# TEA Update on School District TaxCompliance

TEA Division of Financial Compliance

# HB 1525 Tax Compliance

TEC §45.0021 – Restriction on Maintenance Tax Levy

Effective Date: September 1, 2021

A school district may not levy (increase the rate of) the district's maintenance taxes described by Section 45.002 at a rate intended to create a surplus in maintenance tax revenue for the purpose of paying the district's debt service.

Source: TEC §45.0021(a)

# M&O Rate Offset by Decreased I&S Rate

Section 20 of H.B. 1525 amended Section 45.0021 of the Texas Education Code to prevent districts from adopting an increased Maintenance and Operations (M&O) tax rate offset by a decreased Interest and Sinking (I&S) tax rate while the total tax rate remained the

# Surplus in Maintenance Tax Revenue

What is meant by "a rate intended to create a surplus in the maintenance tax revenue for the purpose of paying the district's debt service"?

A district required to have an I&S fund intentionally adopts a low I&S (.7 (&)-4 (t)-nn(ts)-1.3ue1 (l)-19 ( (o)-0(ts)v)-0.8 (i)-1.2 (ce).7 (&)- t)12.8 (

# Example

Example of a district intentionally adopting a low I&S tax rate:

A district adopts a low I&S (debt service) tax rate and then compensates for it b increasing the M&O tax rate.

The local General Fund revenue gained from the increased M&O tax rate in sor cases raises additional Tier II funding which more than equally offsets the local revenue lost in the Debt Service Fund by the decreased I&S tax rate.

The increased local funds from the M&O tax rate was transferred from the General Fund (as a surplus) to the Debt Service Fund to cover the loss of the decreased I&S funds due to the offsetting lower I&S tax rate.

***These activities are not allowable under HB 1525.

# Identifying Tax Swaps

# Sample Analysis

Sample ISD tax analysis:

| | | | |
|---|---|---|---|
| 73,965 | I&S Collections | $ | 1,77 |
| 3,695) | Debt Service | $ | (2,86 |
| 0 | EDA/IFA | | |
| 39,730) | Over / Short | $ | (1,08 |
| - | | $ | |
| 62% | Collections / Debt Service | | |

# District Options

Districts are not prohibited from:

1) Using a surplus in maintenance tax revenue to pay the district's debt service if:

   A. the district's interest and sinking fund tax revenue is insufficient to pay the district's debt service due to circumstances beyond the district's control; and

   B. the use of the surplus maintenance tax revenue to pay the district's debt service is necessary to prevent a default on the district's debt.

Source: TEC §45.0021(f)

# Further District Options

Districts are not prohibited from (cont.):

2) Paying a portion of the district's maintenance tax revenue into the tax increment fund for a reinvestment zone under Chapter 311, Tax Code; or

3) Using money disbursed from the tax increment fund for a reinvestment zone under Chapter 311, Tax Code, in accordance with the agreement entered into by the district with the governing body of the municipality or county that designated the zone under Section 311.013(f) of that code.

Source: TEC §45.0021(f)

# Wrap Up

Final Note:

- If you are notified by TEA of a potential 1525 issue, compare TEA's data with your district's data. Please inform TEA of any discrepancies.
- TEA will work with ISD's to adopt correct tax rates.

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