

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

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# Claude ISD Financial Impact of Chapter 313 Agreement

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## **Summary of Claude ISD Financial Impact of the Limited Appraised Value Application from Route 66 Wind Power, LLC**

### **Introduction**

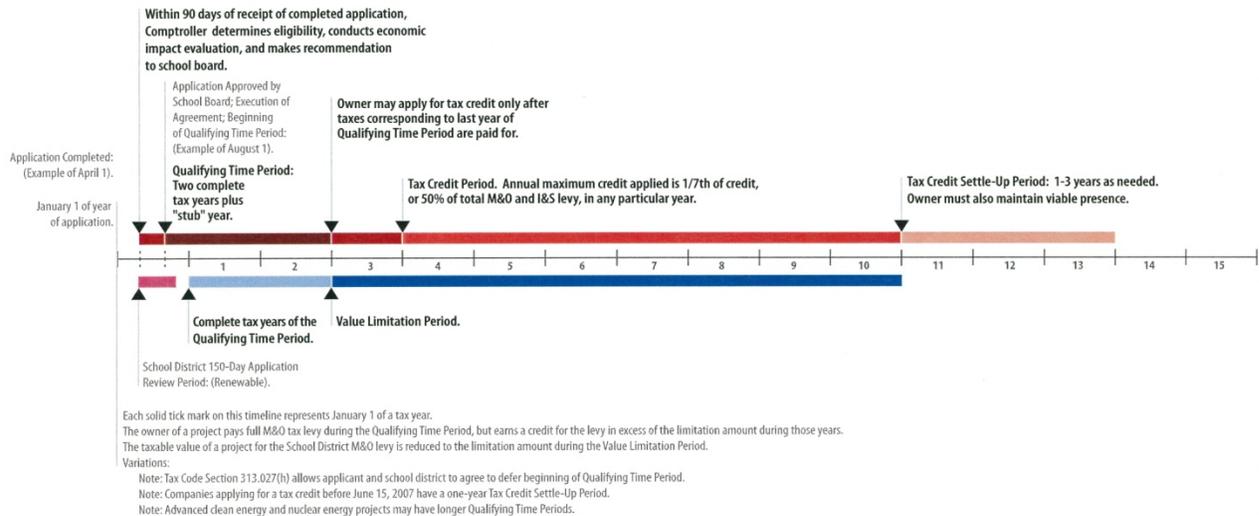
Route 66 Wind Power, LLC applied for a property value limitation from Claude Independent School District under Chapter 313 of the Tax Code. The application was submitted on August 27, 2013 and subsequently approved for consideration by the Claude ISD Board of Trustees. Route 66 Wind Power, LLC (“Route 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 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. Claude 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 Claude ISD

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has a minimum qualified investment amount of \$10 million. A qualifying entity’s taxable 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 Claude 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 \$10,000,000 minimum qualified investment of Claude 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	2,126,250	n/a	0	2,126,250
Jan. 1, 2015	81,648,000	n/a	0	81,648,000
Jan. 1, 2016	74,300,000	(10,000,000)	64,300,000	10,000,000
Jan. 1, 2017	67,613,000	(10,000,000)	57,613,000	10,000,000
Jan. 1, 2018	61,528,000	(10,000,000)	51,528,000	10,000,000
Jan. 1, 2019	55,990,000	(10,000,000)	45,990,000	10,000,000
Jan. 1, 2020	50,951,000	(10,000,000)	40,951,000	10,000,000
Jan. 1, 2021	46,365,000	(10,000,000)	36,365,000	10,000,000
Jan. 1, 2022	42,192,000	(10,000,000)	32,192,000	10,000,000
Jan. 1, 2023	38,395,000	(10,000,000)	28,395,000	10,000,000
Jan. 1, 2024	34,939,000	n/a	0	34,939,000
Jan. 1, 2025	31,794,000	n/a	0	31,794,000
Jan. 1, 2026	28,933,000	n/a	0	28,933,000

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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 \$4.283 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.

Claude 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. The M&O rate for 2015-2016 & 2024-2025 is projected to drop to \$.95 and \$.99 respectively, due to the rollback tax rate calculations.
- The district has outstanding bonds that are scheduled to payoff in 2030 and currently have a \$.16 I&S tax rate. The district has annual debt payments of just over \$170,000 per year through 2030 and the debt rates below are the calculated rates using the projected taxable values with the addition of Route 66 Wind Power's estimated taxable values. 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	0.126	22,113	0	n/a	0	0
2015-2016	.95	0.080	775,656	0	n/a	0	0
2016-2017	1.04	0.080	772,720	668,720	n/a	(113,260)	555,460
2017-2018	1.04	0.084	703,175	599,175	80,397	0	679,573
2018-2019	1.04	0.086	639,891	535,891	78,457	0	614,348
2019-2020	1.04	0.088	582,296	478,296	76,636	0	554,932
2020-2021	1.04	0.089	529,890	425,890	74,673	0	500,564
2021-2022	1.04	0.091	482,196	378,196	73,096	0	451,292
2022-2023	1.04	0.092	438,797	334,797	71,408	0	406,205
2023-2024	1.04	0.093	399,308	295,308	69,854	0	365,162
2024-2025	.99	0.094	345,896	0	156,135	0	156,135
2025-2026	1.04	0.095	330,658	0	0	0	0
2026-2027	1.04	0.095	300,903	0	0	0	0
<b>Totals</b>			<b>6,323,500</b>	<b>3,716,274</b>	<b>680,656</b>	<b>(113,260)</b>	<b>4,283,670</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 Claude 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 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				
2014-2015	134,328,602	1,217,957	1,855,418	0	3,073,375	381,933	3,455,309
2015-2016	135,671,888	1,230,137	1,835,555	0	3,065,692	382,415	3,448,107
2016-2017	137,028,607	1,242,438	1,815,589	0	3,058,028	381,432	3,439,459
2017-2018	138,398,893	1,254,863	1,795,520	0	3,050,383	380,451	3,430,833
2018-2019	139,782,882	1,267,411	1,775,345	0	3,042,757	379,473	3,422,229
2019-2020	141,180,711	1,280,086	1,755,064	0	3,035,150	378,497	3,413,647
2020-2021	142,592,518	1,292,886	1,734,675	0	3,027,562	377,525	3,405,086
2021-2022	144,018,443	1,305,815	1,714,178	0	3,019,993	376,555	3,396,548
2022-2023	145,458,628	1,318,873	1,693,570	0	3,012,443	375,588	3,388,031
2023-2024	146,913,214	1,332,062	1,672,850	0	3,004,912	374,623	3,379,535
2024-2025	148,382,346	1,345,383	1,652,017	0	2,997,400	373,788	3,371,188
2025-2026	149,866,169	1,358,837	1,631,070	0	2,989,906	372,703	3,362,609
2026-2027	151,364,831	1,372,425	1,610,006	0	2,982,431	371,747	3,354,178

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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	136,454,852	1,237,236	1,856,504	0	3,093,740	387,934	3,481,674
2015-2016	217,319,888	1,970,439	1,787,369	0	3,757,809	266,198	4,024,007
2016-2017	211,328,607	1,916,116	1,141,911	0	3,058,028	374,006	3,432,033
2017-2018	206,011,893	1,867,910	1,097,815	0	2,965,725	370,286	3,336,010
2018-2019	201,310,882	1,825,286	1,138,428	0	2,963,714	366,979	3,330,693
2019-2020	197,170,711	1,787,747	1,177,901	0	2,965,648	366,308	3,331,956
2020-2021	193,543,518	1,754,859	1,207,459	0	2,962,318	366,237	3,328,555
2021-2022	190,383,443	1,726,207	1,236,843	0	2,963,050	366,122	3,329,172
2022-2023	187,650,628	1,701,428	1,257,190	0	2,958,618	365,968	3,324,585
2023-2024	185,308,214	1,680,190	1,273,518	0	2,953,708	365,770	3,319,478
2024-2025	183,321,346	1,662,175	1,290,828	0	2,953,003	365,528	3,318,530
2025-2026	181,660,169	1,647,113	1,300,149	0	2,947,262	365,244	3,312,506
2026-2027	180,297,831	1,634,760	1,307,517	0	2,942,277	364,920	3,307,198

**TABLE V – District Revenues *with* Route 66 Wind *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	217,319,888	1,970,439	1,787,369	0	3,757,809	266,198	0	4,024,007
2016-2017	147,028,607	1,333,108	1,724,919	0	3,058,028	260,746	113,260	3,432,033
2017-2018	148,398,893	1,345,533	1,701,719	0	3,047,252	380,010	0	3,427,262
2018-2019	149,782,882	1,358,081	1,679,492	0	3,037,574	379,039	0	3,416,613
2019-2020	151,180,711	1,370,756	1,661,785	0	3,032,541	378,071	0	3,410,611
2020-2021	152,592,518	1,383,556	1,643,701	0	3,027,258	377,105	0	3,404,363
2021-2022	154,018,443	1,396,485	1,620,973	0	3,017,458	376,142	0	3,393,600
2022-2023	155,458,628	1,409,543	1,598,587	0	3,008,130	375,181	0	3,383,311
2023-2024	156,913,214	1,422,732	1,575,702	0	2,998,434	374,223	0	3,372,657
2024-2025	183,321,346	1,662,175	1,548,726	0	3,210,901	317,844	0	3,528,745
2025-2026	181,660,169	1,647,113	1,300,149	0	2,947,262	365,244	0	3,312,506
2026-2027	180,297,831	1,634,760	1,307,517	0	2,942,277	364,920	0	3,307,198

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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 Route 66 Wind Power, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Claude ISD by Route 66 Wind, the projected amount of these payments over the life of the agreement is \$435,805 of the \$4.283 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	Claude ISD Share \$100/ADA	Route 66 Wind's Share
<b>2014-2015</b>	0	34,029	(34,029)
<b>2015-2016</b>	0	33,944	(33,944)
<b>2016-2017</b>	555,460	33,859	521,600
<b>2017-2018</b>	679,573	33,775	645,798
<b>2018-2019</b>	614,348	33,690	580,658
<b>2019-2020</b>	554,932	33,606	521,326
<b>2020-2021</b>	500,564	33,522	467,042
<b>2021-2022</b>	451,292	33,438	417,854
<b>2022-2023</b>	406,205	33,355	372,851
<b>2023-2024</b>	365,162	33,271	331,891
<b>2024-2025</b>	156,135	33,188	122,947
<b>2025-2026</b>	0	33,105	(33,105)
<b>2026-2027</b>	0	33,022	(33,022)
<b>Totals</b>	<b>4,283,670</b>	<b>435,805</b>	<b>3,847,865</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	14	308	164	144
6-12	20	400	196	204
<b>Total</b>	<b>34</b>	<b>708</b>	<b>360</b>	<b>348</b>

The building capacities are based on 22 students per classroom for the elementary campuses, 20 students for the secondary school. Claude ISD is a pre-kindergarten through 12<sup>th</sup> 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 four full-time employees are expected. It is not known whether these would be new employees to the Claude 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 four positions equates to 2 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Claude 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 Claude 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 77% tax savings over the first eleven 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.

Claude 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.