

**Summary of the District's Financial Impact  
of Chapter 313 Agreement  
with Pattern Panhandle Wind 2, LLC**

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# Panhandle ISD Financial Impact of Chapter 313 Agreement

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## **Summary of Panhandle ISD Financial Impact of the Limited Appraised Value Application from Pattern Panhandle Wind 2, LLC**

### **Introduction**

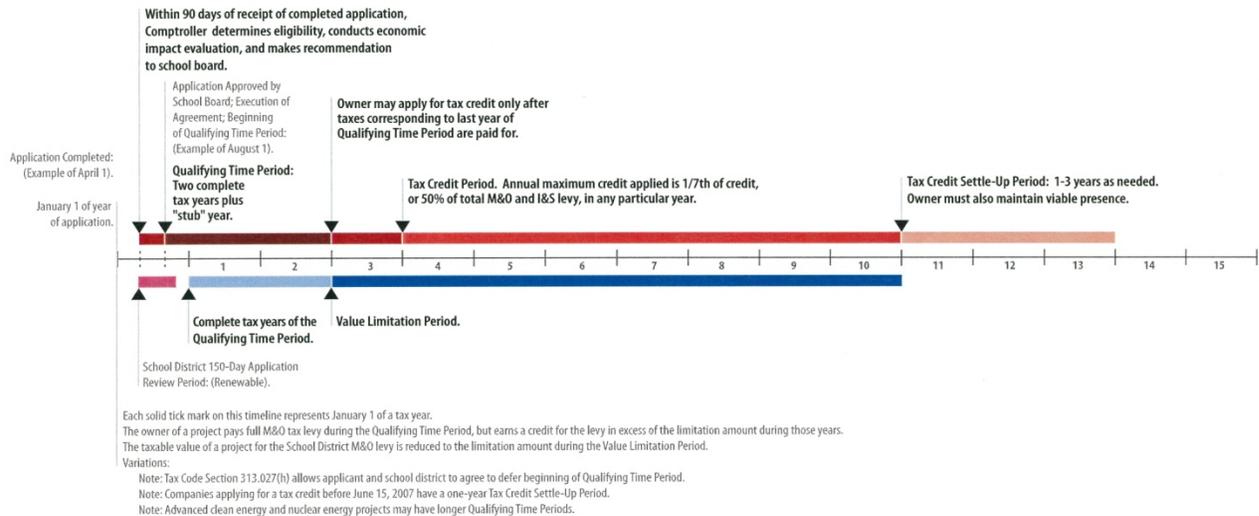
Pattern Panhandle Wind 2, LLC applied for a property value limitation from Panhandle Independent School District under Chapter 313 of the Tax Code. The application was submitted on June 5, 2013 and subsequently approved for consideration by the Panhandle ISD Board of Trustees. Pattern Panhandle Wind 2, LLC (“Pattern Wind 2”), 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 77<sup>th</sup> Texas Legislature in 2001. Further amendments were made to Chapter 313 as a result of House Bill 1470 from the 80<sup>th</sup> 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 Wind 2” 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 Wind 2	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	250,000,000	n/a	0	250,000,000
Jan. 1, 2015	237,500,000	n/a	0	237,500,000
Jan. 1, 2016	225,625,000	(20,000,000)	205,625,000	20,000,000
Jan. 1, 2017	214,343,750	(20,000,000)	194,343,750	20,000,000
Jan. 1, 2018	203,626,563	(20,000,000)	183,626,563	20,000,000
Jan. 1, 2019	193,445,234	(20,000,000)	173,445,234	20,000,000
Jan. 1, 2020	183,772,973	(20,000,000)	163,772,973	20,000,000
Jan. 1, 2021	174,584,324	(20,000,000)	154,584,324	20,000,000
Jan. 1, 2022	165,855,107	(20,000,000)	145,855,107	20,000,000
Jan. 1, 2023	157,562,352	(20,000,000)	137,562,352	20,000,000
Jan. 1, 2024	149,684,235	n/a	0	149,684,235
Jan. 1, 2025	142,200,023	n/a	0	142,200,023
Jan. 1, 2026	135,090,021	n/a	0	135,090,021

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## Pattern Panhandle Wind 2's Tax Benefit from Agreement

The projected amount of the net tax savings for Pattern Wind 2 is \$18.67 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	2,600,000	0	n/a	0	0
2015-2016	1.04	0.44	2,470,000	0	n/a	0	0
2016-2017	1.04	0.44	2,346,500	2,138,500	n/a	(82,250)	2,056,250
2017-2018	1.04	0.44	2,229,175	2,021,175	575,556	0	2,596,731
2018-2019	1.04	0.44	2,117,716	1,909,716	551,978	0	2,461,695
2019-2020	1.04	0.44	2,011,830	1,803,830	529,580	0	2,333,410
2020-2021	1.04	0.44	1,911,239	1,703,239	508,301	(14,263)	2,197,276
2021-2022	1.04	0.44	1,815,677	1,607,677	488,086	(8,187)	2,087,576
2022-2023	1.04	0.44	1,724,893	1,516,893	468,881	(2,846)	1,982,928
2023-2024	1.04	0.44	1,638,648	1,430,648	450,637	0	1,881,286
2024-2025	1.04	0.44	1,556,716	0	1,080,981	0	1,080,981
2025-2026	1.04	0	1,478,880	0	0	0	0
2026-2027	1.04	0	1,404,936	0	0	0	0
<b>Totals</b>			<b>25,306,212</b>	<b>14,131,679</b>	<b>4,654,000</b>	<b>(107,546)</b>	<b>18,678,133</b>

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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 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 Pattern Wind 2 (Table III), the addition of Pattern Wind 2's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Pattern Wind 2's taxable values with a Chapter 313 Agreement (Table V).

**TABLE III – District Revenues *without* Pattern Wind 2:**

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	431,033,922	4,310,339	1,396,599	0	5,706,938	263,250	5,970,188	
2015-2016	435,344,261	4,353,443	1,340,253	0	5,693,696	262,592	5,956,287	
2016-2017	439,697,703	4,396,977	1,281,232	0	5,678,209	261,935	5,940,144	
2017-2018	444,094,680	4,440,947	1,226,933	0	5,667,880	261,280	5,929,160	
2018-2019	448,535,627	4,485,356	1,167,030	0	5,652,387	260,627	5,913,014	
2019-2020	571,566,497	5,715,665	1,098,161	0	6,813,826	328,005	7,141,831	
2020-2021	566,613,066	5,666,131	404,091	494,619	5,575,602	254,533	5,830,135	
2021-2022	562,463,628	5,624,636	401,135	459,064	5,566,707	254,241	5,820,948	
2022-2023	559,057,941	5,590,579	402,912	431,338	5,562,153	253,929	5,816,082	
2023-2024	556,340,623	5,563,406	400,240	410,878	5,552,768	253,599	5,806,366	
2024-2025	554,260,764	5,542,608	402,158	397,166	5,547,600	253,250	5,800,850	
2025-2026	552,771,568	5,527,716	395,429	389,720	5,533,425	252,883	5,786,308	
2026-2027	551,830,023	5,518,300	389,254	388,095	5,519,459	252,500	5,771,959	

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**TABLE IV- District Revenues with Pattern Wind 2 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	681,033,922	6,810,339	1,371,594	0	8,181,933	415,935	8,597,868
2015-2016	672,844,261	6,728,443	435,096	1,496,463	5,667,076	269,138	5,936,213
2016-2017	665,322,703	6,653,227	429,536	1,429,855	5,652,908	266,129	5,919,037
2017-2018	658,438,430	6,584,384	405,669	1,369,689	5,620,364	263,375	5,883,739
2018-2019	652,162,190	6,521,622	402,333	1,315,679	5,608,277	260,865	5,869,142
2019-2020	765,011,731	7,650,117	394,589	1,499,986	6,544,720	306,005	6,850,725
2020-2021	750,386,039	7,503,860	418,682	2,374,049	5,548,493	300,154	5,848,648
2021-2022	737,047,952	7,370,480	414,323	2,246,485	5,538,318	294,819	5,833,137
2022-2023	724,913,048	7,249,130	414,727	2,131,125	5,532,732	289,965	5,822,698
2023-2024	713,902,975	7,139,030	410,813	2,027,195	5,522,648	285,561	5,808,209
2024-2025	703,944,999	7,039,450	411,510	1,933,978	5,516,982	281,578	5,798,560
2025-2026	694,971,591	6,949,716	408,578	1,850,803	5,507,491	277,989	5,785,480
2026-2027	686,920,044	6,869,200	407,300	1,777,049	5,499,451	274,768	5,774,219

**TABLE V – District Revenues with Pattern Wind 2 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	672,844,261	6,728,443	435,096	1,496,463	5,667,076	269,138	0	5,936,213
2016-2017	459,697,703	4,596,977	2,043,874	987,943	5,652,908	183,879	82,250	5,919,037
2017-2018	464,094,680	4,640,947	1,029,861	0	5,670,808	261,168	0	5,931,975
2018-2019	468,535,627	4,685,356	965,030	0	5,650,387	260,516	0	5,910,903
2019-2020	591,566,497	5,915,665	901,833	0	6,817,498	324,992	0	7,142,490
2020-2021	586,613,066	5,866,131	393,771	680,125	5,579,776	254,608	14,263	5,848,648
2021-2022	582,463,628	5,824,636	390,825	644,815	5,570,646	254,305	8,187	5,833,137
2022-2023	579,057,941	5,790,579	392,615	617,325	5,565,869	253,982	2,846	5,822,698
2023-2024	576,340,623	5,763,406	389,958	597,093	5,556,271	253,641	0	5,809,912
2024-2025	703,944,999	7,039,450	377,637	715,391	6,701,696	310,481	0	7,012,177
2025-2026	694,971,591	6,949,716	408,578	1,850,803	5,507,491	277,989	0	5,785,480
2026-2027	686,920,044	6,869,200	407,300	1,777,049	5,499,451	274,768	0	5,774,219

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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 79<sup>th</sup> 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 2, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Panhandle ISD by Pattern Wind 2, the projected amount of these payments over the life of the agreement is \$776,038 of the \$18.67 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 Wind 2's Share
<b>2014-2015</b>	0	60,596	(60,596)
<b>2015-2016</b>	0	60,444	(60,444)
<b>2016-2017</b>	2,056,250	60,293	1,995,957
<b>2017-2018</b>	2,596,731	60,143	2,536,589
<b>2018-2019</b>	2,461,695	59,992	2,401,703
<b>2019-2020</b>	2,333,410	59,842	2,273,568
<b>2020-2021</b>	2,197,276	59,693	2,137,584
<b>2021-2022</b>	2,087,576	59,543	2,028,032
<b>2022-2023</b>	1,982,928	59,395	1,923,534
<b>2023-2024</b>	1,881,286	59,246	1,822,040
<b>2024-2025</b>	1,080,981	59,098	1,021,883
<b>2025-2026</b>	0	58,950	(58,950)
<b>2026-2027</b>	0	58,803	(58,803)
<b>Totals</b>	<b>18,678,133</b>	<b>776,038</b>	<b>17,902,095</b>

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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
<b>Total</b>	<b>71</b>	<b>1,476</b>	<b>668</b>	<b>808</b>

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 12<sup>th</sup> grade district.

Pattern Panhandle Wind 2, 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 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 six 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 Pattern Panhandle Wind 2, LLC, would be beneficial to both Pattern Wind 2 and Panhandle ISD under the current school finance system.

Pattern Panhandle Wind 2, 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 Wind 2 is projected to benefit from a 84% tax savings over the first eleven year period of this agreement. Pattern Wind 2 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 Wind 2 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.