

**SUMMARY OF THE FINANCIAL IMPACT OF THE PROPOSED
ERATH COUNTY SOLAR, LLC. PROJECT
(APPLICATION #1599)
ON THE FINANCES OF
STEPHENVILLE INDEPENDENT SCHOOL DISTRICT
UNDER A REQUESTED
CHAPTER 313 APPRAISED VALUE LIMITATION**

**PREPARED BY
EDUCATION SERVICE CENTER, REGION 12
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Introduction

Erath County Solar, LLC (“Erath County Solar” or “Company”) has submitted an application to the Stephenville Independent School District (“SISD” or “District”) requesting a property value limitation on a proposed project, located within the school district boundaries, under Chapter 313 of the Texas Tax Code. The proposed project is a solar electric generation facility in Erath County, TX. The company estimates that the total investment in this project will be in excess of \$184 million.

Local government entities in Texas, including school districts, rely heavily on the ad valorem property tax to fund operations and building projects. Thus, the property tax burden that Texas imposes on individuals and business entities is higher compared to most other states. Seeking to encourage economic development and to attract large scale capital investment, the 77th Texas Legislature in 2001 enacted House Bill 1200 creating Tax Code Chapter 313, the Texas Economic Development Act. The act as amended by the legislature in 2007, 2009, and 2013 now grants eligibility to companies engaging in manufacturing, advanced clean energy projects, research and development, clean coal projects, renewable electric energy generation, electric power generation using integrated gasification combined cycle technology, nuclear electric power generation and a computer center used primarily in connection to one of the other categories, or a Texas Priority Project. Under the provisions of this law, the Stephenville Independent School District may grant a value limitation for maintenance and operation taxes in the amount of \$30 million dollars for a period of ten years.

The application calls for the project to be fully taxable for both M&O (maintenance and operation) and I&S (interest and sinking) during the 2023-24 school year. Beginning with the 2024-25 school year, the value of the project would be limited to \$30 million for M&O tax purposes and remain limited through the 2033-34 school year. The full value of the project will be taxable for debt service purposes using the I&S tax rate in all years of the agreement.

Revenue Protection Payment to Stephenville ISD -	\$1,405,023
Supplemental Payments to Stephenville ISD -	\$1,873,503
Total Revenue to Stephenville ISD -	\$3,278,526
Total Tax Savings to Company after all Payments -	\$4,007,087

School Finance Mechanics

The Texas system of public-school funding is based on the ad valorem property tax. Schools levy a tax rate for maintenance and operation (M&O) and interest and sinking (I&S) against a current year tax roll. As a result of House Bill 3, as passed by the 86th Texas Legislature, signed into law, and effective in relevant part, on September 1, 2019, State funding is calculated using current year property value, which is a significant change from prior law which has relied on prior year values as certified by the Comptroller's Property Tax Division (CPTD), since 1993. However, for the purposes of districts with Tax Code Chapter 313 agreements and in accordance with Sec. 48.256 – LOCAL SHARE OF PROGRAM COST (TIER I), Subsection d - *A revenue protection payment required as part of an agreement for a limitation on appraised value shall be based on the district's taxable value of property for the preceding tax year.*

Texas school districts are funded by some combination of local ad valorem property taxes and state aid. Most of the money that a school district generates through the funding formulas is generated in Tier 1. Local M&O collections at the compressed tax rate generate Tier I funding. In 2020-21, a school district's Tier I revenue is the greater of the adjusted minimum target revenue amount or the state share of Tier 1 plus local M&O collections at the compressed rate. The Tier 1 formulas start with a Basic Allotment per student of \$6,160. Funding calculations use the number of students in average daily attendance, the number of students who participate in categorical/special programs, and adjustments for size, sparsity, and location determine a Total Cost of Tier 1. A Local Fund Assignment is determined by multiplying the district's compressed tax rate by the current year property value. This formula determines the local ad valorem property taxes the district must collect in order to satisfy the district's share of the Tier 1 cost. School districts that are relatively property wealthy per student fund most of the Total Cost of Tier 1 with local property taxes, while school districts that are relatively property poor per student receive most of the Total Cost of Tier 1 from state aid.

Stephenville ISD is a relatively property low wealth district per student and so most of its M&O revenue is not generated from local ad valorem property taxes. In attempting to provide some degree of funding equity among school districts, the formulas provide guaranteed yields for both Tier I (formula funding) and for Tier II (enrichment). For those districts that generate local revenue in excess of entitlement amounts, the excess revenue is recaptured. Under prior law, recapture was a function of excess property wealth per weighted student. The system continues to rely on both golden (greater of 96th percentile of wealth up to 160% of basic allotment) and copper (equalized up to \$49.28/WADA) enrichment pennies (Tier II tax rate). Under HB 3, districts can access up to 8 golden pennies. Copper pennies will be compressed in manner that generates the same revenue for the compressed number of pennies as were taxed under old law.

SISD currently has property wealth per weighted ADA that is less than the second equalized wealth level at \$439,438 per weighted ADA. Under prior law, SISD was considered a Chapter 41 district and might have paid recapture. The implementation of HB 3, altered Stephenville's status in terms of being required to pay recapture. Erath County Solar is requesting that the value of the solar electric generation facility be limited to \$30,000,000 in years one through ten of the agreement, corresponding to the 2024-25 school year through the 2033-34 school year. The full value of the project would be subject to interest and sinking (I&S) taxes levied by Stephenville ISD in all years of the agreement.

Underlying Assumptions

A forecast of the financial impact that the proposed value limitation will have on SISD's future revenue is critical information that will be very useful to the district when making the decision to grant the limitation and for the district's long range financial planning process. Analysis for this application covers the 2023-24 through the 2038-39 school years.

The Revenue Protection Clause of the proposed agreement calls for the school district to be held harmless against any potential state and local maintenance and operation revenue losses as a result of the value limitation agreement. Revenue protection calculations are to be made using whatever property tax laws and school funding formulas are in place at that time in years one through ten of the agreement. This stipulation is a statutory requirement under Section 313.027 of the Tax Code.

The approach used in this report was to predict 16 years of base data including average daily attendance, M&O and I&S tax rates, maintenance and operation (M&O) tax collections and current year (CAD) values and prior year (CPTD) values for each year of the agreement. For the purposes of this analysis, final 2019 CPTD values were used as well as and TEA estimates of 2020 T2 values. These values have been included in the base data illustrated in **Table 1**.

To isolate the impact of the value limitation on the District's finances over this 16 year agreement, average daily attendance and maintenance and operation tax rates were held constant at levels that were projected to exist in the 2020-21 school year. An ADA of 3,378.68, a WADA of 4,778.69 and a 2021 compressed M&O tax rate of .9094 were used for each year of the forecast. A tax collection rate of 100% is assumed in all of the calculations used in this analysis. Comptroller preliminary values of 2020 T2 values were used in place of final T2 values which will not be available until summer of 2021. This value was used as the basis for subsequent current year (CAD) values in this report. Final 2019 T1, T2, T3 and T4 Comptroller Property Tax Division (CPTD) values, certified to school districts in late July, 2020, were used as a basis for predicting prior year (CPTD) values for each of the agreement years.

**Table 1 Base District Information
Stephenville ISD and Erath County Solar, LLC**

Year of Agreement	School Year	ADA	WADA	Assumed M&O Tax Rate	Assumed I&S Tax Rate	CAD Value No Limit	CAD Value with Limitation
QTP1	2023-24	3,379	4,779	\$0.9094	\$0.2828	\$2,125,439,791	\$2,125,439,791
QTP2/L1	2024-25	3,379	4,779	\$0.9094	\$0.2828	\$2,284,439,791	\$2,129,939,791
L2	2025-26	3,379	4,779	\$0.9094	\$0.2828	\$2,267,864,791	\$2,129,939,791
L3	2026-27	3,379	4,779	\$0.9094	\$0.2828	\$2,251,294,791	\$2,129,939,791
L4	2027-28	3,379	4,779	\$0.9094	\$0.2828	\$2,234,724,791	\$2,129,939,791
L5	2028-29	3,379	4,779	\$0.9094	\$0.2828	\$2,218,154,791	\$2,129,939,791
L6	2029-30	3,379	4,779	\$0.9094	\$0.2828	\$2,201,584,791	\$2,129,939,791
L7	2030-31	3,379	4,779	\$0.9094	\$0.2828	\$2,185,014,791	\$2,129,939,791
L8	2031-32	3,379	4,779	\$0.9094	\$0.2828	\$2,168,444,791	\$2,129,939,791
L9	2032-33	3,379	4,779	\$0.9094	\$0.2828	\$2,151,874,791	\$2,129,939,791
L10	2033-34	3,379	4,779	\$0.9094	\$0.2828	\$2,137,144,791	\$2,129,939,791
MVP1	2034-35	3,379	4,779	\$0.9094	\$0.2828	\$2,137,134,791	\$2,137,134,791
MVP2	2035-36	3,379	4,779	\$0.9094	\$0.2828	\$2,137,124,791	\$2,137,124,791
MVP3	2036-37	3,379	4,779	\$0.9094	\$0.2828	\$2,137,114,791	\$2,137,114,791
MVP4	2037-38	3,379	4,779	\$0.9094	\$0.2828	\$2,137,104,791	\$2,137,104,791
MVP5	2038-39	3,379	4,779	\$0.9094	\$0.2828	\$2,137,094,791	\$2,137,094,791

The proposed agreement calls for Stephenville ISD to be held harmless against potential state and local revenue losses that might occur as a result of the value limitation being in effect for any given year of the agreement. In order to predict when and if these revenue losses may occur, a state and local revenue projection for the 2020-2021 school year was completed to serve as base line data and is displayed in **Table 2**. In any year of the limitation period where total state and or local funding with the full project value exceeds the total state and local funding produced when the limited value is used, a Revenue Protection Payment is indicated for that year. The results of these calculations are illustrated in Table 3.

Financial Impact on the School District

Utilizing the assumptions and methodology described above, total maintenance and operation revenue was estimated for each year of the agreement. **Table 3**, which summarizes the difference between the two models, indicates that there will be a total revenue loss of \$1.405 million over the course of the agreement. The revenue loss by the district, due to the agreement, is estimated to be mostly in the first year of the value limitation period.

Table 2		Stephenville ISD	
		2020-2021 Projected Summary of Finances	
Funding Elements			
Students			
	Refined Average Daily Attendance (ADA)		3,378.678
	Weighted ADA (WADA)		4,778.686
Property Values			
	2019 State Certified Property Value (prior tax year)		\$1,947,167,550
	2020 Certified Property Value (current tax year)		\$2,099,939,791
Tax Rates and Collections			
	2020 M&O Tax Rate		0.9392
	Maximum Compressed Tax Rate		0.8792
	2020-2021 M&O Tax Collections		\$19,722,635
	2020 I&S Tax Rate		0.2829
	2020-2021 I&S Tax Collections		\$5,940,730
	2020-2021 Total Tax Collections		\$25,663,364
	2020-2021 Total Tax Levy		\$26,176,631
Funding Components			
	District Basic Allotment		\$6,160
	Available School Fund (ASF) ADA		\$3,578
	Per Capita Rate		\$486.922
Tier I Funding			
	Total Cost of Tier I		\$29,597,251
	Less Local Fund Assignment		(\$18,462,671)
	State Share of Tier I		\$9,392,211
	Per Capita Distribution from Available School Fund (ASF)		(\$1,742,369)
Foundation School Program (FSP) State Funding			
	FSP State Share of Tier One		\$9,392,211
	Tier Two		\$1,544,056
	Other Programs		\$0
	Total FSP Operations Funding		\$10,936,267
State Aid Summary			
M&O State Aid			
	Foundation School Fund (FSP)		\$10,936,267
	Available School Fund (ASF)		\$1,742,369
I&S State Aid			
	Existing Debt Allotment (EDA)		\$0
	Instructional Facilities Allotment (IFA) (Bond)		\$0
	Instructional Facilities Allotment (IFA) (Lease-Purchase)		\$0
	Additional State Aid for Homestead Exemption (ASAHE) for Facilities		\$30,977
	TOTAL FSP/ASF STATE AID		\$12,709,613
	Local Revenue in Excess of Entitlement		(\$0)

Financial Impact on the Taxpayer

The terms of the proposed agreement call for the maintenance and operation (M&O) value of the project to be limited to \$30 million starting in school year 2024-25 and remaining limited through school year 2033-34. The potential gross and net tax savings to Erath County Solar are shown in Table 3. As stated earlier, an M&O tax rate of \$.9094 and a collection rate of 100% is used throughout the calculations in this report. Table 3 shows gross tax savings due to the limitation of \$7.29 million over the length of the contract. Net tax savings are estimated to be \$5.88 million. To estimate supplemental payments to the school district of \$100 per ADA, a growth model was applied to the base ADA of 3,378.68, which was the projected ADA for SISD for the 2020-21 school year. SISD's growth rate for the last 10 years has averaged less than 1% which is also reflected by demographic studies.

Facilities Funding Impact on the District

Reports submitted by Erath County Solar show the full value of the property being depreciated over time. Even so, the full value of the project will be available to the district for I&S taxes and will enhance the district's ability to service current and future debt obligations. While the project is expected to provide additional employment opportunities in the area, the impact on student enrollment is predicted to be minimal.

Conclusion

The Erath County Solar project proposed in this application will benefit the community, the district, SISD, and the taxpayer, Erath County Solar. The community will receive economic development, the taxpayer will enjoy savings on property taxes and the district will be held harmless from revenue loss due to the provisions of the agreement. The district will also enjoy an increased value available for I&S tax collections dedicated to debt service that can be leveraged to provide first class facilities for faculty and students.

Remember that the Texas Legislature could take additional action that could potentially change the impact of this agreement on the finances of Stephenville ISD and result in estimates that differ significantly from the estimates presented in this analysis. Some of the factors that could significantly change these estimates are legislative or administrative changes by the Texas Legislature, the Texas Education Agency or the Comptroller of Public Accounts. Those changes could contain changes to the school finance formulas, property value appraisals and tax exemptions. Other factors which could change, and will impact the estimates of this agreement, include changes to property values, district tax rates and student enrollment.

**Table 3 Estimated Financial Impact
Stephenville ISD and Erath County Solar, LLC Agreement #1599**

Year of Agreement	School Year	Project Value	Estimated Taxable Value	Value Savings	Assumed M&O Tax Rate	Taxes Before Value Limit	Taxes after Value Limit	Tax Savings @ Projected M&O Rate	Tax Benefit to Company Before Revenue Protection	School District Revenue Losses	Estimated Net Tax Benefits	School District Benefit \$100 per ADA	Company Tax Benefit	Stephenville Benefit @ 45% of Tax Savings	Company Benefit @ 55% of Tax Savings
QTP1	2023-24	\$25,500,000	\$25,500,000	\$0	0.9094	\$231,897	\$231,897	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
QTP2/L1	2024-25	\$184,500,000	\$30,000,000	\$154,500,000	0.9094	\$1,677,843	\$272,820	\$1,405,023	\$1,405,023	-\$1,405,023	\$0	\$337,868	-\$337,868	\$632,260	\$772,763
L2	2025-26	\$167,925,000	\$30,000,000	\$137,925,000	0.9094	\$1,527,110	\$272,820	\$1,254,290	\$1,254,290	\$0	\$1,254,290	\$337,868	\$916,422	\$564,430	\$689,859
L3	2026-27	\$151,355,000	\$30,000,000	\$121,355,000	0.9094	\$1,376,422	\$272,820	\$1,103,602	\$1,103,602	\$0	\$1,103,602	\$337,868	\$765,735	\$496,621	\$606,981
L4	2027-28	\$134,785,000	\$30,000,000	\$104,785,000	0.9094	\$1,225,735	\$272,820	\$952,915	\$952,915	\$0	\$952,915	\$337,868	\$615,047	\$428,812	\$524,103
L5	2028-29	\$118,215,000	\$30,000,000	\$88,215,000	0.9094	\$1,075,047	\$272,820	\$802,227	\$802,227	\$0	\$802,227	\$337,868	\$464,359	\$361,002	\$441,225
L6	2029-30	\$101,645,000	\$30,000,000	\$71,645,000	0.9094	\$924,360	\$272,820	\$651,540	\$651,540	\$0	\$651,540	\$337,868	\$313,672	\$293,193	\$358,347
L7	2030-31	\$85,075,000	\$30,000,000	\$55,075,000	0.9094	\$773,672	\$272,820	\$500,852	\$500,852	\$0	\$500,852	\$337,868	\$162,984	\$225,383	\$275,469
L8	2031-32	\$68,505,000	\$30,000,000	\$38,505,000	0.9094	\$622,984	\$272,820	\$350,164	\$350,164	\$0	\$350,164	\$337,868	\$12,297	\$157,574	\$192,590
L9	2032-33	\$51,935,000	\$30,000,000	\$21,935,000	0.9094	\$472,297	\$272,820	\$199,477	\$199,477	\$0	\$199,477	\$337,868	-\$138,391	\$89,765	\$109,712
L10	2033-34	\$37,205,000	\$30,000,000	\$7,205,000	0.9094	\$338,342	\$272,820	\$65,522	\$65,522	\$0	\$65,522	\$337,868	-\$272,346	\$29,485	\$36,037
MVP1	2034-35	\$37,195,000	\$37,195,000	\$0	0.9094	\$338,251	\$338,251	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
MVP2	2035-36	\$37,185,000	\$37,185,000	\$0	0.9094	\$338,160	\$338,160	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
MVP3	2036-37	\$37,175,000	\$37,175,000	\$0	0.9094	\$338,069	\$338,069	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
MVP4	2037-38	\$37,165,000	\$37,165,000	\$0	0.9094	\$337,979	\$337,979	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
MVP5	2038-39	\$37,155,000	\$37,155,000	\$0	0.9094	\$337,888	\$337,888	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTALS						\$11,936,057	\$4,650,444	\$7,285,613	\$7,285,613	-\$1,405,023	\$5,880,590	\$3,378,678	\$2,501,912	\$3,278,526	\$4,007,087

*Note: School District Revenue-Loss estimates are subject to change based on various factors, including legislative and Texas Education Agency administrative changes to school finance formulas, year-to-year project appraisal values, and changes in school district tax rates. Additional information on the assumptions used in preparing these estimates is provided in the narrative of this Report.