

**Summary of the District's Financial Impact
of Chapter 313 Agreement
with Route 66 Wind Power, 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 Route 66 Wind Power, LLC

Introduction

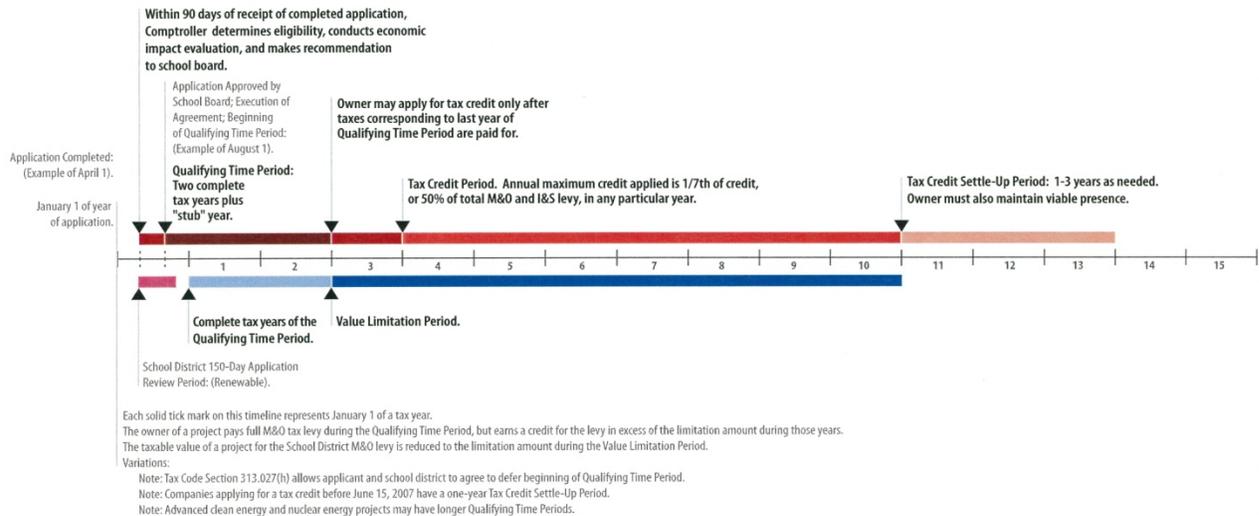
Route 66 Wind Power, LLC applied for a property value limitation from Panhandle Independent School District under Chapter 313 of the Tax Code. The application was submitted on February 14, 2013 and subsequently approved for consideration by the Panhandle ISD Board of Trustees. Route 66 Wind Power, LLC (“Route 66 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 Route 66 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 Route 66 Wind	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	2,842,750	n/a	0	2,842,750
Jan. 1, 2015	120,221,600	n/a	0	120,221,600
Jan. 1, 2016	109,434,500	(20,000,000)	89,434,500	20,000,000
Jan. 1, 2017	99,617,300	(20,000,000)	79,617,300	20,000,000
Jan. 1, 2018	90,682,400	(20,000,000)	70,682,400	20,000,000
Jan. 1, 2019	82,550,800	(20,000,000)	62,550,800	20,000,000
Jan. 1, 2020	75,150,500	(20,000,000)	55,150,500	20,000,000
Jan. 1, 2021	68,415,500	(20,000,000)	48,415,500	20,000,000
Jan. 1, 2022	62,285,800	(20,000,000)	42,285,800	20,000,000
Jan. 1, 2023	56,707,300	(20,000,000)	36,707,300	20,000,000
Jan. 1, 2024	51,630,100	n/a	0	51,630,100
Jan. 1, 2025	47,009,100	n/a	0	47,009,100
Jan. 1, 2026	42,803,400	n/a	0	42,803,400

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Route 66 Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Route 66 Wind is \$6.038 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.

Panhandle 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 Panhandle ISD will not exercise its authority to hold an agreement during this agreement period.
- The district has outstanding bonds that are scheduled to payoff in 2037 and currently have a \$.44 I&S tax rate. The district has received guidance their financial advisor and bond counsel that they can maintain a \$.44 I&S tax rate and pay the bonds off in 2024 or earlier. The district could pursue a bond election and issue additional bonded debt during the life of this agreement.

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	0.44	29,565	0	n/a	0	0
2015-2016	1.04	0.44	1,250,305	0	n/a	0	0
2016-2017	1.04	0.44	1,138,119	930,119	n/a	(41,450)	888,668
2017-2018	1.04	0.44	1,036,020	828,020	148,901	0	976,921
2018-2019	1.04	0.44	943,097	735,097	148,901	0	883,998
2019-2020	1.04	0.44	858,528	650,528	148,901	0	799,429
2020-2021	1.04	0.44	781,565	573,565	148,901	(4,632)	717,834
2021-2022	1.04	0.44	711,521	503,521	148,901	(492)	651,930
2022-2023	1.04	0.44	647,772	439,772	148,901	0	588,673
2023-2024	1.04	0.44	589,756	381,756	148,901	0	530,657
2024-2025	1.04	0.44	536,953	0	0	0	0
2025-2026	1.04	0	488,895	0	0	0	0
2026-2027	1.04	0	445,155	0	0	0	0
Totals			9,457,251	5,042,379	1,042,305	(46,574)	6,038,109

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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 Route 66 Wind (Table III), the addition of Route 66 Wind's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Route 66 Wind's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues *without* Route 66 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* Route 66 Wind *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				
2014-2015	417,347,562	4,173,476	1,452,399	0	5,625,875	255,254	5,881,129
2015-2016	538,871,460	5,388,715	915,865	0	6,304,579	323,283	6,627,862
2016-2017	532,270,859	5,322,709	697,459	422,387	5,597,781	246,692	5,844,473
2017-2018	526,682,022	5,266,820	687,060	370,094	5,583,786	246,511	5,830,297
2018-2019	522,017,770	5,220,178	677,227	327,578	5,569,827	246,304	5,816,130
2019-2020	636,745,037	6,367,450	85,461	361,301	6,091,610	302,362	6,393,972
2020-2021	624,217,583	6,242,176	726,981	1,427,144	5,542,012	249,687	5,791,699
2021-2022	613,157,685	6,131,577	715,579	1,318,999	5,528,157	245,263	5,773,420
2022-2023	603,445,084	6,034,451	704,613	1,224,727	5,514,337	242,131	5,756,468
2023-2024	594,970,280	5,949,703	694,095	1,143,247	5,500,551	241,967	5,742,518
2024-2025	587,632,444	5,876,324	684,040	1,073,565	5,486,800	241,781	5,728,581
2025-2026	581,339,663	5,813,397	674,451	1,014,765	5,473,083	241,573	5,714,656
2026-2027	576,008,009	5,760,080	665,326	966,006	5,459,400	241,344	5,700,744

TABLE V – District Revenues *with* Route 66 Wind *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
		Comp Rate	State Revenue					
2014-2015	417,347,562	4,173,476	1,452,399	0	5,625,875	255,254	0	5,881,129
2015-2016	538,871,460	5,388,715	915,865	0	6,304,579	323,283	0	6,627,862
2016-2017	442,836,359	4,428,364	1,520,832	351,415	5,597,781	205,242	41,450	5,844,473
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	520,066	0	6,262,008	315,360	0	6,577,368
2020-2021	569,067,083	5,690,671	674,205	822,864	5,542,012	245,056	4,632	5,791,699
2021-2022	564,742,185	5,647,422	666,007	785,271	5,528,157	244,771	492	5,773,420
2022-2023	561,159,284	5,611,593	658,205	755,461	5,514,337	244,468	0	5,758,805
2023-2024	558,262,980	5,582,630	650,793	732,871	5,500,551	244,147	0	5,744,698
2024-2025	587,632,444	5,876,324	368,246	757,771	5,486,800	257,679	0	5,744,478
2025-2026	581,339,663	5,813,397	674,451	1,014,765	5,473,083	241,573	0	5,714,656
2026-2027	576,008,009	5,760,080	665,326	966,006	5,459,400	241,344	0	5,700,744

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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 Route 66 Wind Power, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Panhandle ISD by Route 66 Wind, the projected amount of these payments over the life of the agreement is \$790,055 of the \$6.03 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	Route 66 Wind's Share
2014-2015	0	61,690	(61,690)
2015-2016	0	61,536	(61,536)
2016-2017	888,668	61,382	827,286
2017-2018	976,921	61,229	915,692
2018-2019	883,998	61,076	822,922
2019-2020	799,429	60,923	738,506
2020-2021	717,834	60,771	657,064
2021-2022	651,930	60,619	591,311
2022-2023	588,673	60,467	528,206
2023-2024	530,657	60,316	470,340
2024-2025	27,017	60,165	(60,165)
2025-2026	0	60,015	(60,015)
2026-2027	0	59,865	(59,865)
Totals	6,038,109	790,055	5,248,054

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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.

Route 66 Wind Power, 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 five 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 3 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 Route 66 Wind Power, LLC, would be beneficial to both Route 66 Wind and Panhandle ISD under the current school finance system.

Route 66 Wind Power, 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, Route 66 Wind is projected to benefit from a 76% tax savings over the first ten year period of this agreement. Route 66 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 Route 66 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.