

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

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Silverton ISD Financial Impact of Chapter 313 Agreement

Summary of Silverton ISD Financial Impact of the Limited Appraised Value Application from Longhorn Wind Project, LLC

Introduction

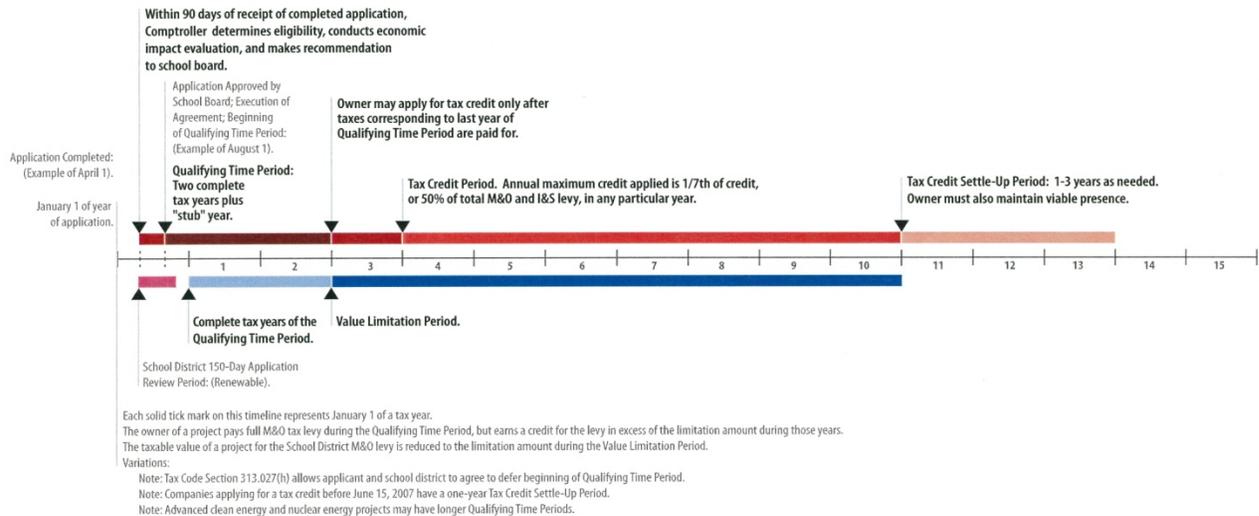
Longhorn Wind Project, LLC applied for a property value limitation from Silverton Independent School District under Chapter 313 of the Tax Code. The application was submitted on May 28, 2013 and subsequently approved for consideration by the Silverton ISD Board of Trustees. Longhorn Wind Project, LLC (“Longhorn 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. Silverton ISD is considered a Rural category 3 District as categorized with total taxable value of industrial property of at least \$1 million but less than \$90 million, thus Silverton ISD has a minimum qualified investment amount of \$10 million. A qualifying entity’s taxable value would be

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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 Silverton 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 Longhorn 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 \$10,000,000 minimum qualified investment of Silverton ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From Longhorn Wind	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	2,812,500	n/a	0	2,812,500
Jan. 1, 2015	108,000,000	n/a	0	108,000,000
Jan. 1, 2016	99,360,000	(10,000,000)	89,360,000	10,000,000
Jan. 1, 2017	91,411,000	(10,000,000)	81,411,000	10,000,000
Jan. 1, 2018	84,098,000	(10,000,000)	74,098,000	10,000,000
Jan. 1, 2019	77,370,000	(10,000,000)	67,370,000	10,000,000
Jan. 1, 2020	71,180,000	(10,000,000)	61,180,000	10,000,000
Jan. 1, 2021	65,486,000	(10,000,000)	55,486,000	10,000,000
Jan. 1, 2022	60,247,000	(10,000,000)	50,247,000	10,000,000
Jan. 1, 2023	55,427,000	(10,000,000)	45,427,000	10,000,000
Jan. 1, 2024	50,993,000	n/a	0	50,993,000
Jan. 1, 2025	46,914,000	n/a	0	46,914,000
Jan. 1, 2026	43,161,000	n/a	0	43,161,000

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Longhorn Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Longhorn Wind is \$6.3 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.

Silverton 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 and the study projects that it will maintain an M&O tax rate of \$1.04 for the life of this agreement. The M&O rates for 2015-2016 & 2024-2025 are projected to drop to \$.96 due to the rollback tax rate calculations.
- The district currently has no outstanding bonds and no I&S tax rate is projected in the study. The district could however pursue a bond election and issue 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	1.040	0.00	29,250	0	n/a	0	0
2015-2016	0.960	0.00	1,036,800	0	n/a	0	0
2016-2017	1.040	0.00	1,033,344	929,344	n/a	(88,400)	840,944
2017-2018	1.040	0.00	950,674	846,674	52,000	0	898,674
2018-2019	1.040	0.00	874,619	770,619	52,000	0	822,619
2019-2020	1.040	0.00	804,648	700,648	52,000	0	752,648
2020-2021	1.040	0.00	740,272	636,272	52,000	0	688,272
2021-2022	1.040	0.00	681,054	577,054	52,000	0	629,054
2022-2023	1.040	0.00	626,569	522,569	52,000	0	574,569
2023-2024	1.040	0.00	576,441	472,441	52,000	0	524,441
2024-2025	0.960	0.00	489,533	0	489,533	0	489,533
2025-2026	1.040	0.00	487,906	0	87,267	0	87,267
2026-2027	1.040	0.00	448,874	0	0	0	0
Totals			8,779,984	5,455,622	940,800	(88,400)	6,308,022

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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 Silverton 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 2013-2014 fiscal year) were used for state aid and recapture calculation purposes
 - Level 2 of Tier II yield - \$61.86 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 Longhorn Wind (Table III), the addition of Longhorn Wind's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Longhorn Wind's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues *without* Longhorn Wind Project, LLC:

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	113,159,063	1,026,013	724,608	0	1,750,621	224,250	1,974,871
2015-2016	114,290,653	1,036,273	709,817	0	1,746,090	224,531	1,970,621
2016-2017	115,433,560	1,046,636	694,925	0	1,741,561	223,951	1,965,512
2017-2018	116,587,896	1,057,102	679,927	0	1,737,029	223,373	1,960,402
2018-2019	117,753,774	1,067,673	669,463	825	1,736,311	223,621	1,959,933
2019-2020	118,931,312	1,078,350	654,265	1,910	1,730,705	224,132	1,954,837
2020-2021	120,120,625	1,089,134	638,947	3,004	1,725,076	224,652	1,949,729
2021-2022	121,321,832	1,100,025	623,531	4,106	1,719,451	225,182	1,944,633
2022-2023	122,535,050	1,111,025	608,005	5,215	1,713,815	225,722	1,939,537
2023-2024	123,760,400	1,122,136	592,369	6,333	1,708,171	226,272	1,934,443
2024-2025	124,998,004	1,133,357	576,626	7,460	1,702,523	226,832	1,929,355
2025-2026	126,247,984	1,144,690	560,771	8,595	1,696,867	227,402	1,924,269
2026-2027	127,510,464	1,156,137	544,807	9,738	1,691,207	227,982	1,919,188

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TABLE IV- District Revenues *with* Longhorn Wind Project *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	115,971,563	1,051,514	724,608	0	1,776,122	229,777	2,005,898
2015-2016	222,290,653	2,015,509	685,042	0	2,700,551	231,230	2,931,781
2016-2017	214,793,560	1,947,533	107,385	423,084	1,631,834	289,013	1,920,847
2017-2018	207,998,896	1,885,926	103,659	357,055	1,632,530	284,007	1,916,537
2018-2019	201,851,774	1,830,190	99,974	297,403	1,632,760	279,473	1,912,233
2019-2020	196,301,312	1,779,864	96,345	243,648	1,632,561	275,371	1,907,932
2020-2021	191,300,625	1,734,523	92,787	195,345	1,631,965	271,667	1,903,632
2021-2022	186,807,832	1,693,787	89,303	152,085	1,631,004	268,328	1,899,333
2022-2023	182,782,050	1,657,285	86,664	113,502	1,630,447	265,324	1,895,771
2023-2024	179,187,400	1,624,692	84,578	79,238	1,630,033	262,627	1,892,660
2024-2025	175,991,004	1,595,710	82,981	48,979	1,629,712	260,213	1,889,926
2025-2026	173,161,984	1,570,060	99,316	45,337	1,624,039	258,059	1,882,098
2026-2027	170,671,464	1,547,478	117,724	43,569	1,621,633	256,141	1,877,774

TABLE V – District Revenues *with* Longhorn Wind Project *with* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes Comp Rate	State Revenue	Recapture Amount	Hold Harmless Revenue	M&O Taxes > Comp Rate	Payment for District Losses	Total District Revenue
2015-2016	222,290,653	2,015,509	685,042	0	2,700,551	231,230	0	2,931,781
2016-2017	125,433,560	1,137,306	773,040	247,210	1,663,136	169,311	88,400	1,920,847
2017-2018	126,587,896	1,147,772	589,257	7,201	1,729,828	230,254	0	1,960,081
2018-2019	127,753,774	1,158,343	578,793	8,277	1,728,859	230,758	0	1,959,617
2019-2020	128,931,312	1,169,020	563,469	9,361	1,723,128	231,272	0	1,954,400
2020-2021	130,120,625	1,179,804	548,277	10,452	1,717,628	231,795	0	1,949,423
2021-2022	131,321,832	1,190,695	532,861	11,552	1,712,005	232,328	0	1,944,333
2022-2023	132,535,050	1,201,695	517,335	12,660	1,706,370	232,871	0	1,939,241
2023-2024	133,760,400	1,212,806	501,699	13,776	1,700,728	233,424	0	1,934,152
2024-2025	175,991,004	1,595,710	486,683	0	2,082,394	155,377	0	2,237,770
2025-2026	173,161,984	1,570,060	99,316	45,337	1,624,039	258,059	0	1,882,098
2026-2027	170,671,464	1,547,478	117,724	43,569	1,621,633	256,141	0	1,877,774

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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 Longhorn Wind Project, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Silverton ISD by Longhorn Wind, the projected amount of these payments over the life of the agreement is \$234,468 of the \$6.3 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	Silverton ISD \$100/ADA	Longhorn Wind's Share
2014-2015	0	18,308	(18,308)
2015-2016	0	18,262	(18,262)
2016-2017	840,944	18,217	822,728
2017-2018	898,674	18,171	880,503
2018-2019	822,619	18,126	804,493
2019-2020	752,648	18,080	734,568
2020-2021	688,272	18,035	670,237
2021-2022	629,054	17,990	611,064
2022-2023	574,569	17,945	556,624
2023-2024	524,441	17,900	506,541
2024-2025	489,533	17,856	471,677
2025-2026	87,267	17,811	69,456
2026-2027	0	17,766	(17,766)
Totals	6,308,022	234,468	6,073,554

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Impact of Projected Student Growth On District Facilities

TABLE VII – Campus Capacity and Available Growth

Campus Name	Grade Level	# of Regular Classrooms	Building Capacity	Current Enrollment	Enrollment Growth Available
Silverton School	Pre-K thru 12	22	396	195	201
	Total	22	396	195	201

The building capacities are based on 18 students per classroom for all grade levels. Silverton ISD is a Pre-kindergarten through 12th grade district.

Longhorn Wind Project, 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 Silverton 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 Silverton 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 Longhorn Wind Project, LLC, would be beneficial to both Longhorn Wind and Silverton ISD under the current school finance system.

Longhorn Wind Project, 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, Longhorn Wind is projected to benefit from a 76% tax savings over the first twelve year period of this agreement. Longhorn 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.

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