

**Summary of the District's Financial Impact  
of Chapter 313 Agreement  
with Salt Fork Wind, LP**

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# Clarendon ISD Financial Impact of Chapter 313 Agreement

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## **Summary of Clarendon ISD Financial Impact of the Limited Appraised Value Application from Salt Fork Wind, LP**

### **Introduction**

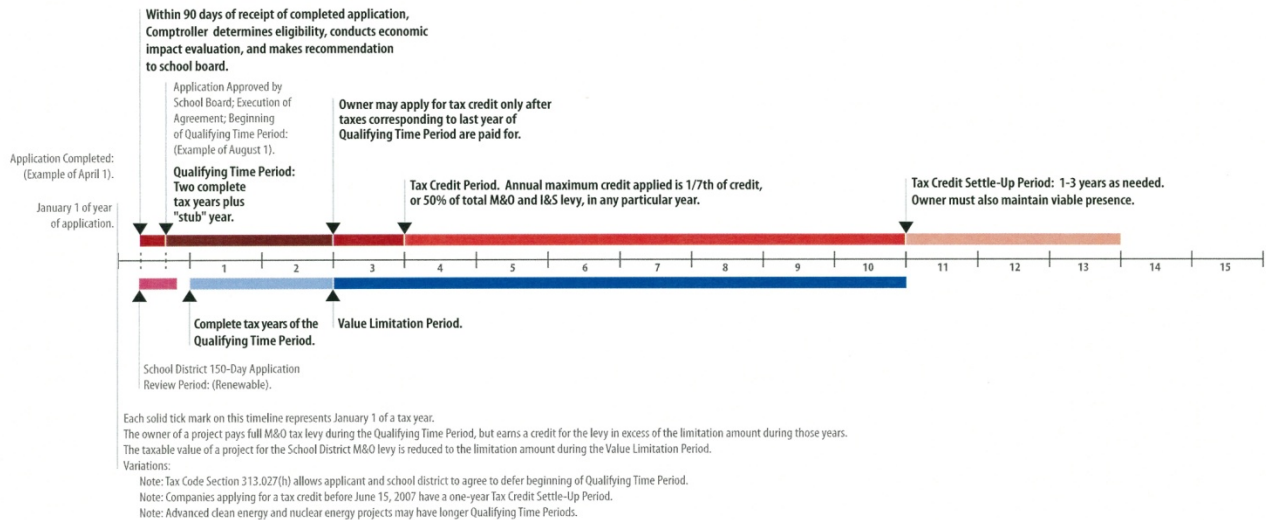
Salt Fork Wind, LP applied for a property value limitation from Clarendon Independent School District under Chapter 313 of the Tax Code. The application was submitted on November 14, 2013 and subsequently approved for consideration by the Clarendon ISD Board of Trustees. Salt Fork Wind, LP (“Salt Fork 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. Clarendon 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 Clarendon ISD has a minimum qualified investment amount of \$5 million. A qualifying entity’s taxable value would be

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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 Clarendon 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 Salt Fork 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 \$5,000,000 minimum qualified investment of Clarendon ISD.

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

Tax Year	Additional Value From Salt Fork Wind	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2015	0	n/a	0	0
Jan. 1, 2016	109,000,000	n/a	0	109,000,000
Jan. 1, 2017	103,550,000	(5,000,000)	98,550,000	5,000,000
Jan. 1, 2018	98,372,500	(5,000,000)	93,372,500	5,000,000
Jan. 1, 2019	93,453,875	(5,000,000)	88,453,875	5,000,000
Jan. 1, 2020	88,781,181	(5,000,000)	83,781,181	5,000,000
Jan. 1, 2021	84,342,122	(5,000,000)	79,342,122	5,000,000
Jan. 1, 2022	80,125,016	(5,000,000)	75,125,016	5,000,000
Jan. 1, 2023	76,118,765	(5,000,000)	71,118,765	5,000,000
Jan. 1, 2024	72,312,827	(5,000,000)	67,312,827	5,000,000
Jan. 1, 2025	68,697,186	n/a	0	68,697,186
Jan. 1, 2026	65,262,326	n/a	0	65,262,326
Jan. 1, 2027	61,999,210	n/a	0	61,999,210

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## Salt Fork Wind's Tax Benefit from Agreement

The projected amount of the net tax savings for Salt Fork Wind is \$7.528 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.

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

- The District held a tax ratification election and the study projects that it will maintain an M&O tax rate of \$1.17 for the life of this agreement. The M&O rates for 2016-2017 & 2025-2026 are projected to drop to \$.966 & \$.996 respectively, 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
2015-2016	1.170	0.000	0	0	n/a	0	0
2016-2017	0.966	0.000	1,052,940	0	n/a	0	0
2017-2018	1.170	0.000	1,211,535	1,153,035	n/a	(1,163,652)	(10,617)
2018-2019	1.170	0.000	1,150,958	1,092,458	29,250	0	1,121,708
2019-2020	1.170	0.000	1,093,410	1,034,910	29,250	0	1,064,160
2020-2021	1.170	0.000	1,038,740	980,240	29,250	0	1,009,490
2021-2022	1.170	0.000	986,803	928,303	29,250	0	957,553
2022-2023	1.170	0.000	937,463	878,963	29,250	0	908,213
2023-2024	1.170	0.000	890,590	832,090	29,250	0	861,340
2024-2025	1.170	0.000	846,060	787,560	29,250	0	816,810
2025-2026	0.996	0.000	684,224	0	684,224	0	684,224
2026-2027	1.170	0.000	763,569	0	115,666	0	115,666
2027-2028	1.170	0.000	725,391	0	0	0	0
<b>Totals</b>			<b>11,381,682</b>	<b>7,687,559</b>	<b>1,004,640</b>	<b>(1,163,652)</b>	<b>7,528,546</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 Clarendon 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 1.5% 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 .5% 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 Salt Fork Wind (Table III), the addition of Salt Fork Wind's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Salt Fork Wind's taxable values with a Chapter 313 Agreement (Table V).

**TABLE III – District Revenues *without* Salt Fork Wind, LP:**

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	134,619,726	1,233,117	2,541,399	0	3,774,516	769,105	4,543,621
2016-2017	136,639,022	1,251,613	2,503,525	0	3,755,138	765,112	4,520,250
2017-2018	138,688,608	1,270,388	2,465,361	0	3,735,748	761,141	4,496,890
2018-2019	140,768,937	1,289,443	2,426,913	0	3,716,356	757,194	4,473,550
2019-2020	142,880,471	1,308,785	2,388,167	0	3,696,952	753,269	4,450,221
2020-2021	145,023,678	1,328,417	2,353,857	0	3,682,274	749,366	4,431,640
2021-2022	147,199,033	1,348,343	2,314,513	0	3,662,856	745,485	4,408,341
2022-2023	149,407,018	1,368,568	2,274,866	0	3,643,434	741,627	4,385,061
2023-2024	151,648,124	1,389,097	2,234,907	0	3,624,003	737,790	4,361,794
2024-2025	153,922,846	1,409,933	2,194,628	0	3,604,561	733,976	4,338,537
2025-2026	156,231,688	1,431,082	2,158,762	0	3,589,844	730,182	4,320,026
2026-2027	158,575,164	1,452,548	2,117,839	0	3,570,387	726,410	4,296,798
2027-2028	160,953,791	1,474,337	2,076,475	0	3,550,812	722,660	4,273,472

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**TABLE IV- District Revenues *with* Salt Fork 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				
2015-2016	134,619,726	1,233,117	2,541,399	0	3,774,516	761,996	4,536,511
2016-2017	245,639,022	2,250,053	2,466,895	0	4,716,948	427,495	5,144,443
2017-2018	242,238,608	2,218,906	1,428,981	0	3,647,886	735,505	4,383,391
2018-2019	239,141,437	2,190,536	1,442,351	0	3,632,886	732,681	4,365,567
2019-2020	236,334,346	2,164,823	1,452,833	0	3,617,655	729,855	4,347,511
2020-2021	233,804,859	2,141,653	1,465,290	0	3,606,942	727,026	4,333,968
2021-2022	231,541,155	2,120,917	1,470,373	0	3,591,290	724,191	4,315,480
2022-2023	229,532,034	2,102,513	1,472,934	0	3,575,448	721,349	4,296,797
2023-2024	227,766,889	2,086,345	1,473,072	0	3,559,416	718,500	4,277,916
2024-2025	226,235,673	2,072,319	1,470,885	0	3,543,204	715,642	4,258,846
2025-2026	224,928,874	2,060,348	1,471,206	0	3,531,554	712,774	4,244,328
2026-2027	223,837,490	2,050,351	1,464,661	0	3,515,012	709,897	4,224,909
2027-2028	222,953,001	2,042,249	1,456,466	0	3,498,716	707,009	4,205,725

**TABLE V – District Revenues *with* Salt Fork 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
2016-2017	245,639,022	2,250,053	2,466,895	0	4,716,948	427,495	0	5,144,443
2017-2018	143,688,608	1,316,188	1,465,089	0	2,781,276	438,463	1,163,652	4,383,391
2018-2019	145,768,937	1,335,243	2,379,281	0	3,714,524	756,480	0	4,471,004
2019-2020	147,880,471	1,354,585	2,340,535	0	3,695,120	752,573	0	4,447,694
2020-2021	150,023,678	1,374,217	2,306,225	0	3,680,442	748,689	0	4,429,131
2021-2022	152,199,033	1,394,143	2,266,881	0	3,661,024	744,826	0	4,405,849
2022-2023	154,407,018	1,414,368	2,227,234	0	3,641,602	740,984	0	4,382,586
2023-2024	156,648,124	1,434,897	2,187,275	0	3,622,171	737,164	0	4,359,336
2024-2025	158,922,846	1,455,733	2,146,996	0	3,602,729	733,365	0	4,336,094
2025-2026	224,928,874	2,060,348	2,090,527	0	4,150,875	446,069	0	4,596,944
2026-2027	223,837,490	2,050,351	1,464,661	0	3,515,012	709,897	0	4,224,909
2027-2028	222,953,001	2,042,249	1,456,466	0	3,498,716	707,009	0	4,205,725



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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.

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## Payments in Lieu of Taxes

Assuming that the District and Salt Fork Wind, LP mutually agree in the LAVA that \$100 per student in average daily attendance (ADA) will be paid to Clarendon ISD by Salt Fork Wind, the projected amount of these payments over the life of the agreement is \$533,193 of the \$7.528 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	Clarendon ISD \$100/ADA	Salt Fork Wind's Share
<b>2015-2016</b>	0	42,260	(42,260)
<b>2016-2017</b>	0	42,048	(42,048)
<b>2017-2018</b>	(10,617)	41,838	(52,455)
<b>2018-2019</b>	1,121,708	41,629	1,080,079
<b>2019-2020</b>	1,064,160	41,421	1,022,740
<b>2020-2021</b>	1,009,490	41,214	968,276
<b>2021-2022</b>	957,553	41,008	916,545
<b>2022-2023</b>	908,213	40,803	867,410
<b>2023-2024</b>	861,340	40,599	820,741
<b>2024-2025</b>	816,810	40,396	776,414
<b>2025-2026</b>	684,224	40,194	644,030
<b>2026-2027</b>	115,666	39,993	75,673
<b>2027-2028</b>	0	39,793	(39,793)
<b>Totals</b>	<b>7,528,546</b>	<b>533,193</b>	<b>6,995,353</b>

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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>
Clarendon Elementary	K-5	20	400	261	139
Clarendon Jr. High	6-8	11	198	91	107
Clarendon High	9-12	16	288	126	162
	<b>Total</b>	<b>47</b>	<b>886</b>	<b>478</b>	<b>408</b>

The building capacities are based on 20 students per classroom for elementary and 18 students per grade level at secondary schools. Clarendon ISD is a kindergarten through 12<sup>th</sup> grade district.

Salt Fork Wind, LP 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 seven full-time employees are expected. It is not known whether these would be new employees to the Clarendon 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 seven positions equates to 4 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Clarendon 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 Salt Fork Wind, LP would be beneficial to both Salt Fork Wind and Clarendon ISD under the current school finance system.

Salt Fork Wind, LP 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, Salt Fork Wind is projected to benefit from a 82% tax savings over the first twelve year period of this agreement. Salt Fork 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.

Clarendon ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Salt Fork 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.