

**Summary of the District's Financial Impact
of Chapter 313 Agreement
with Spinning Spur Wind Three, LLC**

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Adrian ISD Financial Impact of Chapter 313 Agreement

Summary of Adrian ISD Financial Impact of the Limited Appraised Value Application from Spinning Spur Wind Three, LLC

Introduction

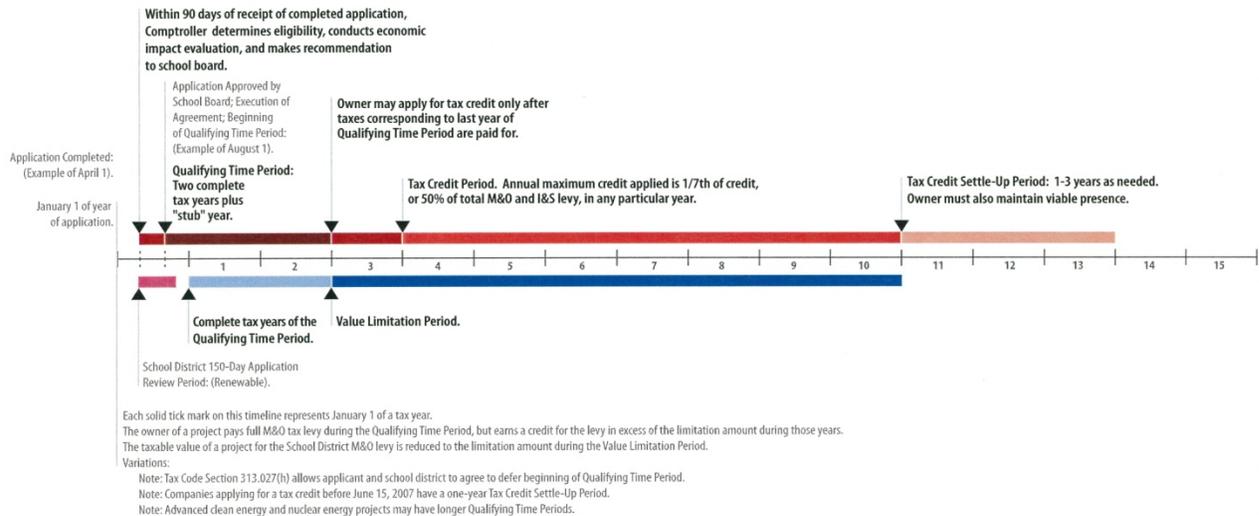
Spinning Spur Wind Three, LLC applied for a property value limitation from Adrian Independent School District under Chapter 313 of the Tax Code. The application was submitted on July 8, 2013 and subsequently approved for consideration by the Adrian ISD Board of Trustees. Spinning Spur Wind Three, LLC (“Spinning Spur Three”), 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.

Adrian ISD Financial Impact of Chapter 313 Agreement

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. Adrian ISD is considered a Rural category 4 District as categorized with total taxable value of industrial property of at least \$100,000 but less than \$1 million, thus Adrian ISD has a minimum qualified investment amount of \$5 million. A qualifying entity’s taxable value would be

Adrian ISD Financial Impact of Chapter 313 Agreement

reduced to \$5 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 Adrian 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 Spinning Spur Three” 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 \$5,000,000 minimum qualified investment of Adrian ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From Spinning Spur Three	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2014	190,000,000	n/a	0	190,000,000
Jan. 1, 2015	180,500,000	n/a	0	180,500,000
Jan. 1, 2016	171,475,000	(5,000,000)	166,475,000	5,000,000
Jan. 1, 2017	162,901,250	(5,000,000)	157,901,250	5,000,000
Jan. 1, 2018	154,756,187	(5,000,000)	149,756,187	5,000,000
Jan. 1, 2019	147,018,378	(5,000,000)	142,018,378	5,000,000
Jan. 1, 2020	139,667,459	(5,000,000)	134,667,459	5,000,000
Jan. 1, 2021	132,684,086	(5,000,000)	127,684,086	5,000,000
Jan. 1, 2022	126,049,881	(5,000,000)	121,049,881	5,000,000
Jan. 1, 2023	119,747,387	(5,000,000)	114,747,387	5,000,000
Jan. 1, 2024	113,760,018	n/a	0	113,760,018
Jan. 1, 2025	108,072,017	n/a	0	108,072,017
Jan. 1, 2026	102,668,416	n/a	0	102,668,416

Adrian ISD Financial Impact of Chapter 313 Agreement

Spinning Spur Three's Tax Benefit from Agreement

The projected amount of the net tax savings for Spinning Spur Three is \$14.9 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.

Adrian 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 2014-2015 & 2024-2025 are projected to drop to \$1.01 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	1.01	0.00	1,919,000	0	n/a	0	0
2015-2016	1.04	0.00	1,877,200	0	n/a	0	0
2016-2017	1.04	0.00	1,783,340	1,731,340	n/a	(204,181)	1,527,159
2017-2018	1.04	0.00	1,694,173	1,642,173	26,000	0	1,668,173
2018-2019	1.04	0.00	1,609,464	1,557,464	26,000	0	1,583,464
2019-2020	1.04	0.00	1,528,991	1,476,991	26,000	0	1,502,991
2020-2021	1.04	0.00	1,452,542	1,400,542	26,000	0	1,426,542
2021-2022	1.04	0.00	1,379,914	1,327,914	26,000	0	1,353,914
2022-2023	1.04	0.00	1,310,919	1,258,919	26,000	0	1,284,919
2023-2024	1.04	0.00	1,245,373	1,193,373	26,000	0	1,219,373
2024-2025	1.01	0.00	1,148,976	0	1,148,976	0	1,148,976
2025-2026	1.04	0.00	1,123,949	0	1,123,949	0	1,123,949
2026-2027	1.04	0.00	1,067,752	0	1,067,752	0	1,067,752
Totals			19,141,593	11,588,716	3,522,677	(204,181)	14,907,211

Adrian ISD Financial Impact of Chapter 313 Agreement

Financial Impact Study

This Financial Impact Study was performed to determine the financial impact of the Limited Appraised Value Agreement on Adrian 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 2% 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.

Adrian ISD Financial Impact of Chapter 313 Agreement

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 Spinning Spur Three (Table III), the addition of Spinning Spur Three's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Spinning Spur Three's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues *without* Spinning Spur Wind Three, 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	47,870,223	462,761	944,651	0	1,407,412	108,807	1,516,220
2015-2016	48,827,627	472,017	935,917	0	1,407,934	111,896	1,519,830
2016-2017	49,804,180	481,457	921,501	0	1,402,958	111,581	1,514,540
2017-2018	50,800,263	491,086	906,896	0	1,397,982	111,268	1,509,251
2018-2019	51,816,269	500,908	897,071	0	1,397,978	110,957	1,508,936
2019-2020	52,852,594	510,926	882,304	0	1,393,230	110,647	1,503,878
2020-2021	53,909,646	521,145	866,353	0	1,387,497	110,339	1,497,836
2021-2022	54,987,839	531,567	856,451	0	1,388,018	110,032	1,498,050
2022-2023	56,087,596	542,199	840,842	0	1,383,041	109,727	1,492,768
2023-2024	57,209,348	553,043	825,023	0	1,378,066	109,423	1,487,489
2024-2025	58,353,535	564,104	813,958	0	1,378,061	106,015	1,484,076
2025-2026	59,520,605	575,386	797,715	0	1,373,101	108,819	1,481,920
2026-2027	60,711,017	586,893	781,409	0	1,368,302	108,520	1,476,822

Adrian ISD Financial Impact of Chapter 313 Agreement

TABLE IV- District Revenues *with* Spinning Spur Three *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	237,870,223	2,299,491	908,137	0	3,207,628	356,437	3,564,066
2015-2016	229,327,627	2,216,910	53,532	988,286	1,282,156	165,299	1,447,456
2016-2017	221,279,180	2,139,106	50,516	911,514	1,278,108	159,518	1,437,626
2017-2018	213,701,513	2,065,853	47,943	839,307	1,274,489	154,074	1,428,563
2018-2019	206,572,456	1,996,936	49,987	771,450	1,275,474	148,953	1,424,427
2019-2020	199,870,972	1,932,153	46,270	707,736	1,270,687	144,139	1,414,826
2020-2021	193,577,105	1,871,310	42,741	647,971	1,266,080	139,618	1,405,698
2021-2022	187,671,925	1,814,224	47,011	591,970	1,269,265	135,376	1,404,641
2022-2023	182,137,477	1,760,723	44,729	539,560	1,265,892	131,400	1,397,292
2023-2024	176,956,735	1,710,641	42,116	490,576	1,262,182	127,679	1,389,860
2024-2025	172,113,553	1,663,822	44,508	444,517	1,263,812	120,633	1,384,445
2025-2026	167,592,622	1,620,118	41,915	402,266	1,259,766	120,952	1,380,719
2026-2027	163,379,433	1,579,389	28,715	362,654	1,245,450	117,926	1,363,376

TABLE V – District Revenues *with* Spinning Spur Three *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	229,327,627	2,216,910	53,532	988,286	1,282,156	165,299	0	1,447,456
2016-2017	54,804,180	529,792	1,187,729	524,009	1,193,513	39,932	204,181	1,437,626
2017-2018	55,800,263	539,421	857,594	0	1,397,015	110,918	0	1,507,933
2018-2019	56,816,269	549,243	847,769	0	1,397,011	110,617	0	1,507,628
2019-2020	57,852,594	559,261	832,489	0	1,391,750	110,317	0	1,502,067
2020-2021	58,909,646	569,480	817,051	0	1,386,530	110,018	0	1,496,548
2021-2022	59,987,839	579,902	807,149	0	1,387,051	109,720	0	1,496,771
2022-2023	61,087,596	590,534	791,540	0	1,382,074	109,424	0	1,491,498
2023-2024	62,209,348	601,378	775,721	0	1,377,099	109,129	0	1,486,227
2024-2025	172,113,553	1,663,822	743,850	0	2,407,671	190,002	0	2,597,673
2025-2026	167,592,622	1,620,118	41,915	402,266	1,259,766	120,952	0	1,380,719
2026-2027	163,379,433	1,579,389	28,715	362,654	1,245,450	117,926	0	1,363,376

Adrian ISD Financial Impact of Chapter 313 Agreement

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.

Adrian ISD Financial Impact of Chapter 313 Agreement

Payments in Lieu of Taxes

Assuming that the District and Spinning Spur Wind Three, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Adrian ISD by Spinning Spur Three, the projected amount of these payments over the life of the agreement is \$159,684 of the \$14.9 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	Adrian ISD \$100/ADA	Spinning Spur Three's Share
2014-2015	0	12,469	(12,469)
2015-2016	0	12,438	(12,438)
2016-2017	1,527,159	12,406	1,514,752
2017-2018	1,668,173	12,375	1,655,798
2018-2019	1,583,464	12,345	1,571,120
2019-2020	1,502,991	12,314	1,490,677
2020-2021	1,426,542	12,283	1,414,259
2021-2022	1,353,914	12,252	1,341,662
2022-2023	1,284,919	12,222	1,272,697
2023-2024	1,219,373	12,191	1,207,182
2024-2025	1,148,976	12,161	1,136,816
2025-2026	1,123,949	12,130	1,111,819
2026-2027	1,067,752	12,100	1,055,652
Totals	14,907,211	159,684	14,747,527

Adrian ISD Financial Impact of Chapter 313 Agreement

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
Elementary	Pre-k - 5	7	154	51	103
Secondary	6-12	9	180	83	97
Total		16	334	134	200

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

Spinning Spur Wind Three, 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 Adrian 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 five positions equates to 3 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Adrian ISD as displayed in Table VII above.

Adrian ISD Financial Impact of Chapter 313 Agreement

Conclusion

This Financial Impact Study displays that entering into a Limited Appraised Value Agreement with Spinning Spur Wind Three, LLC, would be beneficial to both Spinning Spur Three and Adrian ISD under the current school finance system.

Spinning Spur Wind Three, 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, Spinning Spur Three is projected to benefit from a 79% tax savings over the thirteen year period of this agreement. Spinning Spur Three 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.

Adrian ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Spinning Spur Three 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.