

**SUMMARY OF THE FINANCIAL IMPACT OF THE PROPOSED
BRUSH COUNTRY SOLAR PROJECT, LLC PROJECT
(APPLICATION # 1618)
ON THE FINANCES OF
NIXON-SMILEY INDEPENDENT SCHOOL DISTRICT
UNDER A REQUESTED
CHAPTER 313 APPRAISED VALUE LIMITATION**

**PREPARED BY
JIGSAW, SCHOOL FINANCE SOLUTIONS, LLC
November 8, 2021**

Introduction

Brush Country Solar Project, LLC has submitted an application to the Nixon-Smiley Independent School 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 located in Gonzales County, TX for the purpose of renewable energy electric generation. The company estimates that the total investment in this project will be in excess of \$112 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 Nixon-Smiley ISD may grant a value limitation for maintenance and operation taxes in the amount of \$25 million dollars for a period of ten years.

The application calls for the project to be taxable for both M&O (maintenance and operation) and I&S (interest and sinking) starting with the 2022-23 school year. Beginning with the 2024-25 school year, the value of the project would be limited to \$25 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.

Projected Revenue Protection Payment to the district -	\$849,194
Projected Supplemental Payments to the district -	\$1,413,000
Projected Total Revenue to the district per agreement -	\$2,262,194
Projected Total Tax Savings to Company after all Payments -	\$2,296,588

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 I. Local M&O collections at the compressed tax rate generate Tier I funding. A school district's Tier I revenue is the greater of the adjusted minimum target revenue amount or the state share of Tier I plus local M&O collections at the compressed rate. The Tier I 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 I. 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 I cost. School districts that are relatively property wealthy per student fund most of the Total Cost of Tier I with local property taxes, while school districts that are relatively property poor per student receive most of the Total Cost of Tier I from state aid.

Nixon-Smiley ISD is not considered a property wealthy district from the perspective of wealth per student, so Nixon-Smiley ISD M&O revenue is split between funding generated from local ad valorem property taxes and state funding. 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 (equalized up to \$98.56/WADA) and copper (equalized up to \$49.28/WADA) enrichment pennies (Tier II tax rate). Under HB 3 as modified by HB 1525, 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.

Table 1 Base District Information

Nixon-Smiley ISD, Brush Country Solar Project LLC, Project # 1618

Year of Agreement	School Year	ADA	WADA	Assumed M&O Tax Rate	Assumed I&S Tax Rate	Property Value Without Project	Project Values	Property Value No Limit	Property Value With Limit	Property Value with Project per WADA	Property Value with Limitation per WADA
0	2020-21	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$0	\$851,768,454	\$851,768,454	\$481,386	\$481,386
0	2021-22	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$0	\$851,768,454	\$851,768,454	\$481,386	\$481,386
QTP 1	2022-23	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$0	\$851,768,454	\$851,768,454	\$481,386	\$481,386
QTP 2	2023-24	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$0	\$851,768,454	\$851,768,454	\$481,386	\$481,386
L1	2024-25	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$112,240,000	\$964,008,454	\$876,768,454	\$544,819	\$495,515
L2	2025-26	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$103,260,800	\$955,029,254	\$876,768,454	\$539,744	\$495,515
L3	2026-27	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$94,281,600	\$946,050,054	\$876,768,454	\$534,670	\$495,515
L4	2027-28	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$85,302,400	\$937,070,854	\$876,768,454	\$529,595	\$495,515
L5	2028-29	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$76,323,200	\$928,091,654	\$876,768,454	\$524,520	\$495,515
L6	2029-30	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$67,344,000	\$919,112,454	\$876,768,454	\$519,446	\$495,515
L7	2030-31	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$58,364,800	\$910,133,254	\$876,768,454	\$514,371	\$495,515
L8	2031-32	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$49,385,600	\$901,154,054	\$876,768,454	\$509,296	\$495,515
L9	2032-33	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$40,406,400	\$892,174,854	\$876,768,454	\$504,222	\$495,515
L10	2033-34	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$31,427,200	\$883,195,654	\$876,768,454	\$499,147	\$495,515
MVP1	2034-35	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$22,448,000	\$874,216,454	\$874,216,454	\$494,072	\$494,072
MVP2	2035-36	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$22,448,000	\$874,216,454	\$851,768,454	\$494,072	\$481,386
MVP3	2036-37	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$22,448,000	\$874,216,454	\$851,768,454	\$494,072	\$481,386
MVP4	2037-38	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$22,448,000	\$874,216,454	\$851,768,454	\$494,072	\$481,386
MVP5	2038-39	942	1,769	\$0.9734	\$0.1766	\$851,768,454	\$22,448,000	\$874,216,454	\$851,768,454	\$494,072	\$481,386

Nixon-Smiley ISD does not have a property wealth per weighted ADA that exceeds the second equalized wealth level per weighted ADA. Under prior law, Nixon-Smiley ISD was not considered a Chapter 41 district and would not have paid recapture. The implementation of HB 3 as modified by HB 1525, is not expected to alter Nixon-Smiley ISD's status in terms of being required to pay recapture. Brush Country Solar Project, LLC is requesting that the value of the renewable energy electric generation facility be limited to \$25,000,000 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 Nixon-Smiley ISD in all years of the agreement.

Underlying Assumptions

A forecast of the financial impact the proposed value limitation agreement will have on Nixon-Smiley ISD'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 2021-22 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 the definition of lost M&O revenue as found in section 1.2 of the negotiated definitions of the agreement, along with property tax laws and school funding formulas in place 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 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 2020 CPTD values were used as well as TEA estimates of 2021 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 the agreement, average daily attendance and maintenance and operation tax rates were held constant at levels that were projected to exist in the 2021-22 school year. An ADA of 942, a WADA of 1,729 and a 2021 compressed M&O tax rate of \$0.9734 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. 2021 CAD certified values were used in place of final T2 values which will not be available until summer of 2022. This value was used as the basis for subsequent current year (CAD) values in this report. Final 2020 T1, T2, T3 and T4 Comptroller Property Tax Division (CPTD) values, certified to school districts in late July, 2021, were used as a basis for predicting prior year (CPTD) values for each of the agreement years. The proposed agreement calls for Nixon-Smilely 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 2021-2022 school year was completed to serve as base line data and is displayed in **Table 2**. In any year of the limitation period where revenue loss occurs, as defined by the terms of the agreement, 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 uncollected taxes as the definition of lost M&O revenue and the assumptions/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 \$2.262 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 **2021-2022 Projected Summary of Finances**
Nixon-Smiley ISD, Brush Country Solar Project LLC, Project # 1618

Funding Elements		
Students		
Refined Average Daily Attendance (ADA)		941.520
Weighted ADA (WADA)		1,769.410
Property Values		
2020 State Certified Property Value (prior tax year)		\$1,115,018,822
2021 State Certified Property Value (current tax year)		\$851,768,454
Tax Rates and Collections		
2021 M&O Tax Rate (current tax year)		0.9734
2021 (current tax year) Tier 1 M&O Tax Rate		0.9134
Maximum Compressed Tax Rate		0.9134
2021-2022 (current school year) M&O Tax Collections		8,223,408
2021 (current tax year) I&S Tax Rate		0.1766
2021-2022 (current school year) I&S Tax Collections		1,491,939
2021-2022 (current school year) Total Tax Collections		9,715,347
Funding Components		
District Basic Allotment * TR / MCR		\$6,160
ASF ADA		\$939.688
Per Capita Rate		\$402.428
Tier I Allotments		
Total Cost of Tier I		\$11,064,108
Local Fund Assignment		\$7,780,053
Per Capita Distribution from Available School Fund (ASF)		\$372,201
Foundation School Program (FSP) State Funding		
FSP State Share of Tier I		\$2,911,854
Tier II		\$530,836
Other Programs		\$0
Total FSP Operations Funding		\$3,442,690
State Aid by Fund Code / Object Code - Funding Source		
M&O State Aid		
199/5812 - Foundation School Fund		\$3,442,690
199/5811 - Available School Fund		\$372,201
I&S State Aid		
599/5829 - EDA		\$0
599/5829 - Instructional Facilities Allotment (Bond)		\$0
199/5829 - Instructional Facilities Allotment (Lease Purchase)		\$0
Additional State Aid for Homestead Exemption for Facilities		\$10,124
TOTAL FSP/ASF STATE AID		\$3,825,015
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 \$25 million starting in school year 2024-25 and remaining limited through school year 2033-34. The potential gross and net tax savings to Brush Country Solar Project, LLC are shown in Table 3. As stated earlier, an M&O tax rate of \$0.9734 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 \$3.526 million over the length of the contract. Net tax savings are estimated to be \$2.296 million. To estimate supplemental payments to the school district of \$100 per ADA, a growth model was applied to the base ADA of 942, which was the ADA at the end of the second six seeks for Nixon-Smiley ISD for the 2021-22 school year.

Facilities Funding Impact on the District

Reports submitted by Brush Country Solar Project, LLC 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 Brush Country Solar Project, LLC project proposed in this application will benefit the community, the district, Nixon-Smiley ISD, and the taxpayer, Brush Country Solar Project, LLC. 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.

It should be noted; the Texas Legislature could take additional action that could potentially change the impact of this agreement on the finances of Nixon-Smiley ISD and result in estimates that differ significantly from the estimates presented in this analysis. Some of the factors that could significantly alter these estimates are legislative or administrative action by the Texas Legislature, the Texas Education Agency or the Comptroller of Public Accounts. Those actions 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 increases or decreases to property values, district tax rates and student enrollment.

Table 3 Estimated Financial Impact
Nixon-Smiley ISD, Brush Country Solar Project LLC, Project # 1618

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 Benefit to Company Before Revenue Protection	School District Revenue Losses	Estimated Net Tax Benefits	School District Benefit \$100 per ADA	Company Tax Benefit
0	2020-21	\$0	\$0	\$0	0.9734	\$0	\$0	\$0	\$0	\$0	\$0	\$0
0	2021-22	\$0	\$0	\$0	0.9734	\$0	\$0	\$0	\$0	\$0	\$0	\$0
QTP 1	2022-23	\$0	\$0	\$0	0.9734	\$0	\$0	\$0	\$0	\$0	\$94,200	-\$94,200
QTP 2	2023-24	\$0	\$0	\$0	0.9734	\$0	\$0	\$0	\$0	\$0	\$94,200	-\$94,200
L1	2024-25	\$112,240,000	\$25,000,000	\$87,240,000	0.9734	\$1,092,544	\$243,350	\$849,194	-\$849,194	\$0	\$0	\$0
L2	2025-26	\$103,260,800	\$25,000,000	\$78,260,800	0.9734	\$1,005,141	\$243,350	\$761,791	\$0	\$761,791	\$188,400	\$573,391
L3	2026-27	\$94,281,600	\$25,000,000	\$69,281,600	0.9734	\$917,737	\$243,350	\$674,387	\$0	\$674,387	\$94,200	\$580,187
L4	2027-28	\$85,302,400	\$25,000,000	\$60,302,400	0.9734	\$830,334	\$243,350	\$586,984	\$0	\$586,984	\$94,200	\$492,784
L5	2028-29	\$76,323,200	\$25,000,000	\$51,323,200	0.9734	\$742,930	\$243,350	\$499,580	\$0	\$499,580	\$94,200	\$405,380
L6	2029-30	\$67,344,000	\$25,000,000	\$42,344,000	0.9734	\$655,526	\$243,350	\$412,176	\$0	\$412,176	\$94,200	\$317,976
L7	2030-31	\$58,364,800	\$25,000,000	\$33,364,800	0.9734	\$568,123	\$243,350	\$324,773	\$0	\$324,773	\$94,200	\$230,573
L8	2031-32	\$49,385,600	\$25,000,000	\$24,385,600	0.9734	\$480,719	\$243,350	\$237,369	\$0	\$237,369	\$94,200	\$143,169
L9	2032-33	\$40,406,400	\$25,000,000	\$15,406,400	0.9734	\$393,316	\$243,350	\$149,966	\$0	\$149,966	\$94,200	\$55,766
L10	2033-34	\$31,427,200	\$25,000,000	\$6,427,200	0.9734	\$305,912	\$243,350	\$62,562	\$0	\$62,562	\$94,200	-\$31,638
MVP1	2034-35	\$22,448,000	\$22,448,000	\$0	0.9734	\$218,509	\$218,509	\$0	\$0	\$0	\$94,200	-\$94,200
MVP2	2035-36	\$22,448,000	\$22,448,000	\$0	0.9734	\$218,509	\$218,509	\$0	\$0	\$0	\$94,200	-\$94,200
MVP3	2036-37	\$22,448,000	\$22,448,000	\$0	0.9734	\$218,509	\$218,509	\$0	\$0	\$0	\$94,200	-\$94,200
MVP4	2037-38	\$22,448,000	\$22,448,000	\$0	0.9734	\$218,509	\$218,509	\$0	\$0	\$0	\$0	\$0
MVP5	2038-39	\$22,448,000	\$22,448,000	\$0	0.9734	\$218,509	\$218,509	\$0	\$0	\$0	\$0	\$0
TOTALS						\$8,084,827	\$3,526,044	\$4,558,783	-\$849,194	\$3,709,588	\$1,413,000	\$2,296,588

*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.