725	132,877	2,735,540	346,121	3,081,661
2020-2021	284,116,104	2,651,741	168,287	74,869	2,745,159	344,189	3,089,348
2021-2022	407,427,663	3,802,645	12,978	61,764	3,753,859	499,947	4,253,806
2022-2023	395,913,054	3,695,175	196,332	1,185,027	2,706,481	422,320	3,128,801
2023-2024	389,712,191	3,637,301	162,927	1,082,491	2,717,736	415,706	3,133,442
2024-2025	374,049,213	3,491,114	229,488	990,519	2,730,083	398,998	3,129,081
2025-2026	363,664,221	3,394,187	196,462	847,334	2,743,315	387,921	3,131,235
2026-2027	353,621,468	3,300,455	196,551	741,708	2,755,298	377,745	3,133,043

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

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Hold	M&O Taxes	Payment	Total District Revenue
		Taxes Comp Rate	State Revenue		Harmless Revenue	> Comp Rate	for District Losses	
2014-2015	272,376,482	2,542,171	1,523,693	0	4,065,864	664,297	0	4,730,161
2015-2016	263,210,876	2,456,626	298,830	37,613	2,717,843	328,503	0	3,046,346
2016-2017	136,568,379	1,274,634	1,487,711	17,861	2,744,483	174,438	140,993	3,059,914
2017-2018	182,037,961	1,699,015	1,424,283	0	3,123,298	403,251	0	3,526,549
2018-2019	181,548,146	1,694,443	1,081,730	0	2,776,173	302,467	0	3,078,640
2019-2020	181,141,840	1,690,651	1,092,463	0	2,783,114	303,361	0	3,086,475
2020-2021	180,816,342	1,687,613	1,102,458	0	2,790,072	304,254	0	3,094,325
2021-2022	309,047,078	2,884,429	934,676	0	3,819,105	522,262	0	4,341,367
2022-2023	302,451,647	2,822,872	177,760	249,912	2,750,720	353,109	24,972	3,128,801
2023-2024	296,250,784	2,764,997	175,947	180,025	2,760,919	350,927	21,596	3,133,442
2024-2025	374,049,213	3,491,114	144,790	146,557	3,489,347	449,390	0	3,938,737
2025-2026	363,664,221	3,394,187	196,462	847,334	2,743,315	387,921	0	3,131,235
2026-2027	353,621,468	3,300,455	196,551	741,708	2,755,298	377,745	0	3,133,043

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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 Vega ISD by Spinning Spur Wind Two, LLC, the projected amount of these payments over the life of the agreement is \$439,229 of the \$11.4 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	Vega ISD Share \$100/ADA	Spinning Spur Wind Share
2014-2015	0	33,283	(33,283)
2015-2016	0	33,366	(33,366)
2016-2017	1,137,962	33,450	1,104,513
2017-2018	1,347,823	33,533	1,314,290
2018-2019	1,296,007	33,617	1,262,390
2019-2020	1,244,077	33,701	1,210,376
2020-2021	1,192,027	33,785	1,158,242
2021-2022	1,139,855	33,870	1,105,986
2022-2023	1,062,584	33,955	1,028,629
2023-2024	1,066,971	34,039	1,032,932
2024-2025	1,095,430	34,124	1,061,305
2025-2026	848,495	34,210	814,285
2026-2027	0	34,295	(34,295)
Totals	11,431,232	439,229	10,992,003

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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
Vega Elem. K thru 6	10	220	162	58
Vega High 7-12	16	320	181	139
Total	26	540	343	197

The building capacities are based on 22 students per classroom for the elementary campuses, 20 students for the Jr. High and high school. Vega ISD is a 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 three full-time employees are expected. It is not known whether these would be new employees to the Vega 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 Vega 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 Vega ISD under the current school finance system.

Spinning Spur 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 80% tax savings over the twelve 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.

Vega 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.