

**Summary of the District's Financial Impact
of Chapter 313 Agreement
with Pattern Panhandle Wind, LLC**

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Panhandle ISD Financial Impact of Chapter 313 Agreement

Summary of Panhandle ISD Financial Impact of the Limited Appraised Value Application from Pattern Panhandle Wind, LLC

Introduction

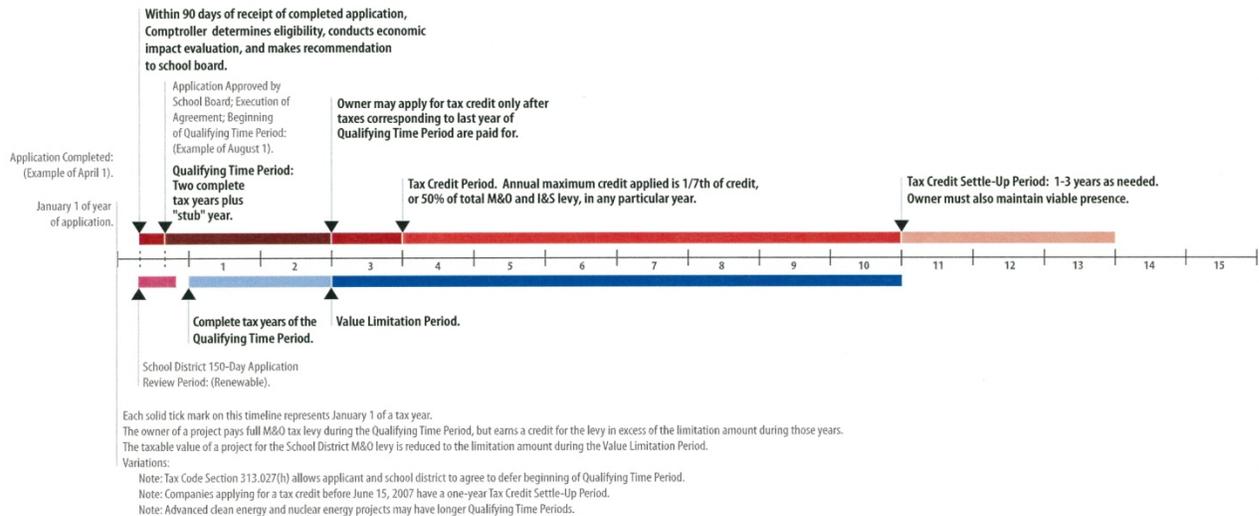
Pattern Panhandle Wind, LLC applied for a property value limitation from Panhandle Independent School District under Chapter 313 of the Tax Code. The application was submitted on December 5, 2012 and subsequently approved for consideration by the Panhandle ISD Board of Trustees. Pattern Panhandle Wind, LLC (“Pattern Panhandle Wind”), 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. Panhandle ISD is considered a Rural category 2 District as categorized with total taxable value of industrial property of at least \$10 million but less than \$200 million, thus Panhandle ISD

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has a minimum qualified investment amount of \$20 million. A qualifying entity’s taxable value would be reduced to \$20 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 Panhandle 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 Pattern Panhandle 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 \$20,000,000 minimum qualified investment of Panhandle ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From Pattern Panhandle Wind	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	120,000,000	n/a	0	120,000,000
Jan. 1, 2015	114,000,000	n/a	0	114,000,000
Jan. 1, 2016	108,300,000	(20,000,000)	88,300,000	20,000,000
Jan. 1, 2017	102,900,000	(20,000,000)	82,900,000	20,000,000
Jan. 1, 2018	97,700,000	(20,000,000)	77,700,000	20,000,000
Jan. 1, 2019	92,900,000	(20,000,000)	72,900,000	20,000,000
Jan. 1, 2020	88,200,000	(20,000,000)	68,200,000	20,000,000
Jan. 1, 2021	83,800,000	(20,000,000)	63,800,000	20,000,000
Jan. 1, 2022	79,600,000	(20,000,000)	59,600,000	20,000,000
Jan. 1, 2023	75,600,000	(20,000,000)	55,600,000	20,000,000
Jan. 1, 2024	71,800,000	n/a	0	71,800,000
Jan. 1, 2025	68,300,000	n/a	0	68,300,000
Jan. 1, 2026	64,800,000	n/a	0	64,800,000

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Pattern Panhandle Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Pattern Panhandle Wind is \$7.872 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	1,248,000	0	n/a	0	0
2015-2016	1,185,600	0	n/a	0	0
2016-2017	1,126,320	918,320	n/a	(41,403)	876,917
2017-2018	1,070,160	862,160	330,380	0	1,192,540
2018-2019	1,016,080	808,080	318,940	0	1,127,020
2019-2020	966,160	758,160	308,380	0	1,066,540
2020-2021	917,280	709,280	298,040	(9,851)	997,469
2021-2022	871,520	663,520	288,360	(6,646)	945,234
2022-2023	827,840	619,840	279,120	(3,836)	895,124
2023-2024	786,240	578,240	194,380	(1,398)	771,222
2024-2025	746,720	0	0	0	0
2025-2026	710,320	0	0	0	0
2026-2027	673,920	0	0	0	0
Totals	12,146,160	5,917,600	2,017,600	(63,134)	7,872,066

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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 Panhandle 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 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 Pattern Panhandle Wind (Table III), the addition of Pattern Panhandle Wind's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Pattern Panhandle Wind's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues without Pattern Panhandle 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	State Revenue				
2014-2015	414,504,812	4,145,048	1,480,827	0	5,625,875	253,515	5,879,390	
2015-2016	418,649,860	4,186,499	1,425,312	0	5,611,810	252,881	5,864,691	
2016-2017	422,836,359	4,228,364	1,369,417	0	5,597,781	252,249	5,850,030	
2017-2018	427,064,722	4,270,647	1,313,139	0	5,583,786	251,618	5,835,405	
2018-2019	431,335,370	4,313,354	1,256,473	0	5,569,827	250,989	5,820,816	
2019-2020	554,194,237	5,541,942	13,960	0	5,555,902	318,489	5,874,391	
2020-2021	549,067,083	5,490,671	687,954	636,612	5,542,012	244,976	5,786,988	
2021-2022	544,742,185	5,447,422	679,515	598,780	5,528,157	244,702	5,772,860	
2022-2023	541,159,284	5,411,593	671,481	568,737	5,514,337	244,410	5,758,747	
2023-2024	538,262,980	5,382,630	663,845	545,923	5,500,551	244,100	5,744,651	
2024-2025	536,002,344	5,360,023	656,596	529,820	5,486,800	243,772	5,730,572	
2025-2026	534,330,563	5,343,306	649,725	519,948	5,473,083	243,426	5,716,509	
2026-2027	533,204,609	5,332,046	643,218	515,864	5,459,400	243,064	5,702,464	

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TABLE IV- District Revenues with Pattern Panhandle Wind 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	534,504,812	5,345,048	1,266,069	0	6,611,117	326,908	6,938,025
2015-2016	532,649,860	5,326,499	655,546	370,235	5,611,810	249,509	5,861,319
2016-2017	531,136,359	5,311,364	650,787	364,370	5,597,781	249,042	5,846,822
2017-2018	529,964,722	5,299,647	646,015	361,876	5,583,786	248,578	5,832,364
2018-2019	529,035,370	5,290,354	642,167	362,695	5,569,827	248,069	5,817,895
2019-2020	647,094,237	6,470,942	429,029	448,140	6,451,832	303,200	6,755,032
2020-2021	637,267,083	6,372,671	704,939	1,535,597	5,542,012	254,907	5,796,919
2021-2022	628,542,185	6,285,422	695,850	1,453,114	5,528,157	251,417	5,779,574
2022-2023	620,759,284	6,207,593	687,715	1,380,970	5,514,337	248,304	5,762,641
2023-2024	613,862,980	6,138,630	679,789	1,317,868	5,500,551	245,545	5,746,096
2024-2025	607,802,344	6,078,023	672,077	1,263,301	5,486,800	243,121	5,729,921
2025-2026	602,630,563	6,026,306	663,781	1,217,004	5,473,083	242,110	5,715,193
2026-2027	598,004,609	5,980,046	658,092	1,178,739	5,459,400	241,708	5,701,108

TABLE V – District Revenues with Pattern Panhandle Wind 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	534,504,812	5,345,048	1,266,069	0	6,611,117	326,908	0	6,938,025
2015-2016	532,649,860	5,326,499	655,546	370,235	5,611,810	249,509	0	5,861,319
2016-2017	442,836,359	4,428,364	1,473,212	303,795	5,597,781	207,639	41,403	5,846,822
2017-2018	447,064,722	4,470,647	1,113,139	0	5,583,786	251,506	0	5,835,292
2018-2019	451,335,370	4,513,354	1,056,473	0	5,569,827	250,878	0	5,820,705
2019-2020	574,194,237	5,741,942	772,307	0	6,514,249	315,360	0	6,829,609
2020-2021	569,067,083	5,690,671	674,205	822,864	5,542,012	245,056	9,851	5,796,919
2021-2022	564,742,185	5,647,422	666,007	785,271	5,528,157	244,771	6,646	5,779,574
2022-2023	561,159,284	5,611,593	658,205	755,461	5,514,337	244,468	3,836	5,762,641
2023-2024	558,262,980	5,582,630	650,793	732,871	5,500,551	244,147	1,398	5,746,096
2024-2025	607,802,344	6,078,023	340,296	783,780	5,634,539	266,523	0	5,901,062
2025-2026	602,630,563	6,026,306	663,781	1,217,004	5,473,083	242,110	0	5,715,193
2026-2027	598,004,609	5,980,046	658,092	1,178,739	5,459,400	241,708	0	5,701,108

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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 Pattern Panhandle Wind, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Panhandle ISD by Pattern Panhandle Wind, the projected amount of these payments over the life of the agreement is \$790,055 of the \$7.8 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	Panhandle ISD Share \$100/ADA	Pattern Panhandle Wind's Share
2014-2015	0	61,690	(61,690)
2015-2016	0	61,536	(61,536)
2016-2017	876,917	61,382	815,535
2017-2018	1,192,540	61,229	1,131,311
2018-2019	1,127,020	61,076	1,065,944
2019-2020	1,066,540	60,923	1,005,617
2020-2021	997,469	60,771	936,698
2021-2022	945,234	60,619	884,615
2022-2023	895,124	60,467	834,657
2023-2024	771,222	60,316	710,906
2024-2025	0	60,165	(60,165)
2025-2026	0	60,015	(60,015)
2026-2027	0	59,865	(59,865)
Totals	7,872,066	790,055	7,082,011

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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
PreK thru 5	28	616	321	295
6-8	18	360	143	217
9-12	25	500	204	296
Total	71	1,476	668	808

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

Pattern Panhandle Wind, 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 Panhandle 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 Panhandle 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 Pattern Panhandle Wind, LLC, would be beneficial to both Pattern Panhandle Wind and Panhandle ISD under the current school finance system.

Pattern Panhandle Wind, 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, Pattern Panhandle Wind is projected to benefit from a 79.2% tax savings over the first ten year period of this agreement. Pattern Panhandle 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.

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