

**Summary of the District's Financial Impact  
of Chapter 313 Agreement  
with Mariah North West II, LLC**

Prepared by

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# Friona ISD Financial Impact of Chapter 313 Agreement

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## **Summary of Friona ISD Financial Impact of the Limited Appraised Value Application from Mariah North West II, LLC**

### **Introduction**

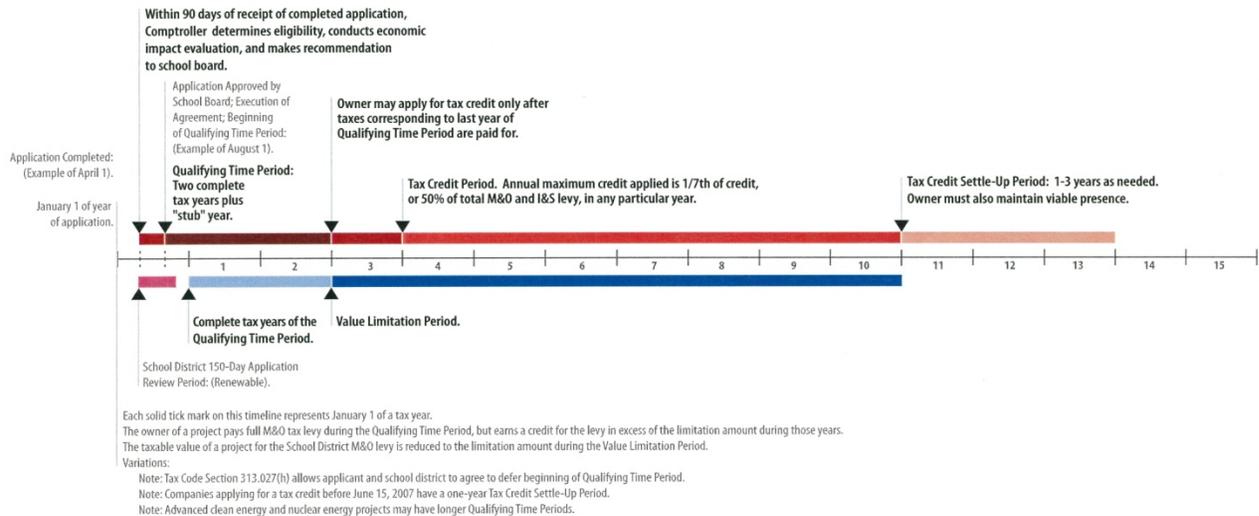
Mariah North West II, LLC applied for a property value limitation from Friona Independent School District under Chapter 313 of the Tax Code. The application was submitted on November 19, 2013 and subsequently approved for consideration by the Friona ISD Board of Trustees. Mariah North West II, LLC (“Mariah NW II”), 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.

# Friona 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. Friona ISD is considered a Rural category 2 District as categorized with total taxable value of industrial property of at least \$90 million but less than \$200 million, thus Friona ISD has a minimum qualified investment amount of \$20 million. A qualifying entity’s taxable

# Friona ISD Financial Impact of Chapter 313 Agreement

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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 Friona 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 Mariah NW II” 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 Friona ISD.

**TABLE I- Calculation of Taxable Value:**

Tax Year	Additional Value From Mariah NW II	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2015	14,000,000	n/a	0	14,000,000
Jan. 1, 2016	488,000,000	n/a	0	488,000,000
Jan. 1, 2017	655,200,000	(20,000,000)	635,200,000	20,000,000
Jan. 1, 2018	618,800,000	(20,000,000)	598,800,000	20,000,000
Jan. 1, 2019	582,400,000	(20,000,000)	562,400,000	20,000,000
Jan. 1, 2020	546,000,000	(20,000,000)	526,000,000	20,000,000
Jan. 1, 2021	509,600,000	(20,000,000)	489,600,000	20,000,000
Jan. 1, 2022	473,200,000	(20,000,000)	453,200,000	20,000,000
Jan. 1, 2023	436,800,000	(20,000,000)	416,800,000	20,000,000
Jan. 1, 2024	400,400,000	(20,000,000)	380,400,000	20,000,000
Jan. 1, 2025	364,000,000	n/a	0	364,000,000
Jan. 1, 2026	364,000,000	n/a	0	364,000,000
Jan. 1, 2027	364,000,000	n/a	0	364,000,000

# Friona ISD Financial Impact of Chapter 313 Agreement

## Mariah North West’s Tax Benefit from Agreement

The projected amount of the net tax savings for Mariah NW II is \$35.52 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.

Friona 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 \$.92 for the life of this agreement. The M&O rate for 2016-2017 and 2025-2026 is projected to decrease to \$.82 due to the rollback tax rate calculation.
- The district has outstanding bonds that are scheduled to payoff in 2027 with annual debt payments of approximately \$300,000 and currently have a \$.09 I&S tax rate. The I&S rates displayed below reflect the impact of the increased property values from the wind project. 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
2015-2016	0.9200	0.089	128,800	0	n/a	0	0
2016-2017	0.8200	0.037	4,001,600	0	n/a	0	0
2017-2018	0.9200	0.031	6,027,840	5,843,840	n/a	(5,691,710)	152,130
2018-2019	0.9200	0.032	5,692,960	5,508,960	191,008	0	5,699,968
2019-2020	0.9200	0.033	5,358,080	5,174,080	188,096	0	5,362,176
2020-2021	0.9200	0.035	5,023,200	4,839,200	187,550	0	5,026,750
2021-2022	0.9200	0.037	4,688,320	4,504,320	186,276	0	4,690,596
2022-2023	0.9200	0.038	4,353,440	4,169,440	181,908	0	4,351,348
2023-2024	0.9200	0.040	4,018,560	3,834,560	179,360	0	4,013,920
2024-2025	0.9200	0.042	3,683,680	3,499,680	176,084	0	3,675,764
2025-2026	0.8200	0.044	2,984,800	0	2,547,318	0	2,547,318
2026-2027	0.9200	0.044	3,348,800	0	0	0	0
2027-2028	0.9200	0.000	3,348,800	0	0	0	0
<b>Totals</b>			<b>52,658,880</b>	<b>37,374,080</b>	<b>3,837,600</b>	<b>(5,691,710)</b>	<b>35,519,970</b>

# Friona ISD Financial Impact of Chapter 313 Agreement

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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 Friona 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 2013.
- 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 2013 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 2013-2014 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.

# Friona 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 Mariah NW II (Table III), the addition of Mariah NW II's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Mariah NW II's taxable values with a Chapter 313 Agreement (Table V).

**TABLE III – District Revenues *without* Mariah North West II, 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	
2015-2016	325,663,713	2,540,177	5,760,496	0	8,300,673	1,124,304	9,424,978
2016-2017	328,920,350	2,565,579	5,714,343	0	8,279,922	1,125,673	9,405,595
2017-2018	332,209,553	2,591,235	4,622,204	0	7,213,439	1,122,496	8,335,935
2018-2019	335,531,649	2,617,147	4,579,977	0	7,197,124	1,119,332	8,316,456
2019-2020	338,886,965	2,643,318	4,533,478	0	7,176,796	1,116,180	8,292,976
2020-2021	342,275,835	2,669,752	4,490,728	0	7,160,479	1,113,040	8,273,519
2021-2022	345,698,593	2,696,449	4,447,709	0	7,144,158	1,109,912	8,254,070
2022-2023	349,155,579	2,723,414	4,400,409	0	7,123,823	1,106,797	8,230,619
2023-2024	352,647,135	2,750,648	4,356,848	0	7,107,495	1,103,693	8,211,188
2024-2025	356,173,606	2,778,154	4,313,013	0	7,091,167	1,100,602	8,191,769
2025-2026	359,735,342	2,805,936	4,264,888	0	7,070,824	1,097,522	8,168,345
2026-2027	363,332,696	2,833,995	4,220,493	0	7,054,488	1,094,454	8,148,942
2027-2028	366,966,023	2,862,335	4,175,802	0	7,038,137	1,091,397	8,129,534

## Friona ISD Financial Impact of Chapter 313 Agreement

**TABLE IV- District Revenues with Mariah North West II, LLC without Chapter 313 Agreement:**

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	
2015-2016	339,663,713	2,649,377	5,651,296	0	8,300,673	1,171,045	9,471,719
2016-2017	816,920,350	6,371,979	4,489,179	0	10,861,158	1,039,328	11,900,485
2017-2018	987,409,553	7,701,795	713,593	236,746	8,178,642	1,561,272	9,739,914
2018-2019	954,331,649	7,443,787	456,382	1,126,819	6,773,350	1,378,038	8,151,387
2019-2020	921,286,965	7,186,038	451,306	868,859	6,768,485	1,350,111	8,118,596
2020-2021	888,275,835	6,928,552	449,686	611,666	6,766,571	1,322,184	8,088,754
2021-2022	855,298,593	6,671,329	462,574	355,302	6,778,601	1,294,253	8,072,855
2022-2023	822,355,579	6,414,374	447,677	221,352	6,640,699	1,266,316	7,907,015
2023-2024	789,447,135	6,157,688	597,747	197,031	6,558,403	1,238,368	7,796,771
2024-2025	756,573,606	5,901,274	843,511	172,767	6,572,018	1,210,404	7,782,422
2025-2026	723,735,342	5,645,136	1,084,984	148,565	6,581,555	1,182,418	7,763,973
2026-2027	727,332,696	5,673,195	1,324,509	131,400	6,866,304	1,214,259	8,080,563
2027-2028	730,966,023	5,701,535	1,279,829	135,364	6,846,000	1,215,488	8,061,488

**TABLE V – District Revenues with Mariah North West II, LLC with Chapter 313 Agreement:**

Fiscal Year	Total Taxable Value	M&O Taxes		Recapture Amount	Hold	M&O Taxes	Payment	Total District Revenue
		Comp Rate	State Revenue		Harmless Revenue	> Comp Rate	for District Losses	
2015-2016	339,663,713	2,649,377	5,651,296	0	8,300,673	1,171,045	0	9,471,719
2016-2017	816,920,350	6,371,979	4,489,179	0	10,861,158	1,039,328	0	11,900,485
2017-2018	352,209,553	2,747,235	812,684	79,777	3,480,141	568,063	5,691,710	9,739,914
2018-2019	355,531,649	2,773,147	4,420,857	0	7,194,004	1,116,689	0	8,310,693
2019-2020	358,886,965	2,799,318	4,374,358	0	7,173,676	1,113,588	0	8,287,264
2020-2021	362,275,835	2,825,752	4,331,608	0	7,157,359	1,110,498	0	8,267,858
2021-2022	365,698,593	2,852,449	4,288,589	0	7,141,038	1,107,420	0	8,248,457
2022-2023	369,155,579	2,879,414	4,241,289	0	7,120,703	1,104,352	0	8,225,055
2023-2024	372,647,135	2,906,648	4,197,728	0	7,104,375	1,101,296	0	8,205,671
2024-2025	376,173,606	2,934,154	4,153,893	0	7,088,047	1,098,250	0	8,186,297
2025-2026	723,735,342	5,645,136	4,062,443	0	9,707,579	814,456	0	10,522,035
2026-2027	727,332,696	5,673,195	1,324,509	131,400	6,866,304	1,214,259	0	8,080,563
2027-2028	730,966,023	5,701,535	1,279,829	135,364	6,846,000	1,215,488	0	8,061,488

# Friona ISD Financial Impact of Chapter 313 Agreement

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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. Those formula changes 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 funding formulas, some districts had the majority of the district's revenue losses in year three of the LAVA offset with additional state funding. The funding that was available to offset those revenue losses was called Additional State Aid for Tax Reduction (ASATR) and those funds were phased out as a result of legislation in the 82<sup>nd</sup> Legislative Session in 2011. This legislation eliminated the ASATR funding for fiscal year 2017-2018 and thereafter and can have a significant financial impact for LAVA agreements that have a year three in 2017-2018 or later. The loss of ASATR funding can again cause a district to experience a significant loss of funds in year three of the agreement and consequently cause the company to have revenue protection payments during that year that are similar to those experienced prior to 2006-2007.

# Friona ISD Financial Impact of Chapter 313 Agreement

## Payments in Lieu of Taxes

Assuming that the District and Mariah North West II, LLC mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Friona ISD by Mariah NW II, the projected amount of these payments over the life of the agreement is \$1,394,393 of the \$35.52 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	Friona ISD \$100/ADA	Mariah NW II's Share
<b>2015-2016</b>	0	108,879	(108,879)
<b>2016-2017</b>	0	108,607	(108,607)
<b>2017-2018</b>	152,130	108,336	43,795
<b>2018-2019</b>	5,699,968	108,065	5,591,903
<b>2019-2020</b>	5,362,176	107,795	5,254,381
<b>2020-2021</b>	5,026,750	107,525	4,919,225
<b>2021-2022</b>	4,690,596	107,256	4,583,340
<b>2022-2023</b>	4,351,348	106,988	4,244,360
<b>2023-2024</b>	4,013,920	106,721	3,907,199
<b>2024-2025</b>	3,675,764	106,454	3,569,310
<b>2025-2026</b>	2,547,318	106,188	2,441,130
<b>2026-2027</b>	0	105,922	(105,922)
<b>2027-2028</b>	0	105,657	(105,657)
<b>Totals</b>	<b>35,519,970</b>	<b>1,394,393</b>	<b>34,125,577</b>

# Friona ISD Financial Impact of Chapter 313 Agreement

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## Impact of Projected Student Growth On District Facilities

**TABLE VII – Campus Capacity and Available Growth**

<b>Campus Name</b>	<b>Grade Level</b>	<b># of Regular Classrooms</b>	<b>Building Capacity</b>	<b>Current Enrollment</b>	<b>Enrollment Growth Available</b>
<b>Friona Primary</b>	EE thru 1	18	360	279	81
<b>Friona Elementary</b>	2-5	33	660	327	333
<b>Friona Jr. High</b>	6-8	23	414	261	153
<b>Friona High</b>	9-12	31	558	341	217
<b>Total</b>		<b>105</b>	<b>1,992</b>	<b>1,208</b>	<b>784</b>

The building capacities are based on 20 students per classroom for the elementary campuses, 18 students for the middle and high school. Friona ISD is a early education through 12<sup>th</sup> grade district.

Mariah North West II, 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 ten full-time employees are expected. It is not known whether these would be new employees to the Friona 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 ten positions equates to 5 new students.

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

# Friona ISD Financial Impact of Chapter 313 Agreement

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## Conclusion

This Financial Impact Study displays that entering into a Limited Appraised Value Agreement with Mariah North West II, LLC, would be beneficial to both Mariah NW II and Friona ISD under the current school finance system.

Mariah North West II, 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, Mariah NW II is projected to benefit from a 90% tax savings over the first eleven year period of this agreement. Mariah NW II 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.

Friona ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Mariah NW II 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.