

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

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Hereford ISD Financial Impact of Chapter 313 Agreement

Summary of Hereford ISD Financial Impact of the Limited Appraised Value Application from TX Hereford Wind, LLC

Introduction

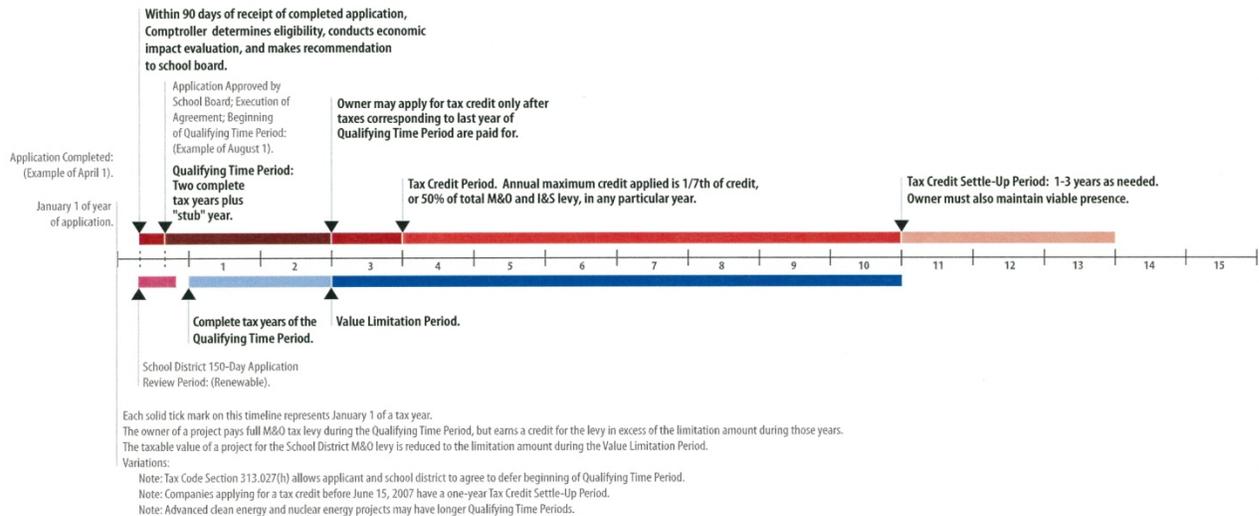
TX Hereford Wind, LLC applied for a property value limitation from Hereford Independent School District under Chapter 313 of the Tax Code. The application was submitted on February 11, 2013 and subsequently approved for consideration by the Hereford ISD Board of Trustees. TX Hereford Wind, LLC (“TX Hereford 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. Hereford ISD is considered a Rural category 1 District as categorized with total taxable value of industrial property of \$200 million or more, thus Hereford ISD has a

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minimum qualified investment amount of \$30 million. A qualifying entity’s taxable value would be reduced to \$30 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 Hereford 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 TX Hereford 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 \$30,000,000 minimum qualified investment of Hereford ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From TX Hereford Wind	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	4,000,000	n/a	0	4,000,000
Jan. 1, 2015	280,800,000	n/a	0	280,800,000
Jan. 1, 2016	266,760,000	(30,000,000)	236,760,000	30,000,000
Jan. 1, 2017	253,422,000	(30,000,000)	223,422,000	30,000,000
Jan. 1, 2018	240,750,900	(30,000,000)	210,750,900	30,000,000
Jan. 1, 2019	228,713,355	(30,000,000)	198,713,355	30,000,000
Jan. 1, 2020	217,277,687	(30,000,000)	187,277,687	30,000,000
Jan. 1, 2021	206,413,803	(30,000,000)	176,413,803	30,000,000
Jan. 1, 2022	196,093,113	(30,000,000)	166,093,113	30,000,000
Jan. 1, 2023	186,288,457	(30,000,000)	156,288,457	30,000,000
Jan. 1, 2024	176,974,034	n/a	0	176,974,034
Jan. 1, 2025	168,125,333	n/a	0	168,125,333
Jan. 1, 2026	159,719,066	n/a	0	159,719,066

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TX Hereford Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for TX Hereford Wind is \$17.38 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. Tax credits during years four through ten are limited to the lesser of 1/7 of the total tax credit or 50% of the total taxes paid for that tax year. Any tax credits not refunded to the company during those years will be refunded up to 100% of the taxes paid in years eleven through thirteen.

Hereford ISD's projected tax rates for maintenance & operations (M&O) and interest & sinking (I&S) are based on the following assumptions:

- The District has not held a tax ratification election that would approve a M&O tax rate in excess of \$1.04; therefore, the study assumes that they will maintain a M&O tax rate of \$1.04. This does not suggest that Hereford ISD will not exercise its authority to hold an agreement during this agreement period.
- The District currently has no outstanding bond obligations and therefore has no I&S tax rate. The study assumes that they will have no bonded indebtedness during the agreement period; however, the district could call for a bond referendum and install an I&S tax during this agreement period.

TABLE II- Computation of Net Tax Savings:

Fiscal Year	Projected M&O Tax Rate	Projected I&S Tax Rate	Taxes w/o Agreement	Tax Savings with Agreement	Tax Credits	Payment of District's Revenue Losses	Net Tax Savings
2014-2015	1.04	0.00	41,600	0	n/a	0	0
2015-2016	1.04	0.00	2,920,320	0	n/a	0	0
2016-2017	1.04	0.00	2,774,304	2,462,304	n/a	(1,403,976)	1,058,328
2017-2018	1.04	0.00	2,635,589	2,323,589	156,000	0	2,479,589
2018-2019	1.04	0.00	2,503,809	2,191,809	156,000	0	2,347,809
2019-2020	1.04	0.00	2,378,619	2,066,619	156,000	0	2,222,619
2020-2021	1.04	0.00	2,259,688	1,947,688	156,000	0	2,103,688
2021-2022	1.04	0.00	2,146,704	1,834,704	156,000	0	1,990,704
2022-2023	1.04	0.00	2,039,368	1,727,368	156,000	0	1,883,368
2023-2024	1.04	0.00	1,937,400	1,625,400	156,000	0	1,781,400
2024-2025	1.04	0.00	1,840,530	0	1,516,320	0	1,516,320
2025-2026	1.04	0.00	1,748,503	0	0	0	0
2026-2027	1.04	0.00	1,661,078	0	0	0	0
Totals			26,887,513	16,179,481	2,608,320	(1,403,976)	17,383,825

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

TABLE III – District Revenues *without* TX Hereford Wind:

Fiscal Year	Total Taxable Value	M&O Taxes			Revenue Above		Total District Revenue
		Compressed	State	Recapture	Tier I	Comp	
		Rate	Revenue	Amount	Revenue	Rate	
2014-2015	1,109,297,417	11,092,974	14,895,873	0	25,988,847	1,303,609	27,292,456
2015-2016	1,120,390,391	11,203,904	14,748,894	0	25,952,797	1,302,305	27,255,103
2016-2017	1,131,594,295	11,315,943	14,600,829	0	25,916,772	1,301,003	27,217,775
2017-2018	1,142,910,238	11,429,102	14,451,669	0	25,880,771	1,299,702	27,180,473
2018-2019	1,154,339,340	11,543,393	14,301,401	0	25,844,794	1,298,402	27,143,196
2019-2020	1,165,882,734	11,658,827	14,150,014	0	25,808,842	1,297,104	27,105,945
2020-2021	1,177,541,561	11,775,416	13,997,498	0	25,772,913	1,295,807	27,068,720
2021-2022	1,189,316,977	11,893,170	13,843,839	0	25,737,009	1,294,511	27,031,520
2022-2023	1,201,210,147	12,012,101	13,689,027	0	25,701,129	1,293,216	26,994,345
2023-2024	1,213,222,248	12,132,222	13,533,050	0	25,665,273	1,291,923	26,957,196
2024-2025	1,225,354,470	12,253,545	13,375,896	0	25,629,441	1,290,631	26,920,072
2025-2026	1,237,608,015	12,376,080	13,217,553	0	25,593,633	1,289,340	26,882,973
2026-2027	1,249,984,095	12,499,841	13,058,008	0	25,557,849	1,288,051	26,845,900

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TABLE IV- District Revenues *with* TX Hereford Wind *without* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes			Recapture Amount	Tier I Revenue	Revenue	
		Compressed Rate	State Revenue	Above Comp Rate			Total District Revenue	
2014-2015	1,113,297,417	11,132,974	16,432,112	0	27,565,086	1,308,309	28,873,395	
2015-2016	1,401,190,391	14,011,904	18,790,418	0	32,802,321	1,622,846	34,425,167	
2016-2017	1,398,354,295	13,983,543	12,615,128	0	26,598,671	1,285,514	27,884,185	
2017-2018	1,396,332,238	13,963,322	12,628,141	0	26,591,463	1,284,973	27,876,436	
2018-2019	1,395,090,240	13,950,902	12,632,069	0	26,582,971	1,284,403	27,867,374	
2019-2020	1,394,596,089	13,945,961	12,617,597	0	26,563,558	1,283,806	27,847,364	
2020-2021	1,394,819,248	13,948,192	12,604,856	0	26,553,048	1,283,182	27,836,230	
2021-2022	1,395,730,780	13,957,308	12,583,785	0	26,541,093	1,282,531	27,823,624	
2022-2023	1,397,303,260	13,973,033	12,545,331	0	26,518,364	1,281,855	27,800,219	
2023-2024	1,399,510,705	13,995,107	12,509,518	0	26,504,625	1,281,152	27,785,777	
2024-2025	1,402,328,504	14,023,285	12,467,253	0	26,490,538	1,280,425	27,770,963	
2025-2026	1,405,733,348	14,057,333	12,407,659	0	26,464,993	1,279,674	27,744,667	
2026-2027	1,409,703,161	14,097,032	12,351,371	0	26,448,402	1,278,900	27,727,302	

TABLE V – District Revenues *with* TX Hereford Wind *with* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Tier I Revenue	Revenue		Payment for District Losses	Total District Revenue
		Comp Rate	State Revenue			Above Comp Rate	Total District Revenue		
2014-2015	1,113,297,417	11,132,974	16,432,112	0	27,565,086	1,308,309	0	28,873,395	
2015-2016	1,401,190,391	14,011,904	18,790,418	0	32,802,321	1,622,846	0	34,425,167	
2016-2017	1,161,594,295	11,615,943	12,610,086	0	24,226,029	1,067,860	1,403,976	26,697,864	
2017-2018	1,172,910,238	11,729,102	15,263,173	0	26,992,275	1,299,369	0	28,291,645	
2018-2019	1,184,339,340	11,843,393	15,119,450	0	26,962,843	1,298,073	0	28,260,917	
2019-2020	1,195,882,734	11,958,827	14,964,710	0	26,923,538	1,296,778	0	28,220,316	
2020-2021	1,207,541,561	12,075,416	14,818,711	0	26,894,126	1,295,485	0	28,189,611	
2021-2022	1,219,316,977	12,193,170	14,671,049	0	26,864,219	1,294,192	0	28,158,411	
2022-2023	1,231,210,147	12,312,101	14,512,330	0	26,824,432	1,292,901	0	28,117,333	
2023-2024	1,243,222,248	12,432,222	14,362,268	0	26,794,491	1,291,611	0	28,086,102	
2024-2025	1,402,328,504	14,023,285	15,593,023	0	29,616,308	1,441,391	0	31,057,699	
2025-2026	1,405,733,348	14,057,333	12,407,659	0	26,464,993	1,279,674	0	27,744,667	
2026-2027	1,409,703,161	14,097,032	12,351,351	0	26,448,382	1,278,900	0	27,727,282	

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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 TX Hereford Wind, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Hereford ISD by TX Hereford Wind, the projected amount of these payments over the life of the agreement is \$5.02 million of the \$17.38 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	Hereford ISD Share \$100/ADA	TX Hereford Wind Share
2014-2015	0	388,821	(388,821)
2015-2016	0	388,432	(388,432)
2016-2017	1,058,328	388,044	670,284
2017-2018	2,479,589	387,656	2,091,933
2018-2019	2,347,809	387,268	1,960,541
2019-2020	2,222,619	386,881	1,835,738
2020-2021	2,103,688	386,494	1,717,194
2021-2022	1,990,704	386,108	1,604,596
2022-2023	1,883,368	385,721	1,497,647
2023-2024	1,781,400	385,336	1,396,064
2024-2025	1,516,320	384,950	1,131,370
2025-2026	0	384,565	(384,565)
2026-2027	0	384,181	(384,181)
Totals	17,383,825	5,024,458	12,359,367

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Impact of Projected Student Growth On District Facilities

TABLE VII – Campus Capacity and Available Growth

Campus	Grade Level	# of Regular Classrooms	Building Capacity	Current Enrollment	Enrollment Growth Available
Aikman Elem	K-5	23	506	441	65
Bluebonnet Elem	K-5	18	396	337	59
Northwest Elem	K-5	24	528	478	50
Tierra Blanca El.	K-5	19	418	358	60
West Central El.	K-5	15	330	257	73
Stanton Learning	PK-EE	16	352	320	32
Hereford Jr High	6-7	35	700	604	96
Hereford Prep Academy	8	24	480	309	171
Hereford High	9-12	77	1540	1118	422
Total		251	5,250	4,222	1,028

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

TX Hereford 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 six full-time employees are expected. It is not known whether these would be new employees to the Hereford 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 3 new students.

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

TX Hereford 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, TX Hereford Wind is projected to benefit from a 80% tax savings over the first eleven year period of this agreement. TX Hereford 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.

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