





# Agenda







# Tax Compression Key Points

## HB 3 Tax Compression:

- Reduced Tier One
- Reduced Tier Two
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# Terms Used in This Presentation

**TY** = Tax Year (for both tax rates and property values)

**FY** = Fiscal Year

Example: **TY 2019** and **FY 2020** both align with the 2019-2020 school year.

## Tier One:

**Maximum Compressed Tax Rate (MCR)** = the M&O tax rate necessary to generate 100% of the basic allotment (\$0.93 in TY2019, and it varies in TY2020)

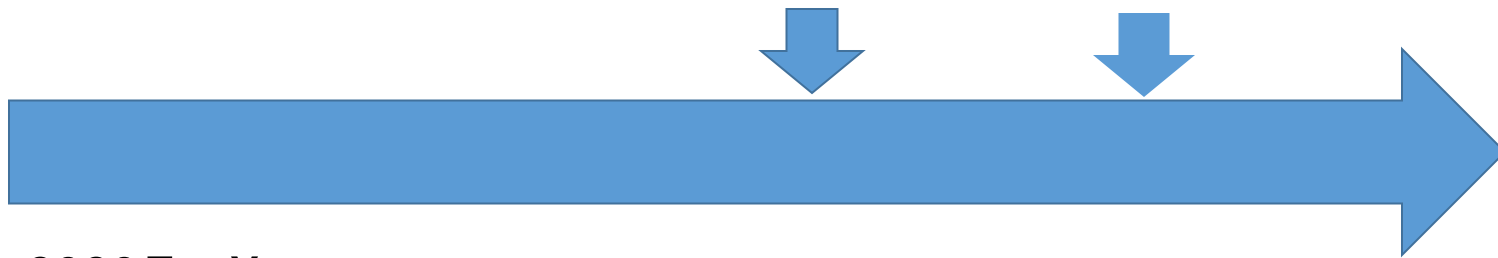
## Tier Two:

**Golden Pennies** = Up to eight pennies above the maximum Tier One tax rate

**Copper Pennies** = Up to nine pennies above the eight golden pennies until each district's statutory maximum (17 pennies above the maximum Tier One tax rate)



# Tax Year and School Year Timeline

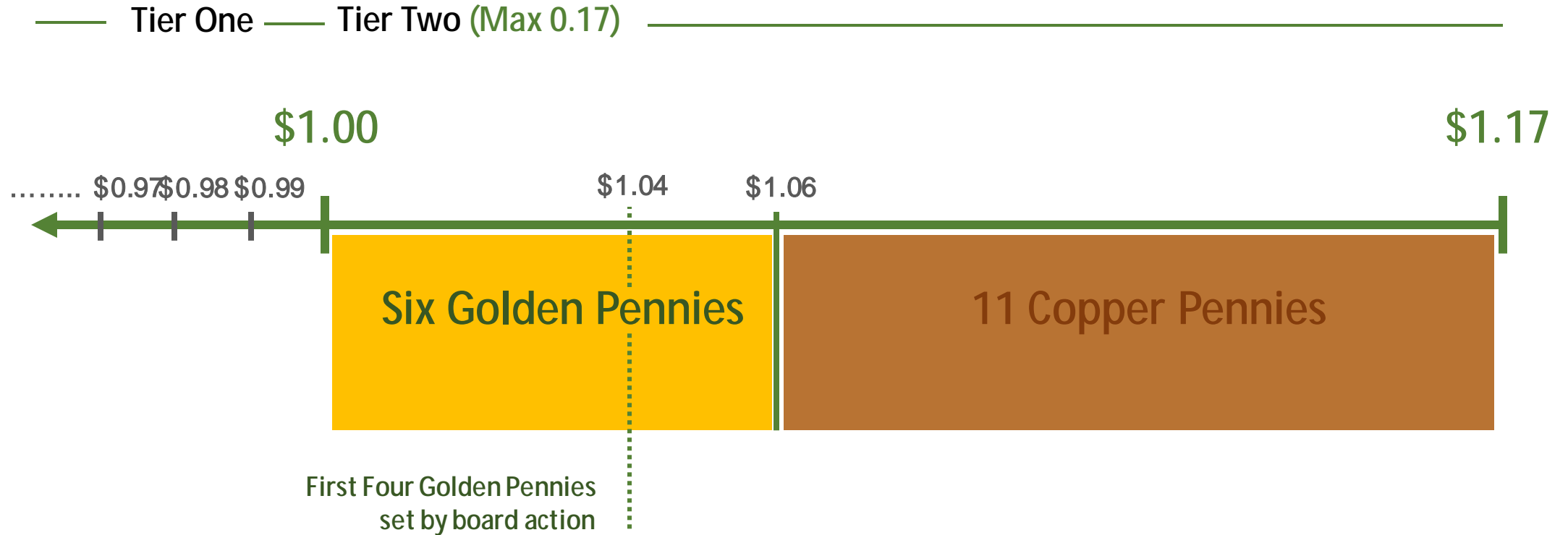


2020 Tax Year



2020-2021 School Year

# Prior Law – Fixed Tax Rates





# HB 3 - Why Tax Rate Compression?



# HB 3 -Why Tax Rate Compression?

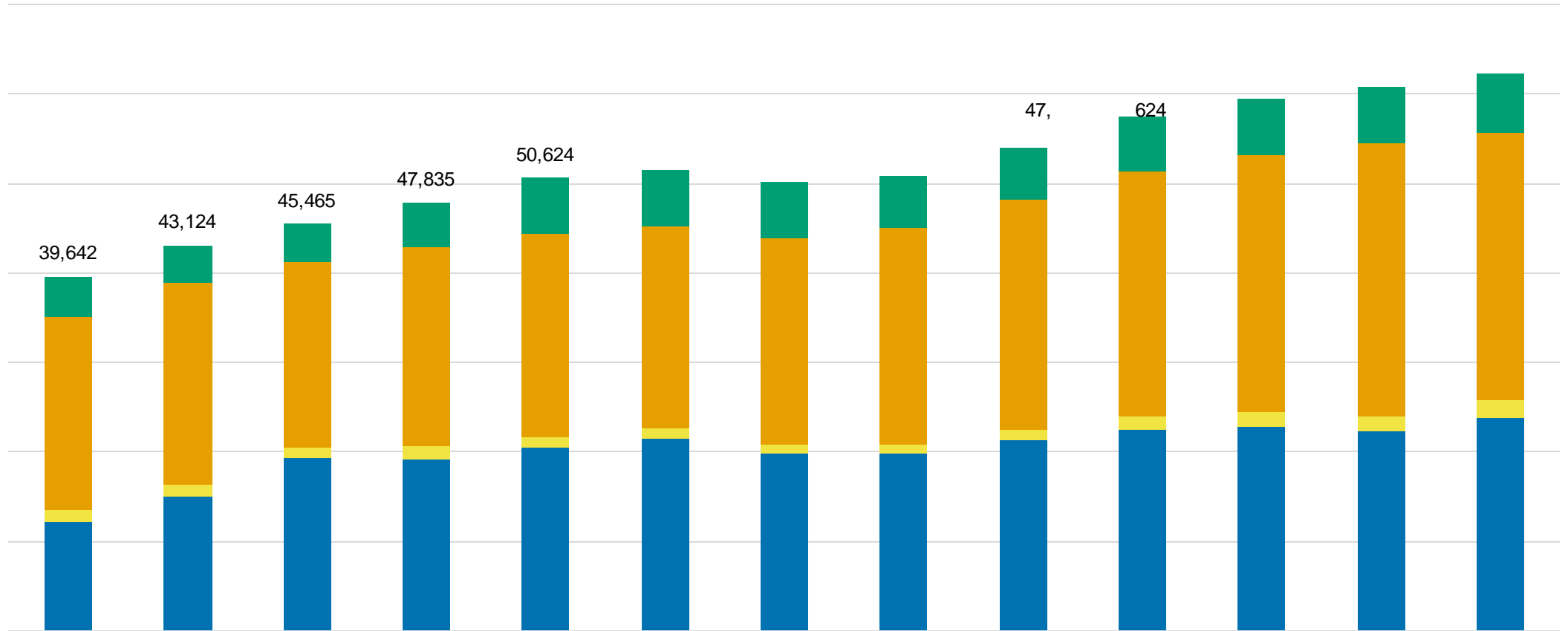
The tax compression required under HB 3 helps implement two of the Texas Commission on Public School Finance's major recommendations:

long-term systemic balance between the state and local share

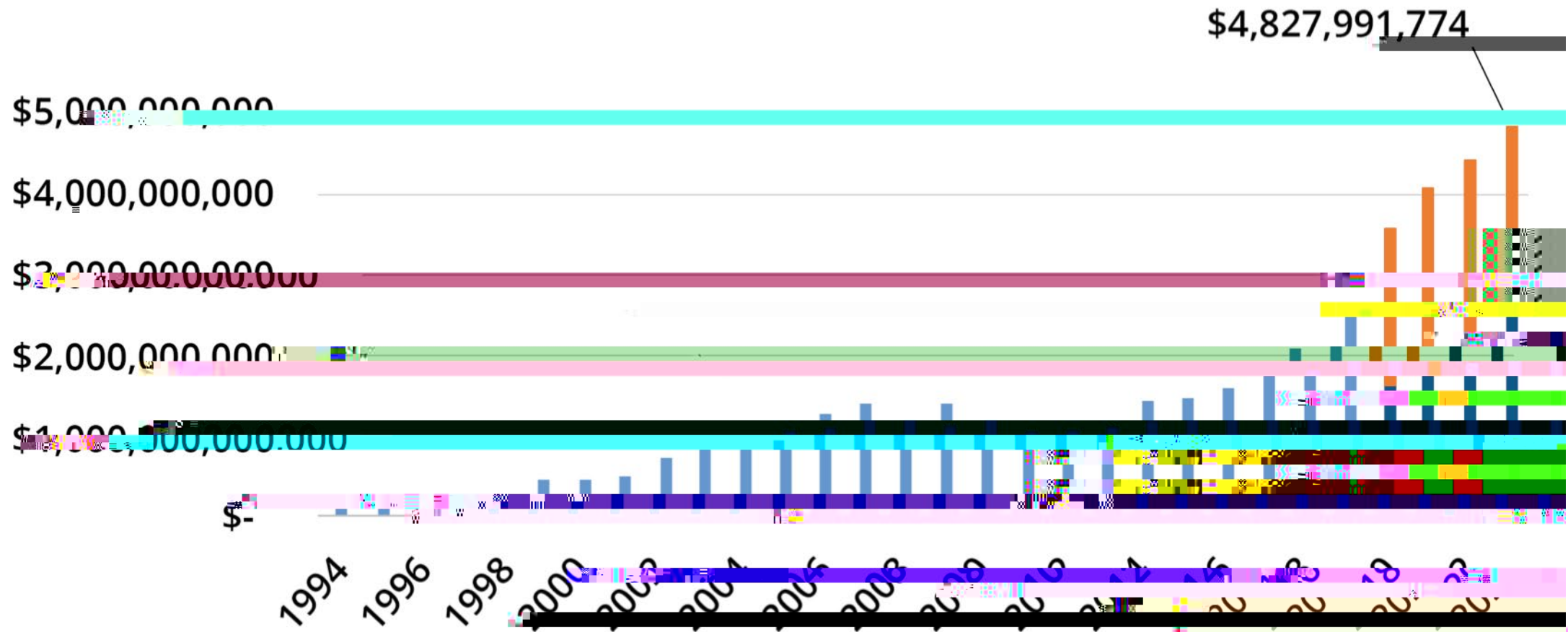
reduce the growth rate of property taxes



# Local Share of Education Funding was Increasing



# Reliance on Recapture as Structured was Unsustainable

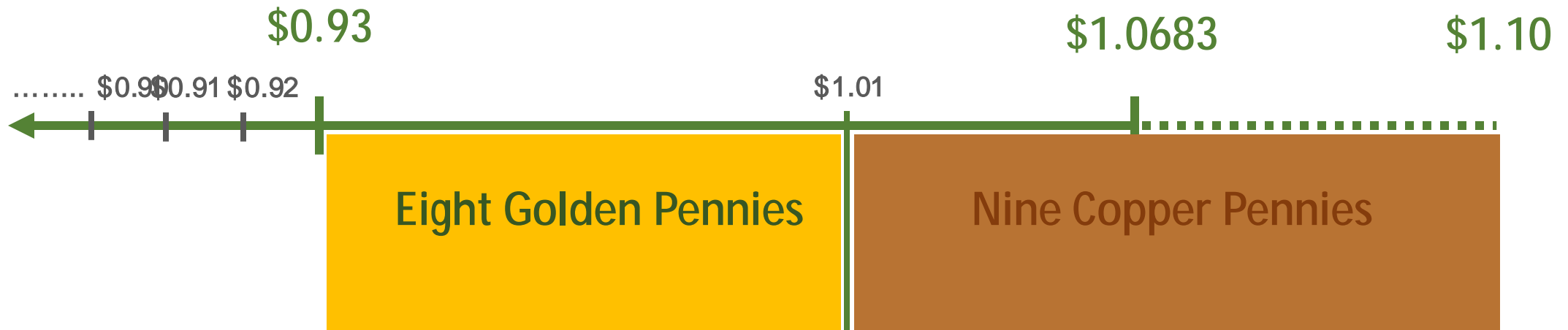


# How are Taxes Compressed?

# Max M&O Tax Rates Drop From \$1.17 To \$1.0683

1. Tier One max rate reduced by 7%
2. First two Copper Pennies become Golden Pennies
3. Remaining Copper Pennies are cut by 35%
- 4.

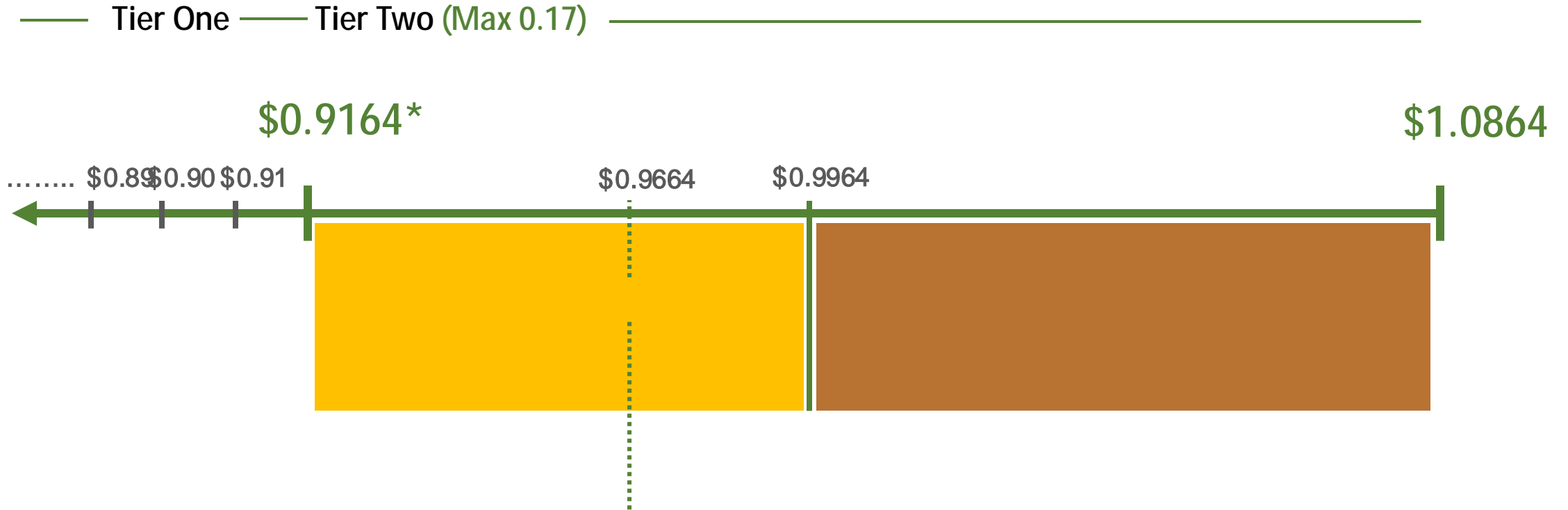
Tier Two (Max 0.17)



# Tier One M&O Rates Continue to Decline

## HB 3 Year 2 (TY2020)

1. 2.5% Compression begins on Tier One
2. TRE threshold increased by one penny





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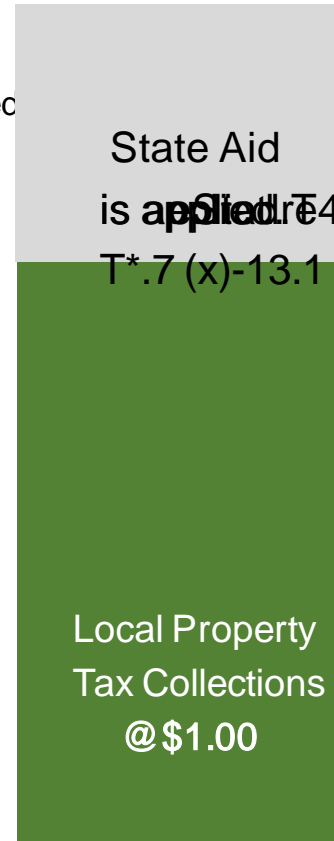
# How Does Tax Rate Compression Affect School District Funding?



# Local Property Tax Compression Does Not Impact School District Funding

## Formula Entitlement

With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.



State Aid

is applied

T\* .7 (x) - 13.1 (C) - 1.3 (o) - 15.3 (l) 0.5 (l) 0.5 (e) 10.3 (c) - 6.1 (t) 3.3 (io) - 15.3 (n) - 16.3 (s)] TJ EMC I

STEP 2

State aid is calculated to ensure districts reach their entitlement

STEP 1

The system first assumes districts collect local property taxes.



# Local Property Tax Compression Does Not Impact School District Funding (Recapture Districts)

STEP 1

Formula Entitlement

With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.

Local Property Tax Collections @ \$1.00

← STEP 1

The system first assumes districts collect local property taxes.





# Local Property Tax Compression Does Not Impact School District Funding (Recapture Districts)

## STEP 1 Formula Entitlement

With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.



← STEP 1 The system first assumes districts collect local property taxes.



Formula  
Entitlement



STEP 1

The system first assumes  
districts collect local  
property taxes.

# TY 2020 TAX RATES

HB 3 requires additional tax rate compression for the 2020-2021 school year



# TY 2020: Tax Rates (2021 School Year)

Only the Tier One tax rate will be further compressed





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# Tier One Tax Rate: State Compression (2021 School Year)

State compression will be based on the comptroller's estimates of statewide property value growth that are published in the general appropriations act each legislative session.



# Tier One Tax Rate: State Compression (2021 School Year)

How does state compression work?



# Local Compression (2021 school year)

How does local compression work?

MCR = prior year compressed tax rate \* (1.025 / local property value growth percentage)

$$\text{MCR} = \$0.93 * (1.025 / 1.1) = \$0.8665$$





# Frequently Asked Question (FAQ)

Question

Answer



# Limit on Compression

In order to maintain tax rate equity, no district can have an MCR less than 90% of any other district.

no district will have a maximum Tier One tax rate lower than \$0.8247 for FY2021.



# District Value Growth and Tier One Tax Rates – TY2020

District Property		







# TY 2020 Tax Rates Examples

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# TEA Technical Assistance in Calculating Tax Rates



# Calculating Maximum Tax Rates

How will TEA calculate each district's maximum compressed tax rate?

data collection in the spring of 2020



# Annual Tax Rate Reference Document

# Ongoing Tier One Compression After TY 2020

HB 3 requires additional tax rate compression as property values  
continue to grow

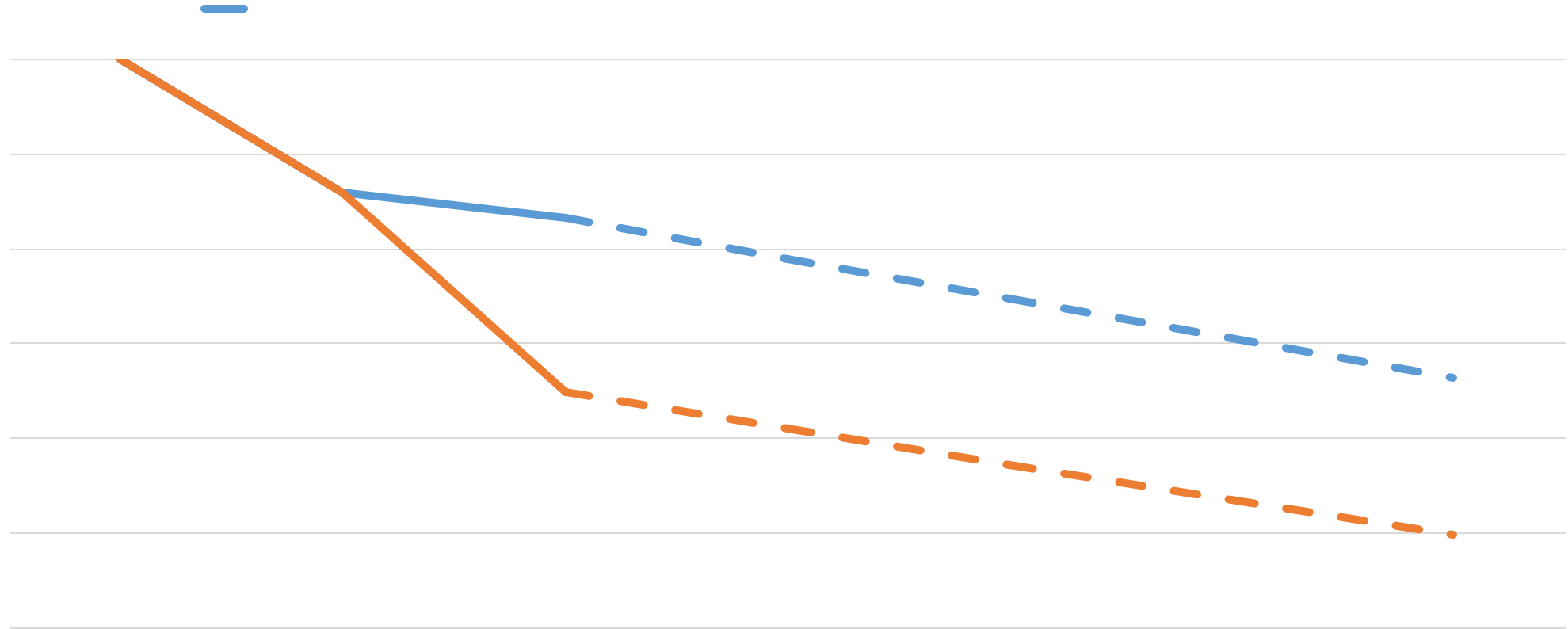


# Compression will Continue in Subsequent Years

MCR's will range between  
\$0.9164 and \$0.8247

**\$0.9164**  
(State  
Compression M6-2.10)

# Tax Compression – Tax Years 2019 through 2024\*



# Tier Two and Voter Approval Elections





# Voter Approval Elections for TY 2019 (refresher)

- prohibited from holding a voter approval election

Districts below \$0.97 can increase their M&O tax rate



# Voter approval elections for TY 2020

In TY 2020, voter approval elections are allowed again.

For TY 2020, districts can access a 5<sup>th</sup> golden penny

in tax year 2020 that the unanimous Board approval is required <sup>only</sup>



# Voter approval elections for TY 2020

In TY 2020 and beyond, districts can have a voter approval election to increase their M&O tax rates up to the sum of:

The maximum M&O tax rate for any district\* in TY 2020 will be \$1.0864  
(0.9164 + 0.17)



# Frequently Asked Question (FAQ)

Question

Answer

Key Takeaway



# Frequently Asked Question (FAQ)

Question

Answer



# Frequently Asked Question (FAQ)

Question

Answer

Key Takeaway



# Additional Resources - Templates

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# House Bill 3: Resources

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