

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

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Lockney ISD Financial Impact of Chapter 313 Agreement

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

Introduction

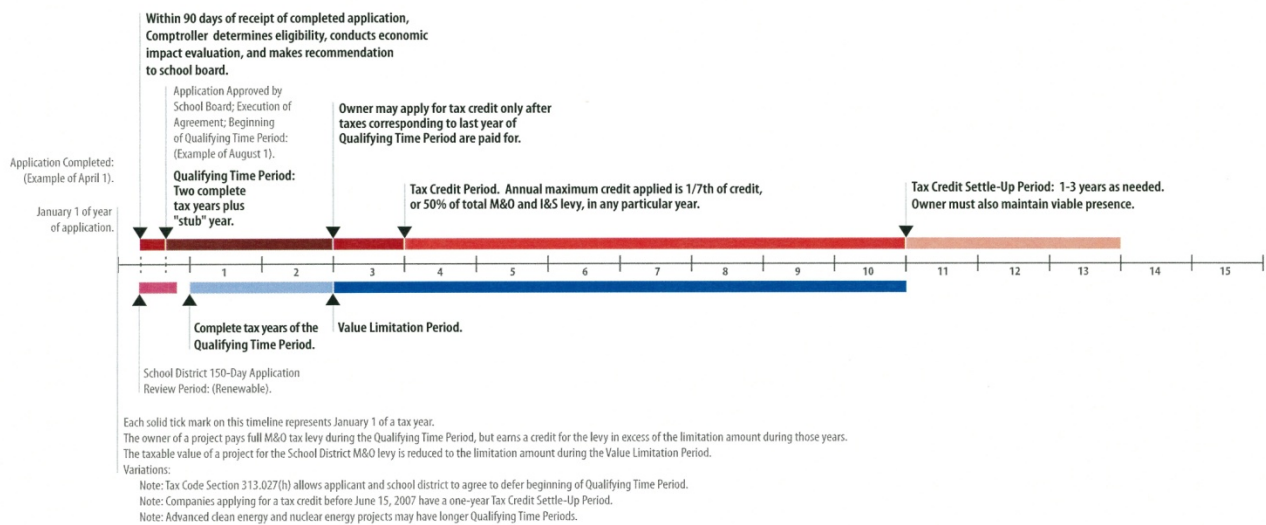
Longhorn Wind Project, LLC applied for a property value limitation from Lockney Independent School District under Chapter 313 of the Tax Code. The application was submitted on May 29, 2013 and subsequently approved for consideration by the Lockney ISD Board of Trustees. Longhorn Wind Project, LLC (“Longhorn 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. Lockney 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 Lockney ISD has a minimum qualified investment amount of \$10 million. A qualifying entity’s taxable

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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 Lockney 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 Lockney ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From Longhorn Wind	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	3,600,000	n/a	0	3,600,000
Jan. 1, 2015	137,568,000	n/a	0	137,568,000
Jan. 1, 2016	126,563,000	(10,000,000)	116,563,000	10,000,000
Jan. 1, 2017	116,438,000	(10,000,000)	106,438,000	10,000,000
Jan. 1, 2018	107,123,000	(10,000,000)	97,123,000	10,000,000
Jan. 1, 2019	98,553,000	(10,000,000)	88,553,000	10,000,000
Jan. 1, 2020	90,669,000	(10,000,000)	80,669,000	10,000,000
Jan. 1, 2021	83,415,000	(10,000,000)	73,415,000	10,000,000
Jan. 1, 2022	76,742,000	(10,000,000)	66,742,000	10,000,000
Jan. 1, 2023	70,603,000	(10,000,000)	60,603,000	10,000,000
Jan. 1, 2024	64,955,000	n/a	0	64,955,000
Jan. 1, 2025	59,759,000	n/a	0	59,759,000
Jan. 1, 2026	54,978,000	n/a	0	54,978,000

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Longhorn Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Longhorn Wind is \$8.486 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.

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

- The District has held a tax ratification election and the study projects that it will maintain an M&O tax rate of \$1.14 for the life of this agreement. The M&O rates for 2015-2016 & 2024-2025 are projected to drop to \$1.04 due to the rollback tax rate calculations.
- The district currently has no outstanding bonds and no I&S tax 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	1.14	0.00	41,040	0	n/a	0	0
2015-2016	1.04	0.00	1,430,707	0	n/a	0	0
2016-2017	1.14	0.00	1,442,818	1,328,818	n/a	(706,944)	621,874
2017-2018	1.14	0.00	1,327,393	1,213,393	57,000	0	1,270,393
2018-2019	1.14	0.00	1,221,202	1,107,202	57,000	0	1,164,202
2019-2020	1.14	0.00	1,123,504	1,009,504	57,000	0	1,066,504
2020-2021	1.14	0.00	1,033,627	919,627	57,000	0	976,627
2021-2022	1.14	0.00	950,931	836,931	57,000	0	893,931
2022-2023	1.14	0.00	874,859	760,859	57,000	0	817,859
2023-2024	1.14	0.00	804,874	690,874	57,000	0	747,874
2024-2025	1.04	0.00	675,532	0	675,532	0	675,532
2025-2026	1.14	0.00	681,253	0	252,175	0	252,175
2026-2027	1.14	0.00	626,749	0	0	0	0
Totals			12,234,489	7,867,208	1,326,707	(706,944)	8,486,972

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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 Lockney 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	M&O	Total District Revenue
		Compressed Rate	State Revenue		Harmless Revenue	Taxes > Comp Rate	
2014-2015	97,843,757	978,438	3,321,839	0	4,300,276	521,587	4,821,863
2015-2016	98,822,194	988,222	3,301,867	0	4,290,089	522,346	4,812,435
2016-2017	99,810,416	998,104	3,281,795	0	4,279,899	520,995	4,800,894
2017-2018	100,808,520	1,008,085	3,261,619	0	4,269,705	519,647	4,789,352
2018-2019	101,816,605	1,018,166	3,241,348	0	4,259,514	518,304	4,777,818
2019-2020	102,834,771	1,028,348	3,220,990	0	4,249,338	516,965	4,766,302
2020-2021	103,863,119	1,038,631	3,200,510	0	4,239,141	515,629	4,754,770
2021-2022	104,901,750	1,049,018	3,179,931	0	4,228,949	514,297	4,743,246
2022-2023	105,950,768	1,059,508	3,159,248	0	4,218,756	512,969	4,731,725
2023-2024	107,010,276	1,070,103	3,138,469	0	4,208,571	511,645	4,720,217
2024-2025	108,080,378	1,080,804	3,117,592	0	4,198,396	465,920	4,664,316
2025-2026	109,161,182	1,091,612	3,096,625	0	4,188,237	509,009	4,697,245
2026-2027	110,252,794	1,102,528	3,075,568	0	4,178,096	507,696	4,685,792

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TABLE IV- District Revenues *with* Longhorn Wind Project *without* Chapter 313 Agreement:

Fiscal Year	M&O Taxes			Recapture Amount	Hold	M&O	Total District Revenue
	Total Taxable Value	Compressed Rate	State Revenue		Harmless Revenue	Taxes > Comp Rate	
2014-2015	101,443,757	1,014,438	3,321,839	0	4,336,276	540,607	4,876,883
2015-2016	236,390,194	2,363,902	3,266,710	0	5,630,612	473,516	6,104,128
2016-2017	226,373,416	2,263,734	1,906,115	0	4,169,849	491,572	4,661,421
2017-2018	217,246,520	2,172,465	1,995,988	0	4,168,454	491,476	4,659,929
2018-2019	208,939,605	2,089,396	2,076,969	0	4,166,365	491,389	4,657,754
2019-2020	201,387,771	2,013,878	2,149,386	0	4,163,264	491,304	4,654,568
2020-2021	194,532,119	1,945,321	2,214,979	0	4,160,300	491,219	4,651,519
2021-2022	188,316,750	1,883,168	2,273,241	0	4,156,409	491,125	4,647,534
2022-2023	182,692,768	1,826,928	2,325,098	0	4,152,026	491,023	4,643,049
2023-2024	177,613,276	1,776,133	2,371,048	0	4,147,180	490,903	4,638,084
2024-2025	173,035,378	1,730,354	2,411,562	0	4,141,916	490,762	4,632,678
2025-2026	168,920,182	1,689,202	2,447,976	0	4,137,178	490,596	4,627,774
2026-2027	165,230,794	1,652,308	2,480,307	0	4,132,615	490,399	4,623,014

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	Total District Revenue
							for District Losses	
2014-2015	101,443,757	1,014,438	3,321,839	0	4,336,276	540,607	0	4,876,883
2015-2016	236,390,194	2,363,902	3,266,710	0	5,630,612	473,516	0	6,104,128
2016-2017	109,810,416	1,098,104	2,616,942	0	3,715,046	239,432	706,944	4,661,421
2017-2018	110,808,520	1,108,085	3,161,619	0	4,269,705	518,775	0	4,788,479
2018-2019	111,816,605	1,118,166	3,141,348	0	4,259,514	517,445	0	4,776,960
2019-2020	112,834,771	1,128,348	3,120,988	0	4,249,336	516,120	0	4,765,456
2020-2021	113,863,119	1,138,631	3,100,510	0	4,239,141	514,798	0	4,753,938
2021-2022	114,901,750	1,149,018	3,079,931	0	4,228,949	513,479	0	4,742,428
2022-2023	115,950,768	1,159,508	3,059,248	0	4,218,756	512,164	0	4,730,920
2023-2024	117,010,276	1,170,103	3,038,469	0	4,208,571	510,853	0	4,719,425
2024-2025	173,035,378	1,730,354	3,018,436	0	4,748,790	294,240	0	5,043,030
2025-2026	168,920,182	1,689,202	2,447,976	0	4,137,178	490,596	0	4,627,774
2026-2027	165,230,794	1,652,308	2,480,307	0	4,132,615	490,399	0	4,623,014

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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 Lockney ISD by Longhorn Wind, the projected amount of these payments over the life of the agreement is \$637,141 of the \$8.486 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	Lockney ISD \$100/ADA	Longhorn Wind's Share
2014-2015	0	49,750	(49,750)
2015-2016	0	49,626	(49,626)
2016-2017	621,874	49,502	572,373
2017-2018	1,270,393	49,378	1,221,015
2018-2019	1,164,202	49,255	1,114,948
2019-2020	1,066,504	49,132	1,017,373
2020-2021	976,627	49,009	927,618
2021-2022	893,931	48,886	845,045
2022-2023	817,859	48,764	769,095
2023-2024	747,874	48,642	699,232
2024-2025	675,532	48,520	627,012
2025-2026	252,175	48,399	203,776
2026-2027	0	48,278	(48,278)
Totals	8,486,972	637,141	7,849,831

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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
Lockney Elem	EE thru 5	33	660	247	413
Lockney Jr High	6-8	14	252	110	142
Lockney High	9-12	21	378	156	222
Total		68	1,290	513	777

The building capacities are based on 20 students per classroom for the elementary campuses, 18 students for the middle and high school. Lockney ISD is a early education 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 Lockney 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 Lockney 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 Lockney 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 82% 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.

Lockney 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.