


Chapter 313 Property Value Limitations

School Finance and Policy Considerations

March 5, 2020



1





**ECONOMIC
DEVELOPMENT**



**CHAPTER 313
BASICS & BENEFITS**



**CHAPTER 313
PROCESS**



**CHAPTER 313
MECHANICS**

Today's Outline

© 2020 Moak, Casey & Associates

2

Economic Development Options for School Districts

Three main options:

- Freeport Exemption
- FTZ (Foreign Trade Zone) Designation
- Tax Code Chapter 313: Property Value Limitations
- Tax Increment Reinvestment Zones (TIRZs)
- Limited to boundaries adopted in 1999



© 2020 Moak, Casey & Associates

3

Chapter 313 | Funding

- Projects add \$10-\$100 million to a district's M&O tax base during limitation period
- Full project value is taxed for M&O after limitation expires
- Full value for I&S reduces state costs for districts receiving IFA and EDA funds
- State loss argument only holds if you assume projects would have been built in the absence of limitation agreements
- Since 2014, companies have had to report impact of limitation on location choice



© 2020 Moak, Casey & Associates

4

Today's Outline

- ECONOMIC DEVELOPMENT
- CHAPTER 313 BASICS & BENEFITS
- CHAPTER 313 PROCESS
- CHAPTER 313 MECHANICS

© 2020 Moak, Casey & Associates

5

Chapter 313 | Basics

- Established in 2001 under HB 1200
- 468 Chapter 313 agreements (as of 10-31-2019)
- **At least \$183.7 billion** in investments (as of 2018)
- Program is designed to attract large-scale capital investments
- Almost all eligible projects are (% projects, % investment):
 - Manufacturing (42%, 75%)
 - Renewable electric energy generation (57%, 25%)



© 2020 Moak, Casey & Associates

6

Chapter 313 | Job Creation

- At least 12,498 qualifying jobs created
 - 88% in manufacturing
 - 10% renewable energy
 - 2% other
- At least 66,400 direct and indirect jobs created
- Must meet specific job and salary requirements
- Job waiver is permitted, if consistent with industry standards



© 2020 Moak, Casey & Associates

7

Chapter 313 | Value Limits

- Minimum property value limitation from \$10 to \$100 million
- Set by statute and updated annually by Comptroller
 - Determined by tax base and rural status
 - <https://comptroller.texas.gov/economy/local/ch313/values.php>
- Applies for 10 years for M&O taxes
- Fully taxable for debt service on bonds (I&S taxes)

© 2020 Moak, Casey & Associates

8

Chapter 313 | Benefits

- New major capital investment, additional jobs and related economic activity
- Provides for hold-harmless protection against revenue losses in agreements between the School District and Company
- Provides for annual supplemental payments up to \$100/ADA
 - \$50,000 minimum for rural districts (less than 500 ADA)
- Full project value is taxable for I&S taxes



© 2020 Moak, Casey & Associates

9

Today's Outline



ECONOMIC DEVELOPMENT



CHAPTER 313
BASICS & BENEFITS



CHAPTER 313
PROCESS

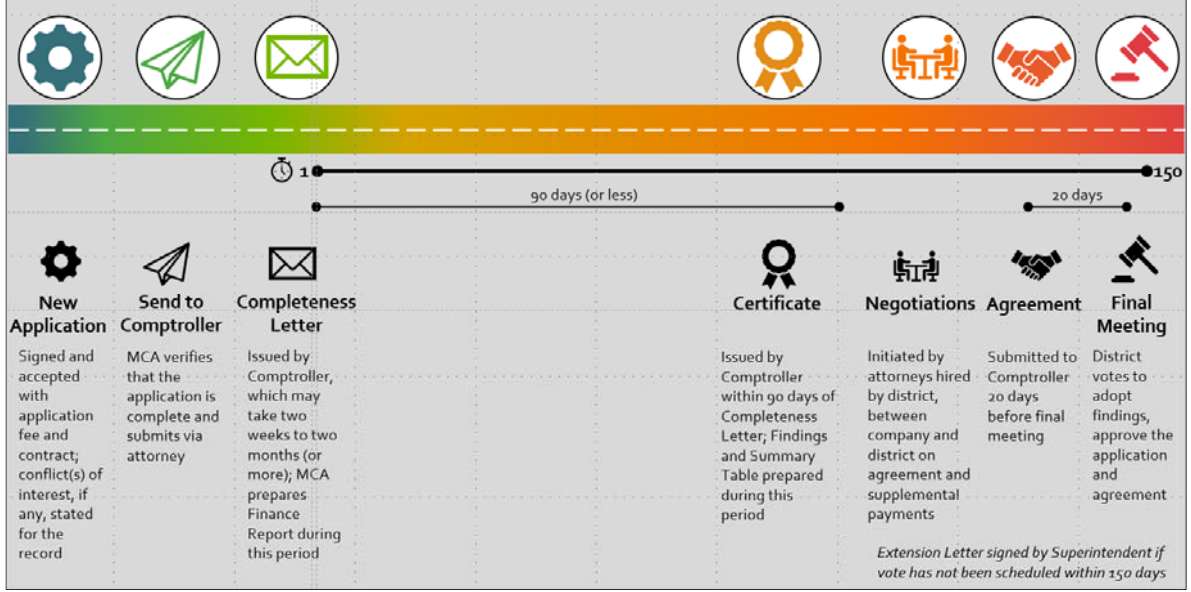


CHAPTER 313
MECHANICS

© 2020 Moak, Casey & Associates

10

Chapter 313 | Roadmap



© 2020 Moak, Casey & Associates

11

Today's Outline



© 2020 Moak, Casey & Associates

12

Chapter 313 | Mechanics

Revenue Protection

- M&O State and Local Revenue if project built without limitation
- M&O State and Local Revenue with limitation
- Reduction in revenue due to limitation is made up by the company



© 2020 Moak, Casey & Associates

13

Chapter 313 | Mechanics

Supplemental Payment

- Capped by statute at \$100 per ADA per year
 - \$50,000 per year if < 500 ADA
- Negotiated during Agreement phase



© 2020 Moak, Casey & Associates

14

Chapter 313 | Illustration

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	
Year of Agreement	School Year	Project Taxable Value for M&O If		Assumed M&O Tax Rate	Tax Savings To Company	Total School District Estimated Loss of Revenue	Estimated Net Tax Benefits	Example District Supplemental Payment Allowed (40%)	Potential Company Tax Benefit	
		No Limitation	With Limitation							
QTP0	2020-21	\$0	\$0	\$0.95650	\$0	\$0	\$0	\$0	\$0	
QTP1/VL1	2021-22	\$7,000,000	\$7,000,000	\$0.95650	\$0	\$0	\$0	\$0	\$0	
QTP2/VL1	2022-23	\$63,050,000	\$30,000,000	\$0.95650	\$316,123	-\$330,444	-\$14,321	\$0	-\$14,321	
VL2	2023-24	\$61,158,500	\$30,000,000	\$0.95650	\$298,031	\$0	\$298,031	\$119,212	\$178,818	
VL3	2024-25	\$59,323,745	\$30,000,000	\$0.95650	\$280,481	\$0	\$280,481	\$112,192	\$168,289	
VL4	2025-26	\$57,544,033	\$30,000,000	\$0.95650	\$263,458	\$0	\$263,458	\$105,383	\$158,075	
VL5	2026-27	\$55,817,712	\$30,000,000	\$0.95650	\$246,946	\$0	\$246,946	\$98,778	\$148,168	
VL6	2027-28	\$54,143,180	\$30,000,000	\$0.95650	\$230,929	\$0	\$230,929	\$92,372	\$138,557	
VL7	2028-29	\$52,518,885	\$30,000,000	\$0.95650	\$215,393	\$0	\$215,393	\$86,157	\$129,236	
VL8	2029-30	\$50,943,318	\$30,000,000	\$0.95650	\$200,322	\$0	\$200,322	\$80,129	\$120,193	
VL9	2030-31	\$49,415,019	\$30,000,000	\$0.95650	\$185,704	\$0	\$185,704	\$74,282	\$111,423	
VL10	2031-32	\$47,932,569	\$30,000,000	\$0.95650	\$171,525	\$0	\$171,525	\$68,610	\$102,915	
VP1	2032-33	\$46,494,591	\$46,494,591	\$0.95650	\$0	\$0	\$0	\$0	\$0	
VP2	2033-34	\$45,099,753	\$45,099,753	\$0.95650	\$0	\$0	\$0	\$0	\$0	
VP3	2034-35	\$43,746,761	\$43,746,761	\$0.95650	\$0	\$0	\$0	\$0	\$0	
VP4	2035-36	\$42,434,358	\$42,434,358	\$0.95650	\$0	\$0	\$0	\$0	\$0	
VP5	2036-37	\$41,161,326	\$41,161,326	\$0.95650	\$0	\$0	\$0	\$0	\$0	
						\$2,408,912	-\$330,444	\$2,078,468	\$837,116	\$1,241,352

© 2020 Moak, Casey & Associates

15

Does Chapter 313
Reduce Funding for
Public Schools?

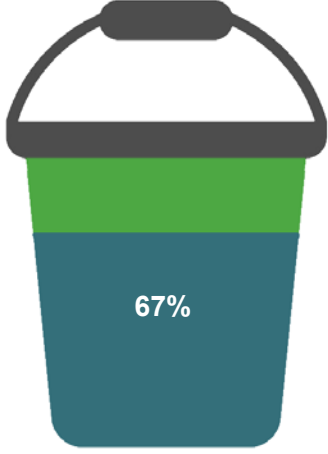
16

Sample ISD | Annual Revenue

Local:
\$2,300,000

State:
\$4,700,000

\$7,000,000

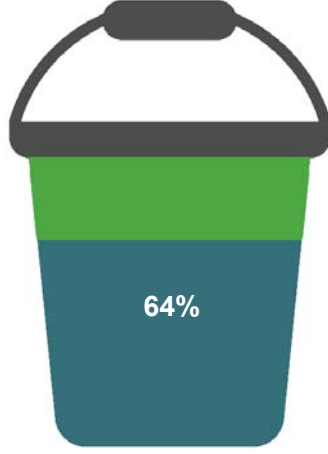


Project Not Built

Local: **\$2,500,000** ↑

State: **\$4,500,000** ↓

\$7,000,000



Project Built with Limitation



© 2020 Moak, Casey & Associates

Chapter 313 | Reporting Requirements

- **Annual Reports**
 - Companies must submit
- **Biennial Reports**
 - Companies and Districts must submit
- **Job Creation Compliance Reports**
 - Companies must submit



© 2020 Moak, Casey & Associates

Chapter 313 | State Audits

- **Three projects audited per year**
- **Typical findings are:**
 - Over-reliance on self-reported data
 - Did not sign Conflicts of Interest Disclosure even if none
 - Districts did not provide link to Comptroller Ch313 site on District website



© 2020 Moak, Casey & Associates

19

Chapter 313 | Additional Issues

- Program under much state scrutiny—transparency is real
- Up for legislative renewal in 2021
 - Won't affect existing agreements
- Benefits limited by law to revenue protection and supplemental payments
- Property values determined each year by the local appraisal district
- Current-Year Values under HB3 vs. Prior-Year Values for Ch313 calculations



© 2020 Moak, Casey & Associates

20

Questions & Comments

MOAK, CASEY & ASSOCIATES
SCHOOL FINANCE & ACCOUNTABILITY EXPERTS

© 2020 Moak, Casey & Associates

21