

# Updated Financial Analysis for G-PISD

Impact of Current Chapter 313 Agreements

Addition of ExxonMobil Projects With and Without New Chapter 313 Agreements

2016-17 through 2037-38 School Years

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# Outline

- School Finance Basics
- Chapter 313 Basics
- G-PISD Chapter 313 Projects

# School Finance Basics

# School Finance Basics

- Texas public schools are funded from several key sources (2016-17):
  - Local property taxes: \$26.2 billion
  - State aid: \$19.6 billion
  - Federal funds: \$5.1 billion
- State/Local Shares (excluding Federal): 42.7% State/57.3% Local
- State aid and local property taxes are “equalized”
  - The more a school district collects in property taxes, the smaller the share of state aid it receives
  - High-wealth school districts are required to send some of their local taxes to the state to reduce the impact of their wealth advantage over property-poor school districts—commonly called “recapture” or “Robin Hood”

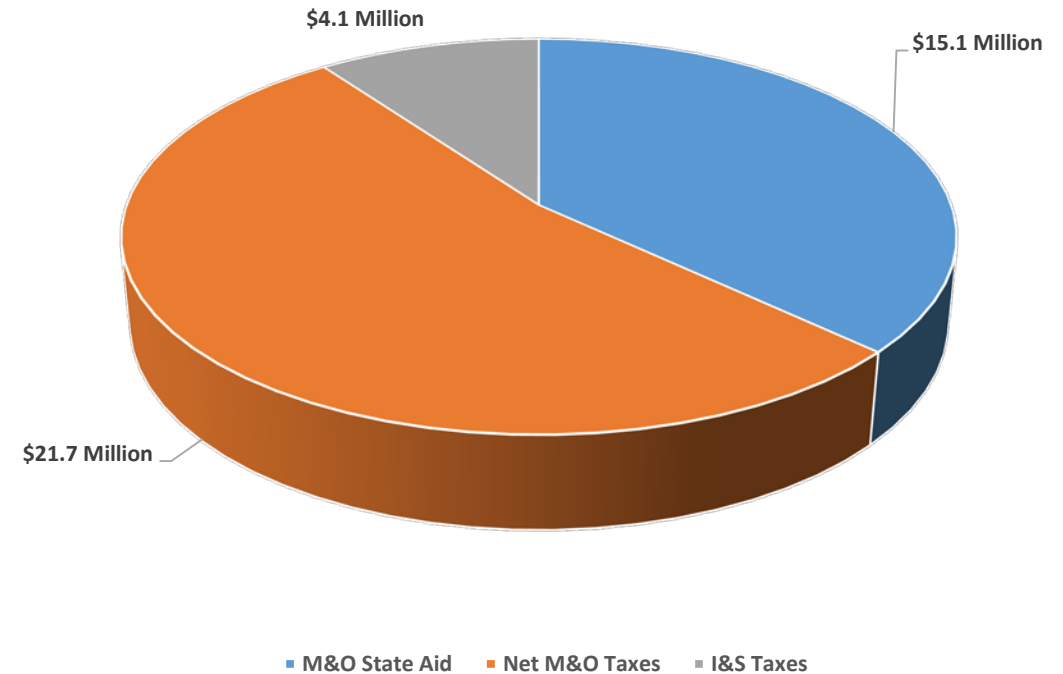
# Local School Taxes

- School property tax rate is made up of two components
  - Maintenance-and-operations (M&O) tax rate: funds school district operations, along with state aid
    - Maximum M&O tax rate is \$1.17 per \$100 of taxable value
    - Used to fund school district operations: teacher salaries, utility bills, transportation, etc.
    - Subject to recapture for the first \$1.00 and \$1.07-\$1.17 portion of the M&O tax rate
  - Interest and sinking (I&S) fund tax rate for voter-approved bonds: may be as much as \$0.50 to pay off bonds (higher if needed for unlimited tax bonds)
    - Not subject to recapture
- G-PISD current tax rates:
  - M&O tax rate is \$1.17
  - I&S tax rate for bonds is \$0.18
- G-PISD is not currently paying recapture—expected by 2018-19 school year under current law and recent estimates

# G-PISD Taxes and State Aid: 2016-17 School Year

- Major revenue sources
  - M&O state aid: \$15.1 million
  - M&O taxes: \$21.7 million
  - I&S taxes: \$4.1 million

Major Revenue Sources (\$40.9 Million Total)



# Major Tax Base Growth Increases Complexity

- Major capital investment projects inject complexity in a school district's financial planning—current state formula structure (with its schedule always one year behind and annual tax rollback calculations) can be cumbersome from year-to-year
- Unprecedented value changes will require a flexible response
  - Values will change—project timing, valuation differences, other factors
  - Unanticipated changes in the school finance system over the next two decades
  - Recapture will be an issue soon, as early as 2018-19 but especially by 2027-28
  - Annual M&O tax rollback calculations could vary significantly under current law
- Variety of responses will be needed
  - Saving money for future years will be needed in some cases
  - Funding operations out of fund balance and hold-harmless payments in other years
  - Future rollback elections could be needed to maintain a stable M&O tax rate

# Chapter 313 Basics



# Chapter 313 Property Value Limitations

- State economic development incentive program established by the Texas Economic Development Act in 2001—Chapter 313 of the Tax Code
- Applies only to school districts
- Cities, counties and other local governments may offer tax abatements through Chapter 312 of the Tax Code
- Since the program was approved, there are 311 active value limitation agreements that have been approved by school districts
- \$145.7 billion estimated state-wide increase in capital investment for Chapter 313 projects
- 6,562 qualifying jobs for the Chapter 313 agreements approved to date

# Mechanics of Chapter 313 Property Value Limitation

- Application is reviewed by the State Comptroller's Office, which issues a Certificate for the project that indicates it meets all state standards
- School Board approval of findings and agreement is required
- Limitation applies to M&O taxes for a ten-year period
  - Taxpayer pays taxes on \$30 million minimum limitation in the case of GPISD
  - Neither school district(s) nor taxpayers 'lose' anything: Reduction in M&O tax collections is made up by school funding formulas or hold-harmless payments by the company
- Company pays taxes on full project value for I&S taxes for bonds
- District and company may negotiate supplemental payments of up to \$100 per student per year under the agreement for the district's use

# More on Chapter 313 (cont'd)

- Chapter 313 agreements are not a “giveaway” of local tax dollars
  - School districts are reimbursed for reduced local taxes by increased state aid, reduced recapture costs and/or hold-harmless payments from companies
  - Companies still pay taxes on limitation amount and full I&S taxes
- State-endorsed program to encourage major capital investments
  - Evidence in recent applications that other states are offering more significant incentives than Texas school districts may offer through Chapter 313

# G-PISD Chapter 313 Projects

# Key Assumptions

- All current Chapter 313 projects are included in our school finance model
- Illustration of the impact of the ExxonMobil, SABIC and GCGV projects **with** and **without** Chapter 313 agreements
- Three models:
  - All previously approved projects
  - Addition of ExxonMobil, SABIC and GCGV projects **with** Chapter 313 agreements
  - Addition of ExxonMobil, SABIC and GCGV projects **without** Chapter 313 agreements
- Some variation in M&O tax rates to reflect potential rollback election changes
- Added in projected hold-harmless and supplemental payments for each approved project, based on current estimates

# Key Assumptions (cont'd)

- I&S tax base could increase from \$2.3 billion in 2016-17 to \$11.4 billion by 2024-25 with existing projects
- Additional \$5.0 billion for I&S tax base in 2024-25 with ExxonMobil projects, with or without Chapter 313 agreements
- Hold-harmless stipulations in current agreements afford G-PISD revenue protection
- Hold-harmless and supplemental payments expected from existing Chapter 313 agreements through 2037-38
  - \$125 million in estimated hold-harmless payments
  - \$31 million in estimated supplemental payments
- Results are based on current school finance laws

# Summary of G-PISD Approved and Pending Chapter 313 Applications\*

Project	First Limitation Year	Estimated Peak Project Values (In Mil.)	Projected Recapture Savings (In Mil.)	Projected Supplemental Payments (in Mil.)	Revenue Protection Payments (In Mil.)
EC&R Papalote Creek II, LLC	2012-13	\$101.5	\$0.3	\$2.0	\$1.0
CC Liquefaction Train 1	2018-19	\$5,141.9	\$286.6	\$6.0	\$55.3
CC Liquefaction Train 2	2018-19	\$2,862.0	\$155.4	\$6.0	\$36.5
CC Liquefaction Train 3	2023-24	\$2,000.0	\$147.9	\$6.0	\$22.8
voestalpine	2016-17	\$599.3	\$8.9	\$6.0	\$5.9
APEX Clean Energy Holdings, LLC	2017-18	<u>\$228.0</u>	<u>\$7.4</u>	<u>\$5.1</u>	<u>\$3.7</u>
Total		<u>\$10,932.7</u>	<u>\$606.5</u>	<u>\$31.1</u>	<u>\$125.2</u>
<b>ExxonMobil-Related Projects (If Agreements are in Place)</b>					
GCGV Asset Holding, LLC	2024-25	\$3,957.3	\$375.3	\$9.0	\$53.6
ExxonMobil Corporation	2024-25	\$584.0	\$40.3	\$9.0	\$7.4
SABIC US	2024-25	<u>\$584.0</u>	<u>\$40.3</u>	<u>\$9.0</u>	<u>\$7.4</u>
Total		<u>\$5,125.3</u>	<u>\$455.9</u>	<u>\$27.0</u>	<u>\$68.4</u>

\* Based on Comptroller's 2016 CDR reports for existing agreements and current estimates for ExxonMobil, including \$1.17 M&O tax rate in each year.

# Chapter 313 Projects and Jobs

*Based on most recent Comptroller report for Toyota, Motiva and current G-PISD projects. ExxonMobil-related projects are based on the 'minimum' number of permanent jobs expected to be filled by a determined deadline included in their applications. Excludes construction-related jobs.*

District	Company	No. of Jobs
Southwest ISD	Toyota Motor Manufacturing	2,692
Port Arthur ISD	Motiva Enterprises	762
G-PISD		
	<b>Current Projects:</b>	
	CC Liquefaction, Trains 1-3	128
	voestalpine	79
	<b>Proposed:</b>	
	GCGV Asset Holding, LLC	230
	ExxonMobil Corporation	85
	SABIC US	<u>85</u>
		400



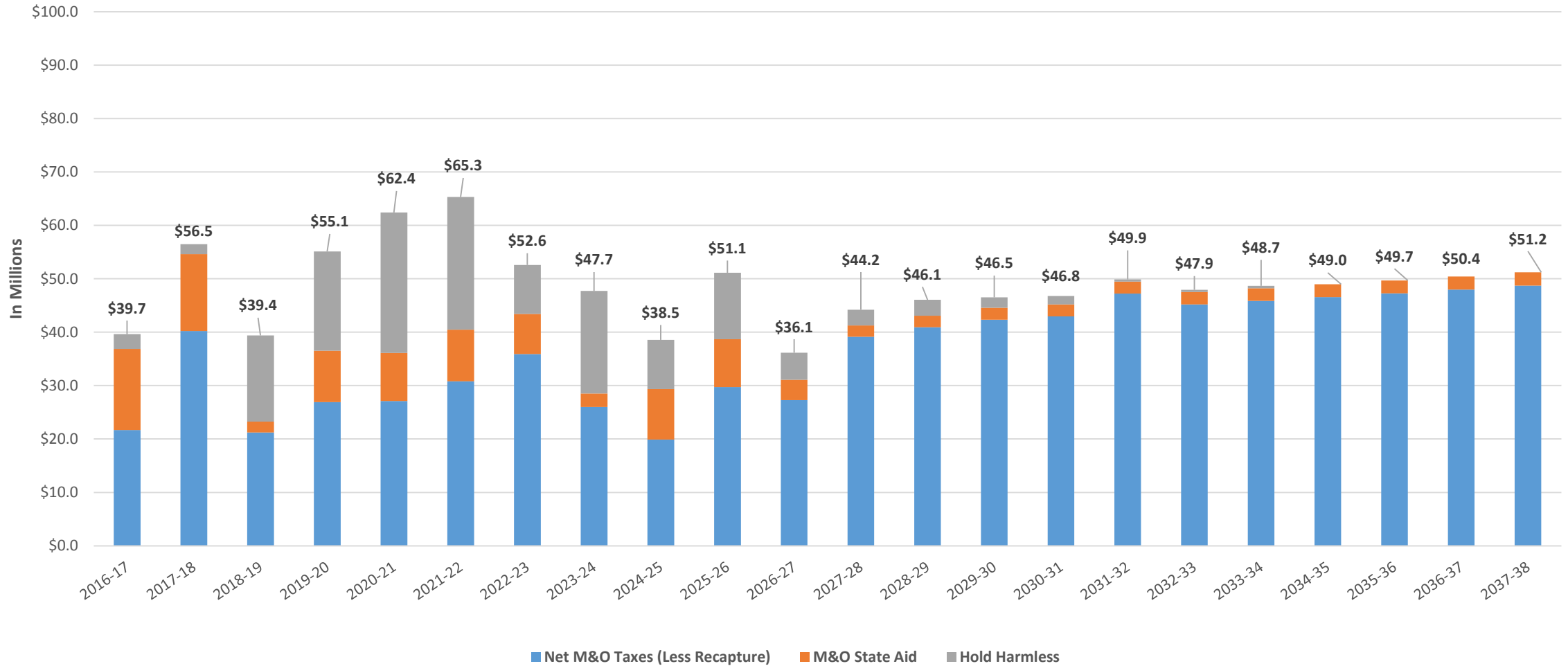
# Key Findings

- As noted previously, combination of hold-harmless and supplemental payments and sound financial practices should provide enough M&O revenue so that district operations are not impeded
- Increased I&S tax base should result in **substantial** tax savings for G-PISD taxpayers
- **Recapture paid to the state between 2017-18 and 2037-38 would increase by as much as \$461 million** (on top of \$729 million for current projects and ExxonMobil with Chapter 313 agreements in place)
  - Foregone supplemental payments for the three projects would total \$27 million
  - Foregone hold-harmless amounts estimated to total \$68 million

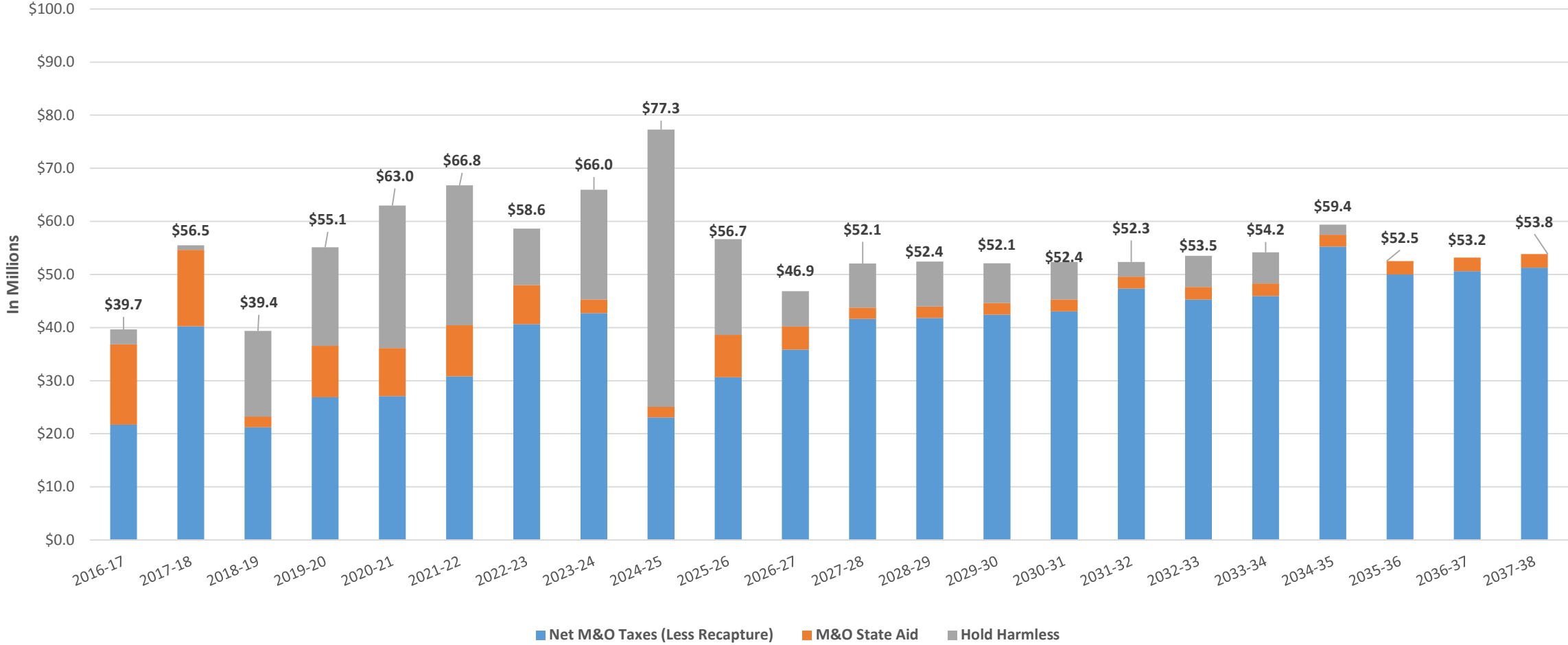
# Net M&O Revenue and Hold-Harmless Amounts for G-PISD

## With Existing Chapter 313 Projects Only

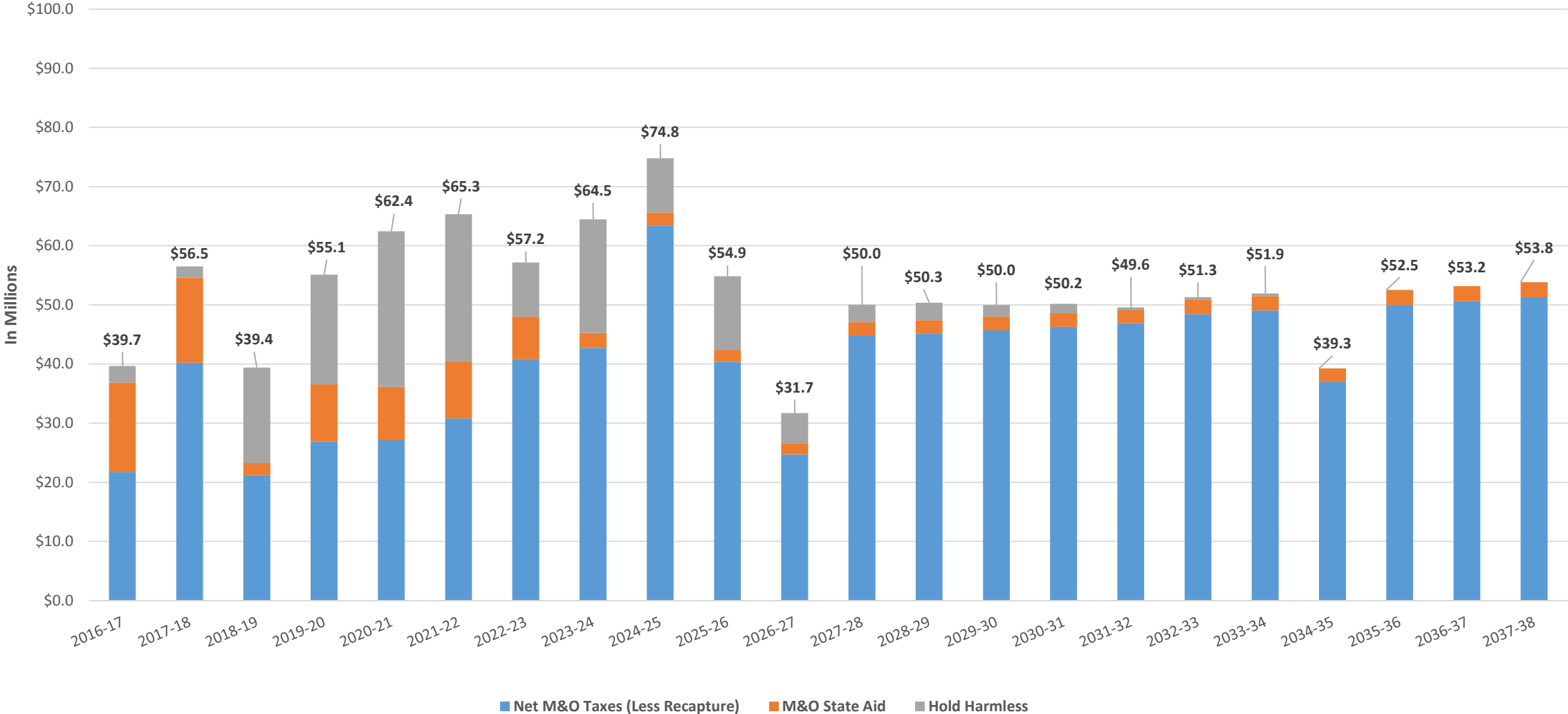
### 2016-17 through 2037-38 School Years (in Millions)



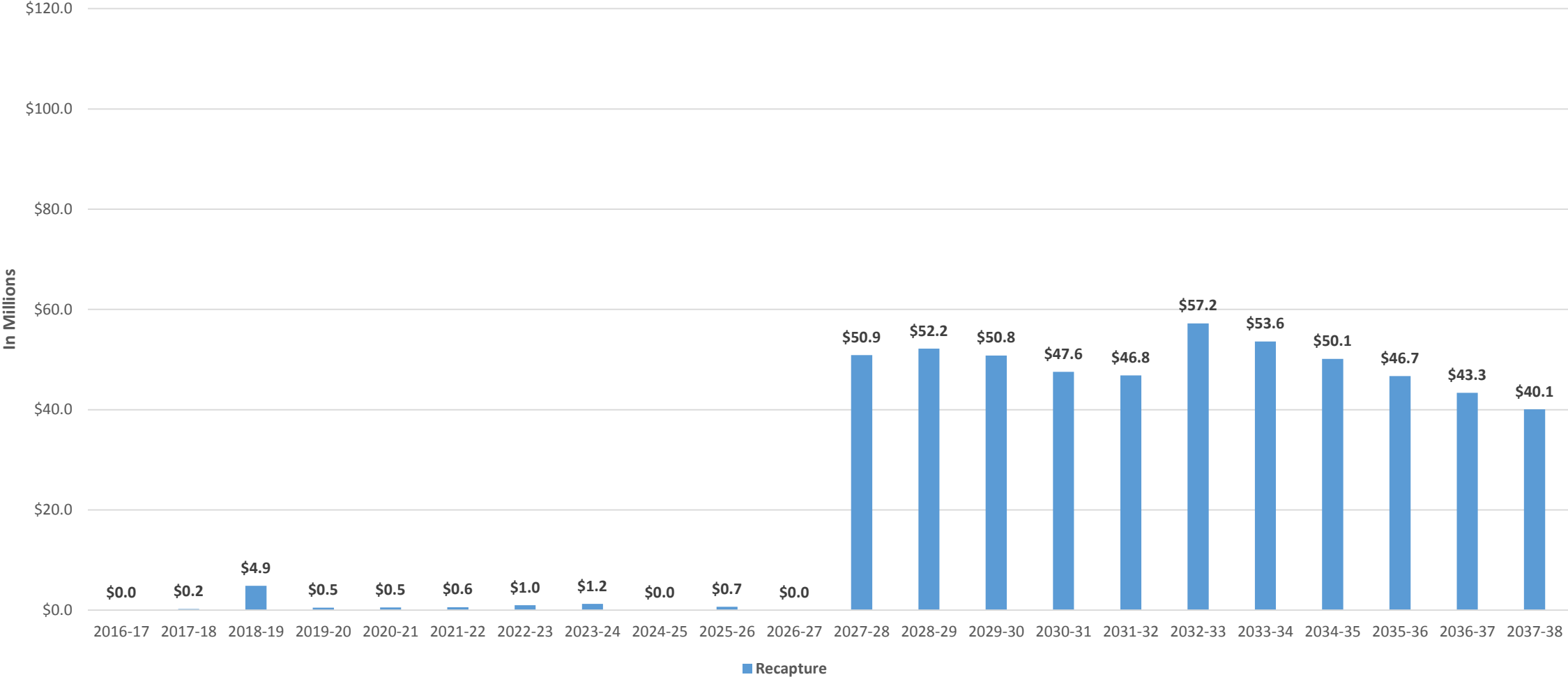
**Net M&O Revenue and Hold-Harmless Amounts for G-PISD**  
**With Existing Chapter 313 Projects and ExxonMobil WITH Chapter 313 Agreements**  
**2016-17 through 2037-38 School Years (in Millions)**



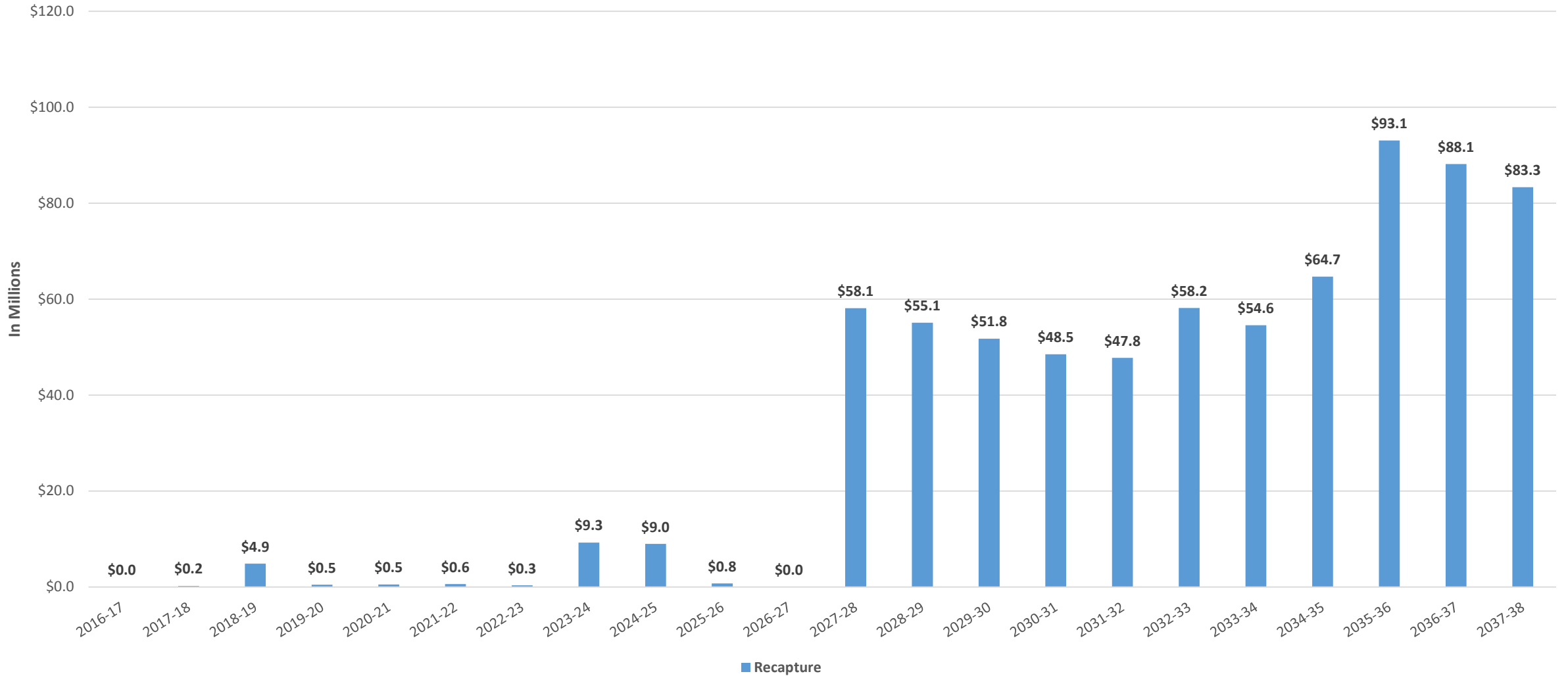
**Net M&O Revenue and Hold-Harmless Amounts for G-PISD**  
**With Existing Chapter 313 Projects and ExxonMobil WITHOUT Chapter 313 Agreements**  
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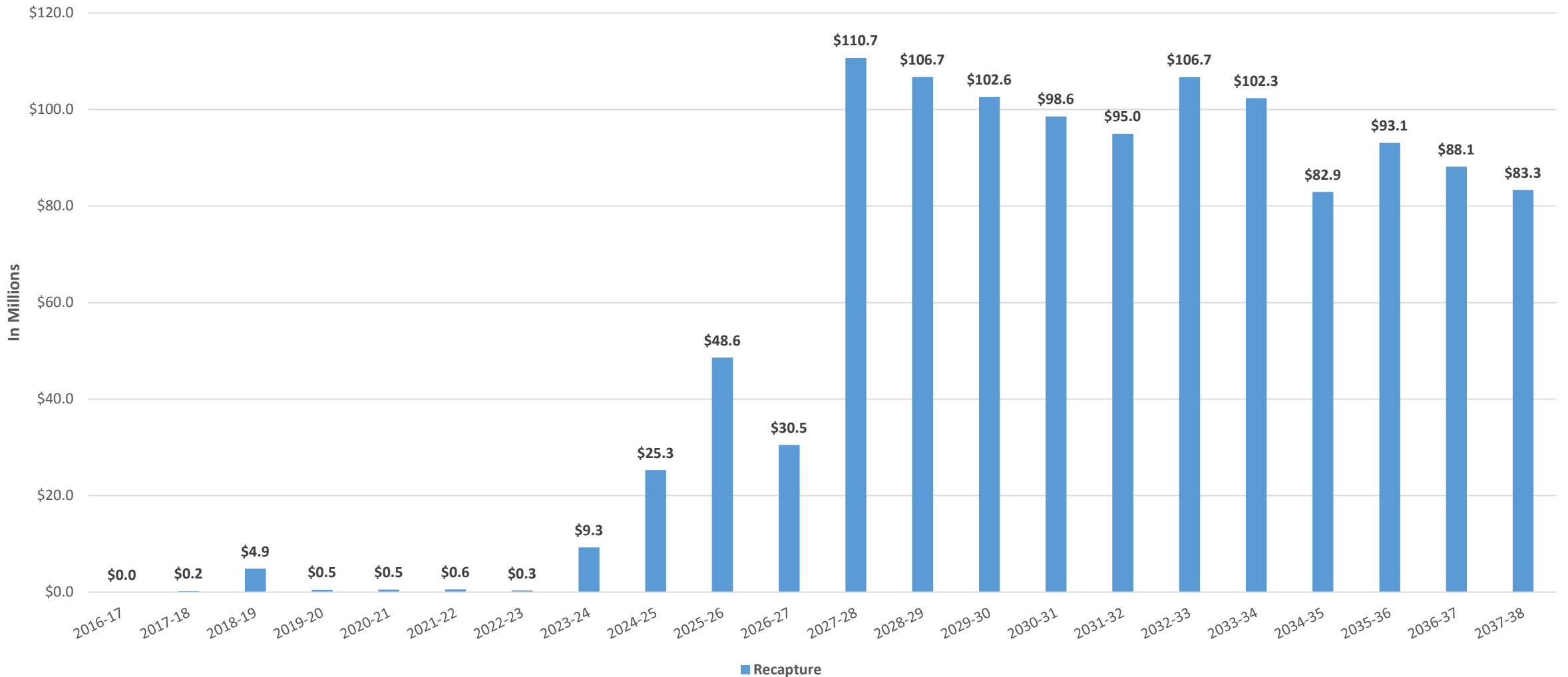
**Recapture Payment Estimates for G-PISD under Current Law**  
**With Existing Chapter 313 Projects Only**  
**2016-17 through 2037-38 School Years (in Millions)**



**Recapture Payment Estimates for G-PISD under Current Law  
 With Existing Chapter 313 Projects and ExxonMobil WITH Chapter 313 Agreements  
 2016-17 through 2037-38 School Years (in Millions)**



Recapture Payment Estimates for G-PISD under Current Law  
With Existing Chapter 313 Projects and ExxonMobil **WITHOUT** Chapter 313 Agreements  
 2016-17 through 2037-38 School Years (in Millions)



# Conclusions

- Major changes ahead given the unprecedented level of investment that is anticipated in G-PISD
- Flexibility will be required to manage District's finances through the next decade and beyond
- Favorable hold-harmless agreements and initial rollback exemptions should provide G-PISD with the resources it needs to fund the District's operations through a challenging period
- **If ExxonMobil projects are added without Chapter 313 agreements in place, recapture payments for G-PISD would increase by nearly \$461 million through the 2037-38 school year**



# Conclusions (cont'd)

- Current existing Chapter 313 projects
  - Substantial tax savings on I&S taxes for voter-approved bonds and supplemental payments estimated at \$31 million
  - Companies pay reduced M&O taxes for up to 10 years offset by state formula changes and hold-harmless payments
- Current existing Chapter 313 projects and ExxonMobil WITH Chapter 313 agreements
  - Another \$5 billion in taxable value to bolster I&S tax collections (**which results in savings for taxpayers**)
  - Significant reduction in district recapture payments to the state relative to ExxonMobil without agreements—**estimated to be savings of \$461 million through the 2037-38 school year**
  - Increase of \$27 million in supplemental payments for District use
  - Three projects pay M&O taxes based on \$30 million each for 10 years, accompanied by state formula offsets and hold-harmless payments to the District

# Conclusions (cont'd)

- Current existing Chapter 313 projects and ExxonMobil **WITHOUT** Chapter 313 agreements
  - **Substantial increase in recapture costs--\$461 million higher through 2037-38**
  - Results from companies not receiving any tax savings during what would have been the 10-year period of protection under Chapter 313 agreements
  - District would still receive benefits from I&S tax base increase, assuming the project is built
  - Supplemental payments and any excess hold-harmless funds would be surrendered by the District



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