



HB 3 in 30: Tax Compression Part 2, Setting Your District's 2020 M&O Tax Rate

January 9, 2020

Agenda

- Tax rate compression introduction
- Tier One tax compression for Tax Year 2020
 - State Compression
 - Local Compression
 - TEA's Technical Assistance in Calculating Tax Rates
- Ongoing Tier One tax compression
- Tier Two
- Voter Approval Elections



Relevant Staff

TEA Staff

Leo Lopez

Associate Commissioner for School Finance

Al McKenzie

Director of Forecasting & Fiscal Analysis

Amy Copeland

Director, State Funding

Sara Kohn

Assistant Director, Forecasting & Fiscal Analysis

HB 3 Tax Compression:

- **Reduced Tier One** tax rates by 7.0% in Year 1
- **Reduced Tier Two** tax rates in Year 1
 - Increases meaningful discretion for districts in setting local tax rates
- Starting Year 2 and continuing: automatically lowers Tier One tax rates when the state or local property tax base grows by more than 2.5% a year
 - Maintains the balance between state and local share of the FSP
 - Reduces recapture
 - Does not negatively impact school district budgets
 - TEA will make available maximum Tier One tax rates for each district in July of each year

Background Information

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:

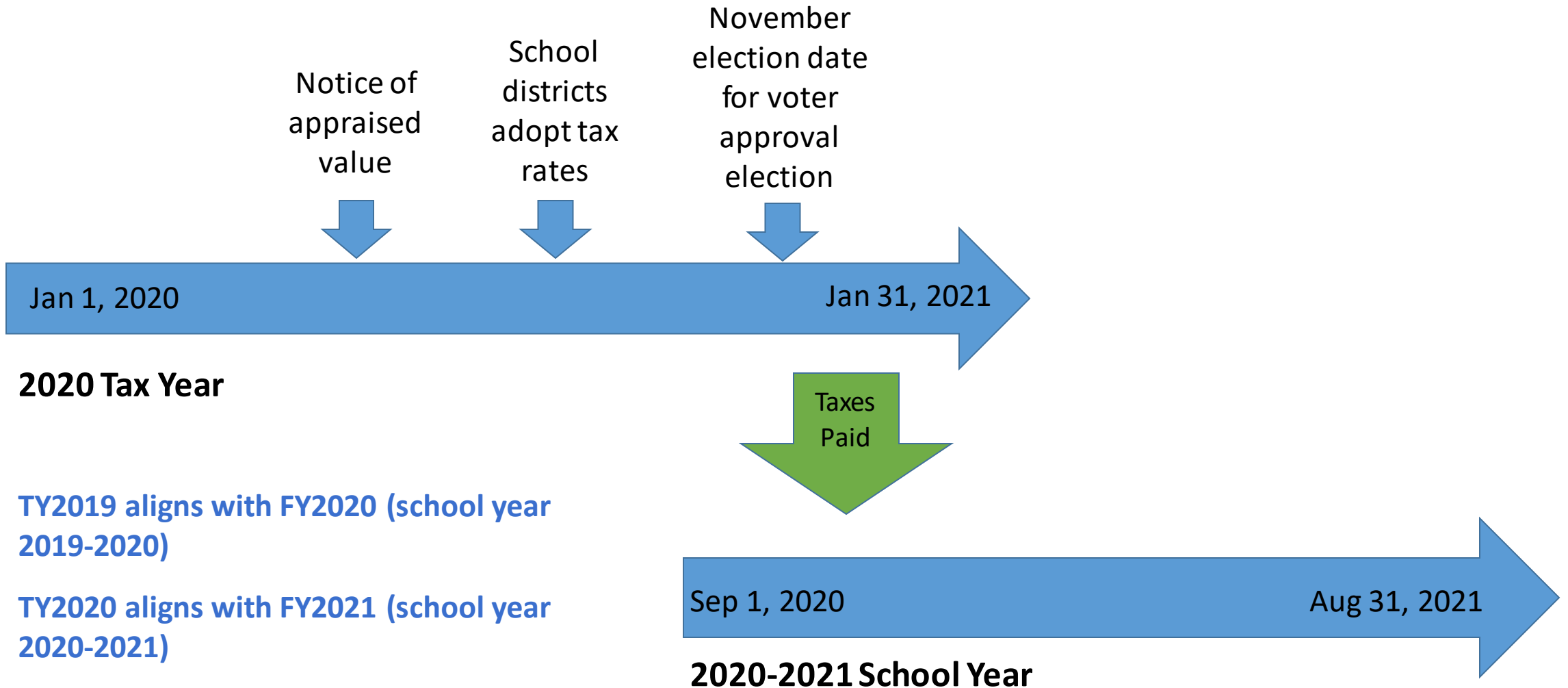
Maximum Compressed Tax Rate (MCR) = the M&O tax rate necessary to generate 100% of the basic allotment (\$0.93 in TY2019, and it varies in TY2020)

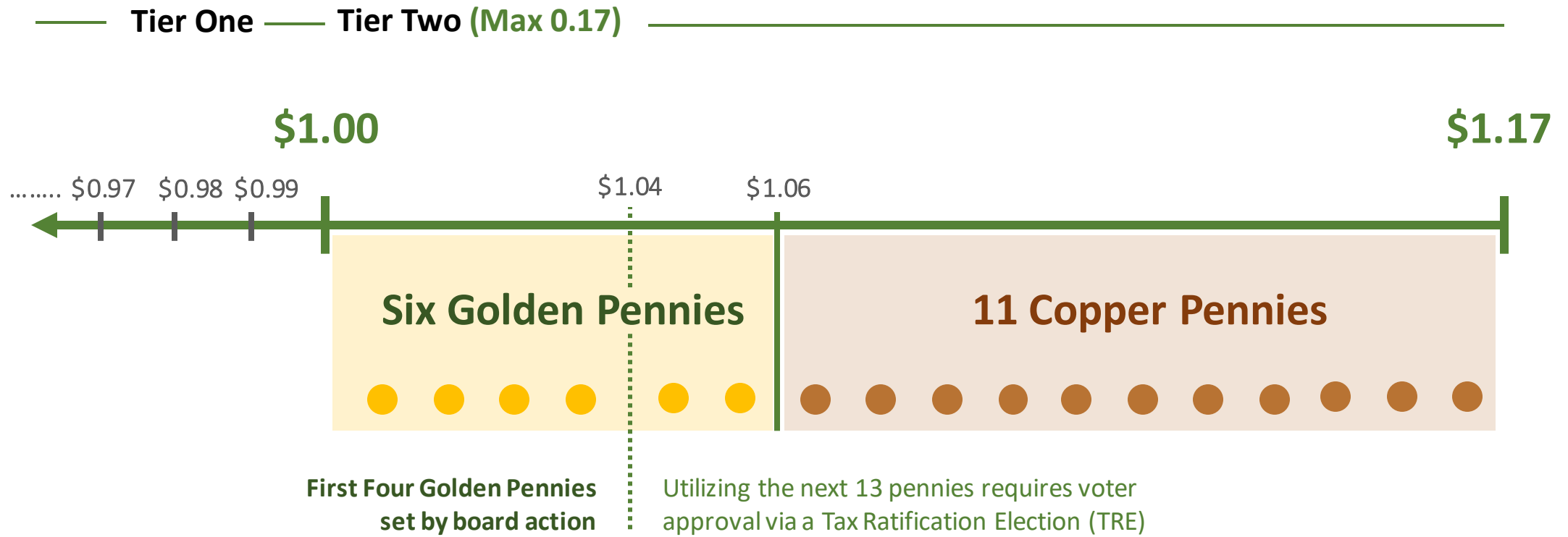
Tier Two:

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



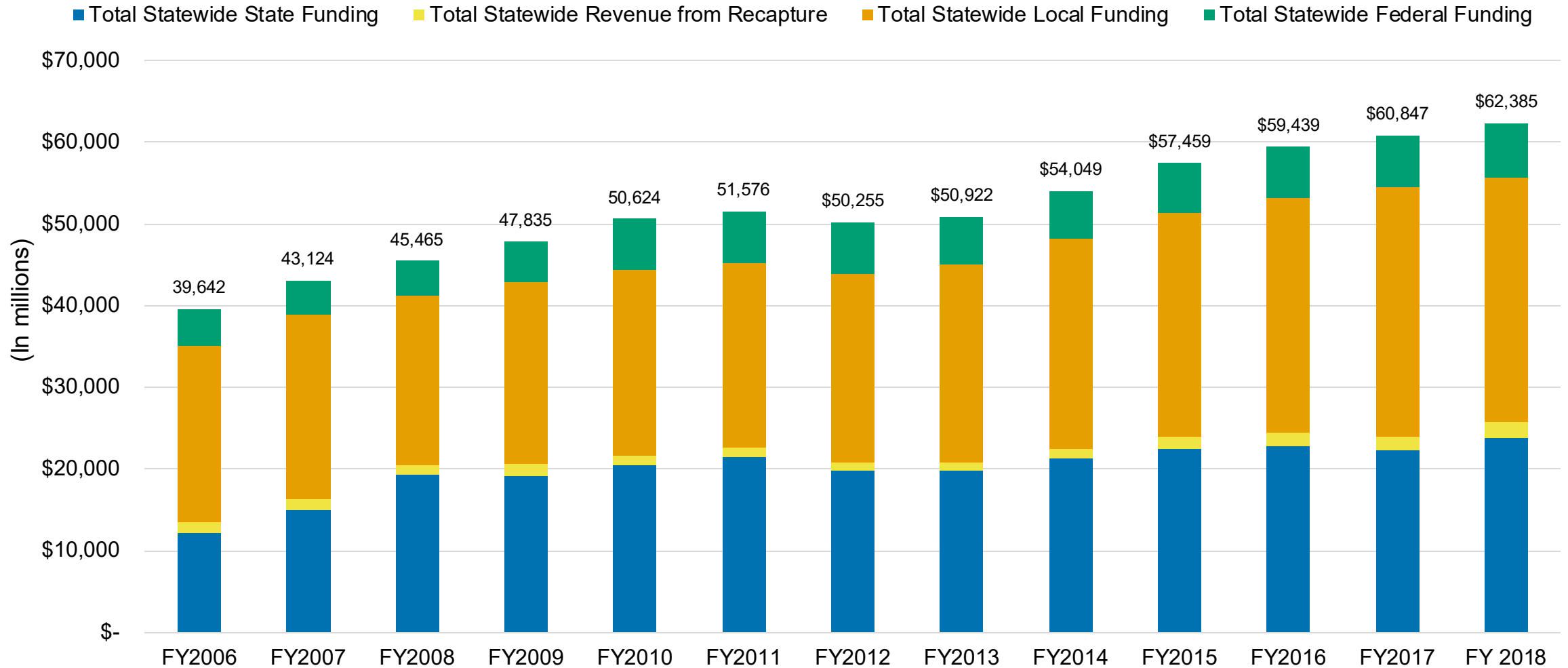


HB 3 - Why Tax Rate Compression?

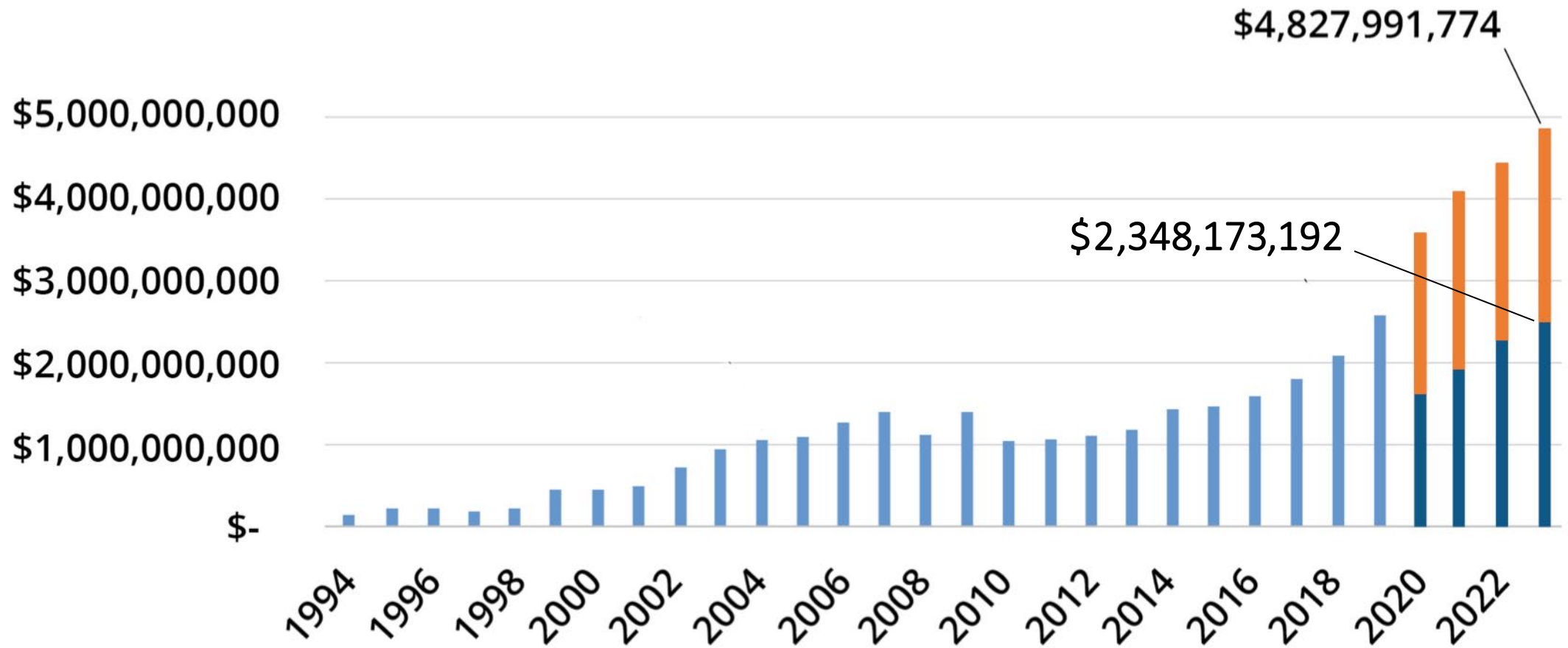
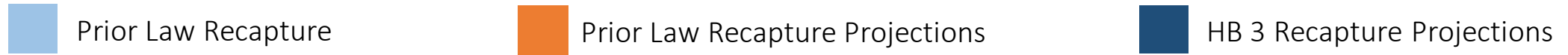
HB 3 - Why Tax Rate Compression?

- The tax compression required under HB 3 helps implement two of the Texas Commission on Public School Finance's major recommendations:
 - ✓ Create a **long-term systemic balance between the state and local share** of district foundation funding for public education
 - ✓ Significantly **reduce the growth rate of property taxes** and reliance on recapture as a method of finance for the state

Local Share of Education Funding was Increasing



Reliance on Recapture as Structured was Unsustainable

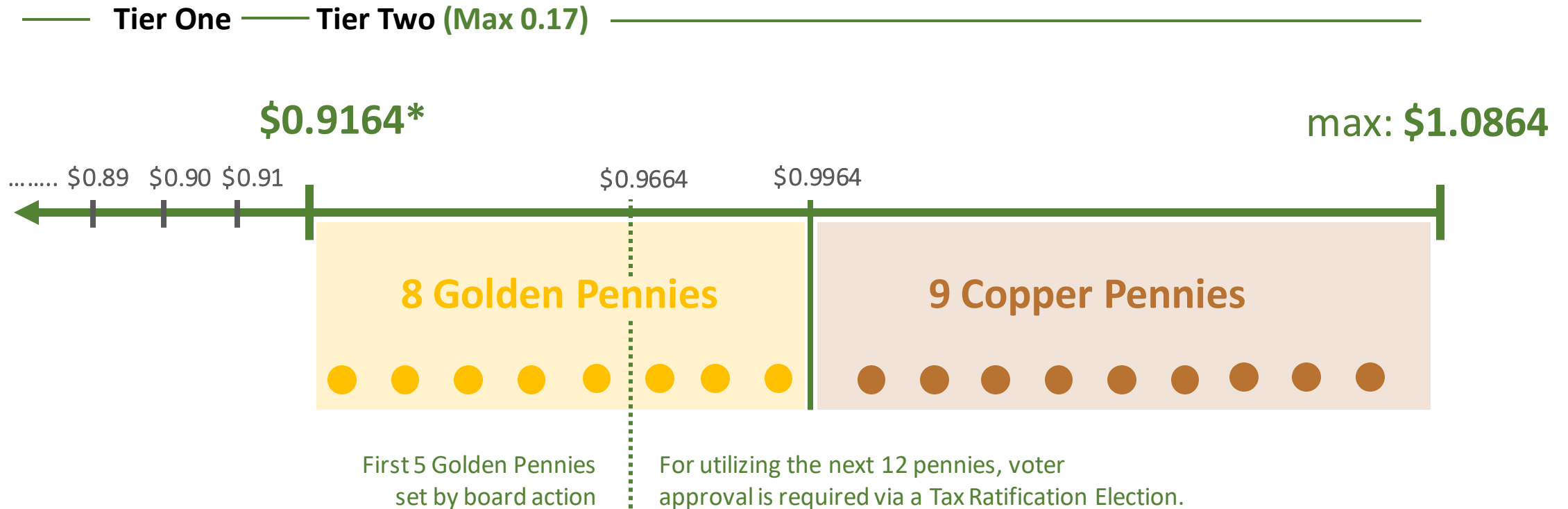


How are Taxes Compressed?



HB 3 Year 2 (TY2020)

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



* Statewide compression number for TY 2020 (could be lower for individual districts)

Tax Compression Increases Tier Two Taxing Capacity (meaningful discretion)

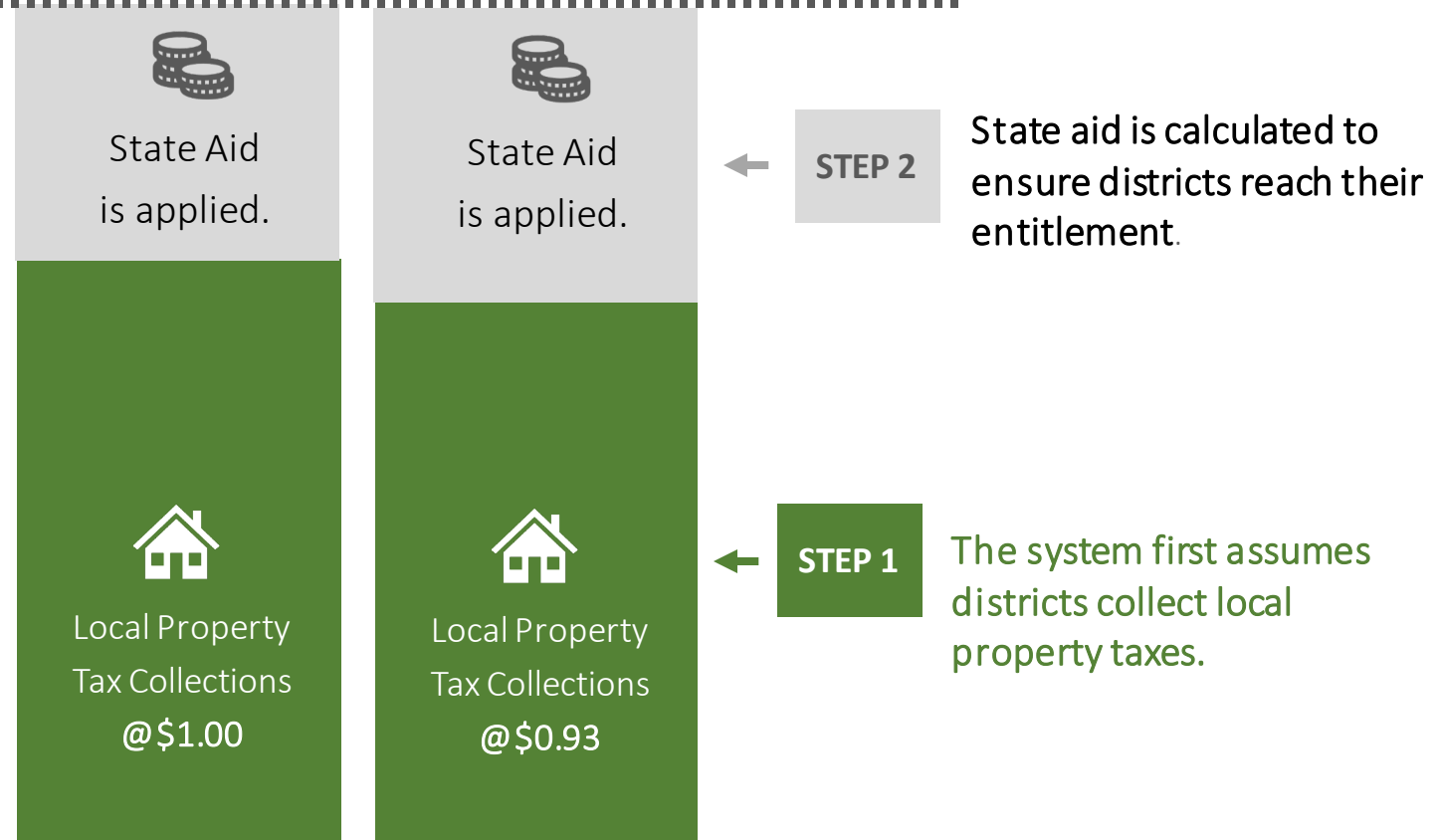
- After TY 2019 districts will be able to access **\$0.17 cents of enrichment tax** effort with a voter approval election.
- This provides **all districts**, even those who were already at \$1.17 in TY 2018 the ability to increase their enrichment revenue with voter approval.
- A district which had a \$1.17 tax rate in TY 2018 that was compressed to \$1.0683 will be able to access an additional \$0.0317 pennies through voter approval (This would be above of the district's new MCR plus the previously accessed \$0.1383 of tier two).

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.



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

STEP 1

Formula Entitlement

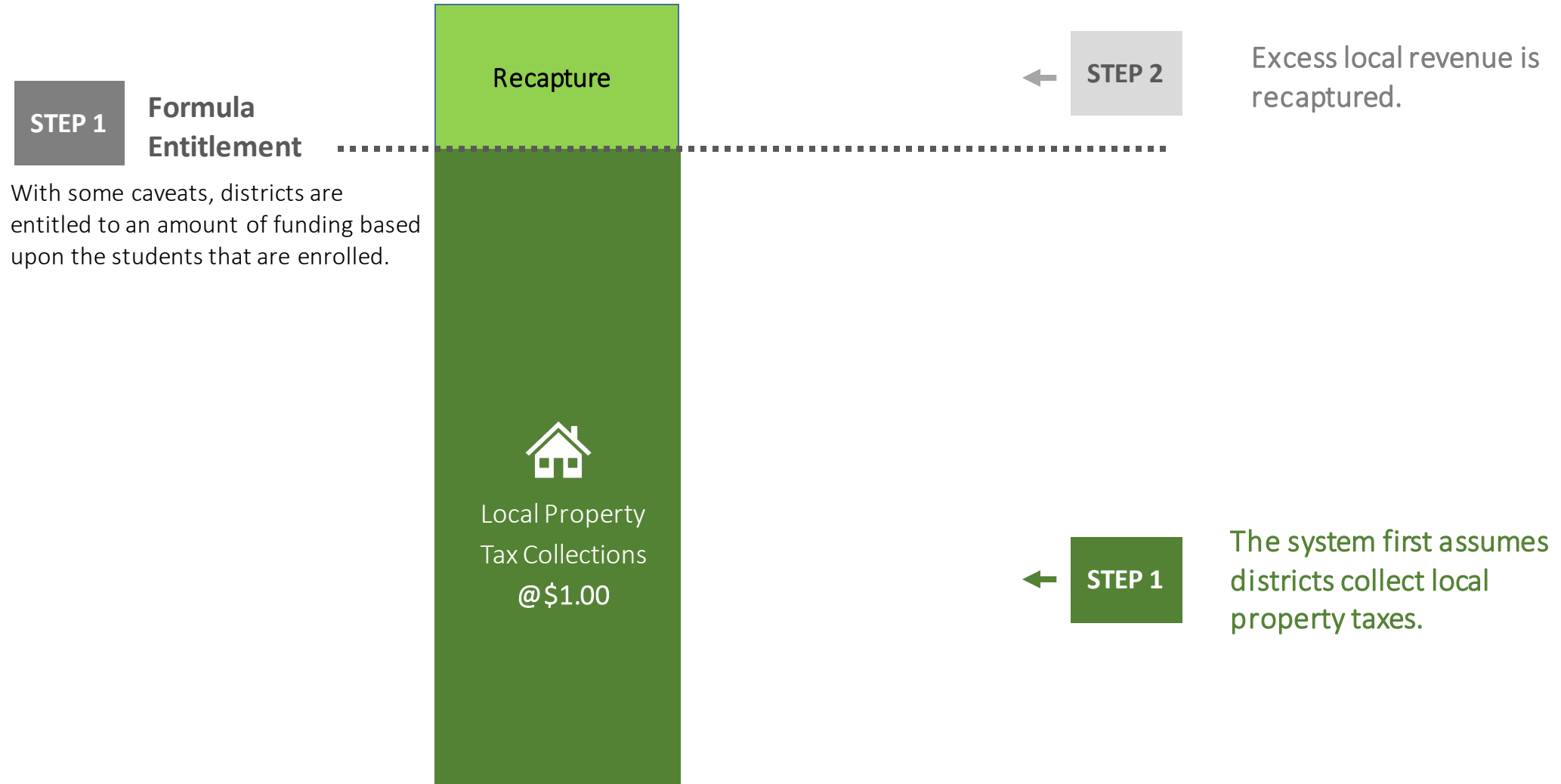
With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.



← **STEP 1**

The system first assumes districts collect local property taxes.

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

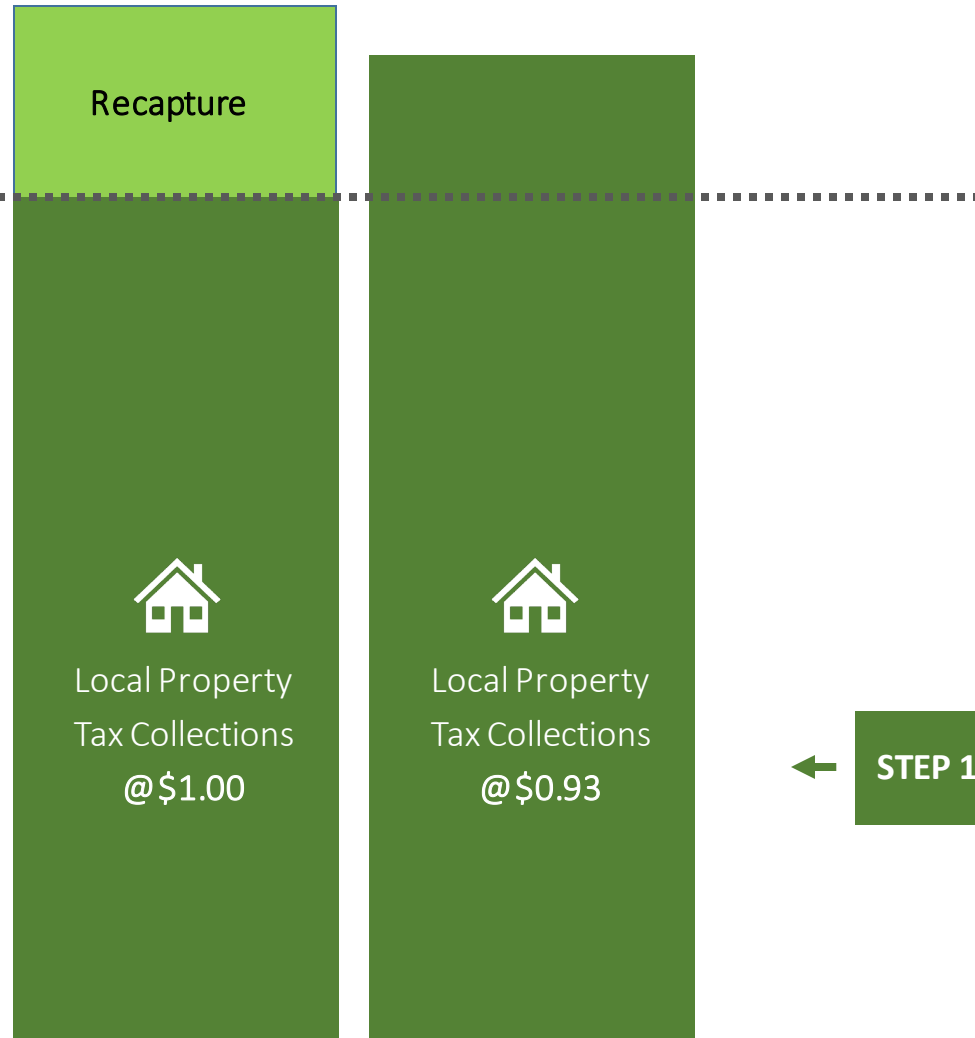


Local Property Tax Compression Does Not Impact School District Funding (Recapture Districts)

STEP 1

Formula Entitlement

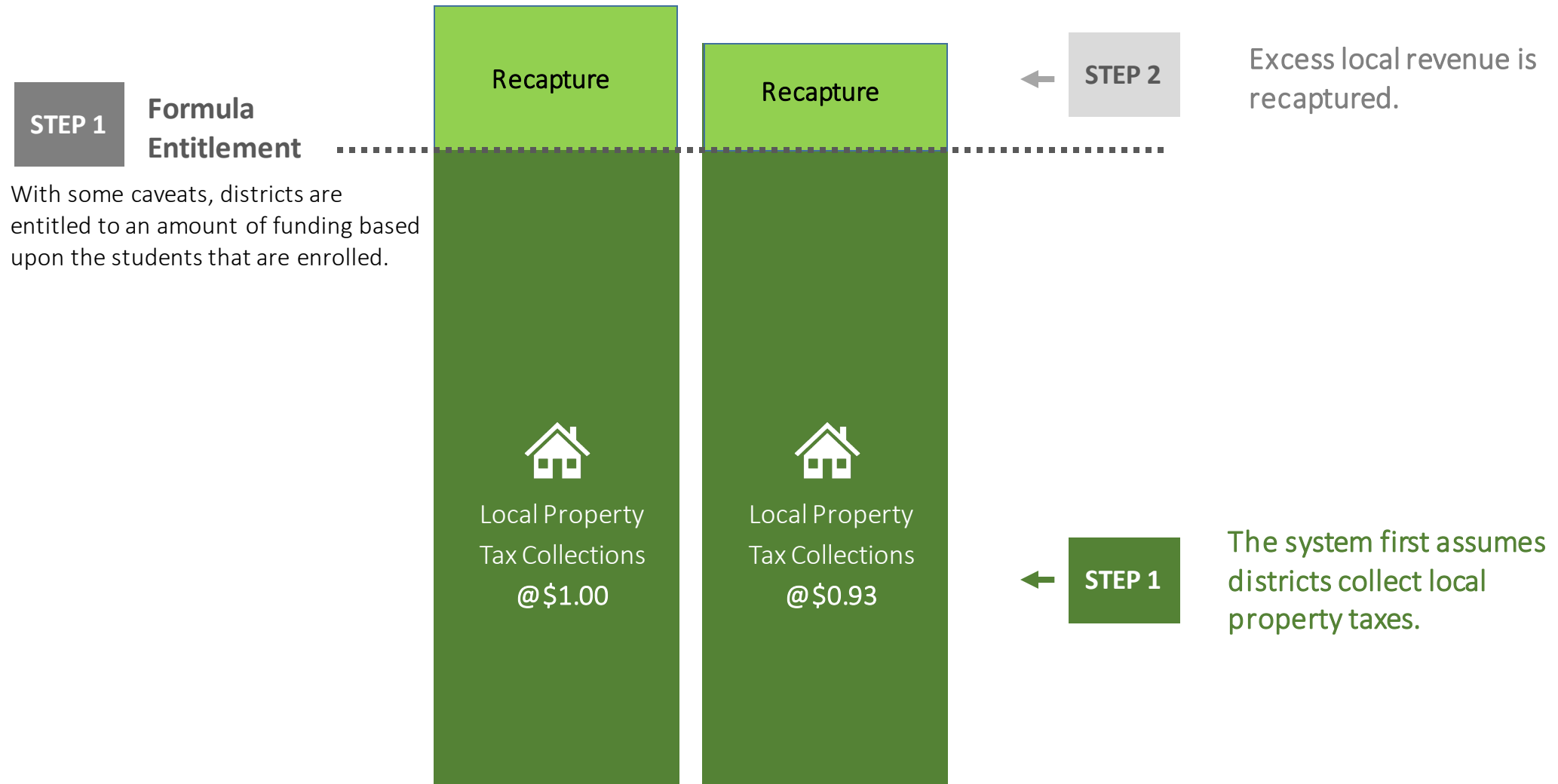
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STEP 1

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



TY 2020 TAX RATES

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

TY 2020: Tax Rates (2021 School Year)

- The compression to the copper pennies in TY 2019 was linked to the increase in the yield of those pennies from \$31.95 to \$49.28.
- There is no increase in the copper penny yield in TY 2020 and no further compression to the enrichment tax rate.
- **Only the Tier One tax rate will be further compressed** for TY 2020.



Tier One Tax Rate: (2021 School Year)

For tax year 2020 (SY 2021) state *and* local compression of tax rates will apply to the Tier I tax rate

- State and local compression work in parallel
- The greater amount of compression from the two calculations (lowest tax rate) will apply.



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.

- For the 2020 tax year the estimate of statewide property value growth is **4.01 percent**.
- The percentage for the 2021 and 2022 tax years will be available in **January of 2021**, prior to the next legislative session.

How does state compression work?

- The maximum compressed tax rate (MCR) for a school district is the prior year MCR (\$0.93) * (1.025 / state property value growth percentage).

$$\text{MCR} = 0.93 * (1.025 / 1.0401) = \$0.916494$$

- TEA will truncate (round down) at 4 decimal places - \$0.9164.



Key Takeaway

\$0.9164 will be the *actual* highest Tier One tax rate (MCR) for the 2021 school year.

Local Compression (2021 school year)

How does local compression work?

- Districts which grow faster than the statewide average growth rate will benefit from having their tax rates compressed further so that the district's local tax collections only increase by 2.5% year over year.

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

- For a district with local value growth of 10% for TY 2020

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

State and Local Compression

- A district's Tier One tax rate will be the **lesser of state or local compression**.
- Local compression lowers a district's M&O tax rate to keep the overall M&O taxes raised by the district **limited to a 2.5% increase a year**.
- Only districts with property value growth **faster** than the statewide average (4.01%) will have additional local compression.
- Local compression only applies to what used to be the first \$1.00 of a school districts M&O tax rate (now \$0.93 cents).

Frequently Asked Question (FAQ)



Question

How will districts know what their maximum Tier One tax rate will be for TY 2020 (FY 2021)?



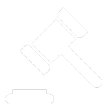
Answer

TEA will calculate and make available the maximum Tier One tax rate for each district.

Limit on Compression

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

- The lower limit on MCR for TY2020 will be $\$0.9164 * 0.9 = \0.8247 .
- Districts which grow more than 15.6% for the TY2020 will have their compression limited – **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

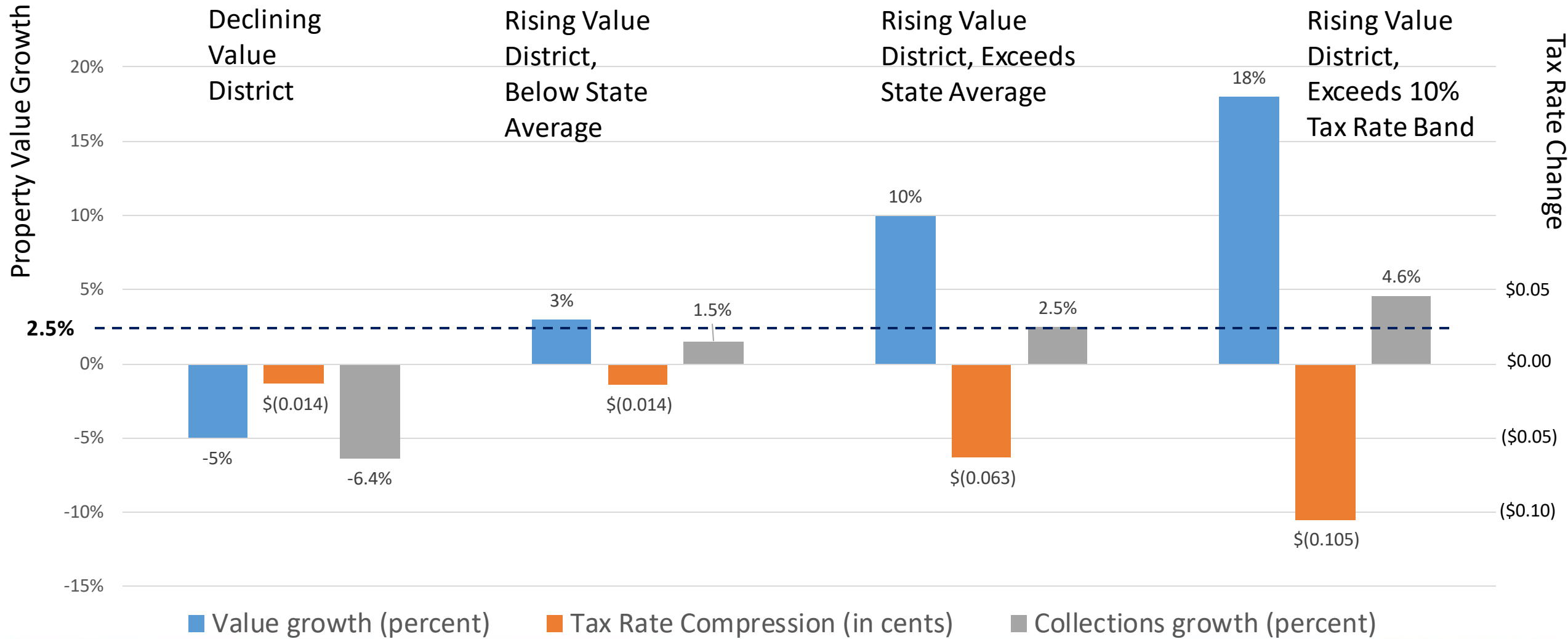
District Property Value Growth Percentage	Maximum Compressed Tax Rate (MCR)	Tax Rate Reduction
0%	0.9164	0.0132
1%	0.9164	0.0132
2%	0.9164	0.0132
4%	0.9164	0.0132
6%	0.8993	0.0307
8%	0.8826	0.0474
10%	0.8666	0.0634
12%	0.8511	0.0789
14%	0.8362	0.0938
16%	0.8247	0.1052
18%	0.8247	0.1052

Less than 4% property value growth = 2.5% State Compression

Property value growth between 4% and 15% = 2.5% Compression at Local Value Growth Levels

More than 15% property value growth means that local compression is limited.

TY 2020 Tax Rates Examples



TEA Technical Assistance in Calculating Tax Rates

Calculating Maximum Tax Rates

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

- TEA will initiate a **data collection in the spring of 2020** to collect school district property value growth estimates using the estimates districts receive from their county appraisal districts.
- The agency will convert the local values into projected estimates for comptroller certified values used for state funding ("T2" values) and then **TEA will compute the local property value growth rate and maximum compressed tax rates.**

- TEA will calculate districts' compressed tax rates based on the **greater of the statewide average growth rate or the individual district growth rate.**
- TEA will publish each district's maximum compressed Tier One tax rate in the **summer of 2020.**
- All districts will need to do is decide how much they want their enrichment tax rate to be. **Districts' adopted M&O tax rates should be the sum of the Tier One and Tier Two tax rates.**

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

TY 2020



\$0.9164
(State
Compression
MCR)



\$0.8247 (lowest local
compression rate for
districts with property
value growth in excess of
15.6%)

MCR's will range between
\$0.895 and \$0.8051*

TY 2021



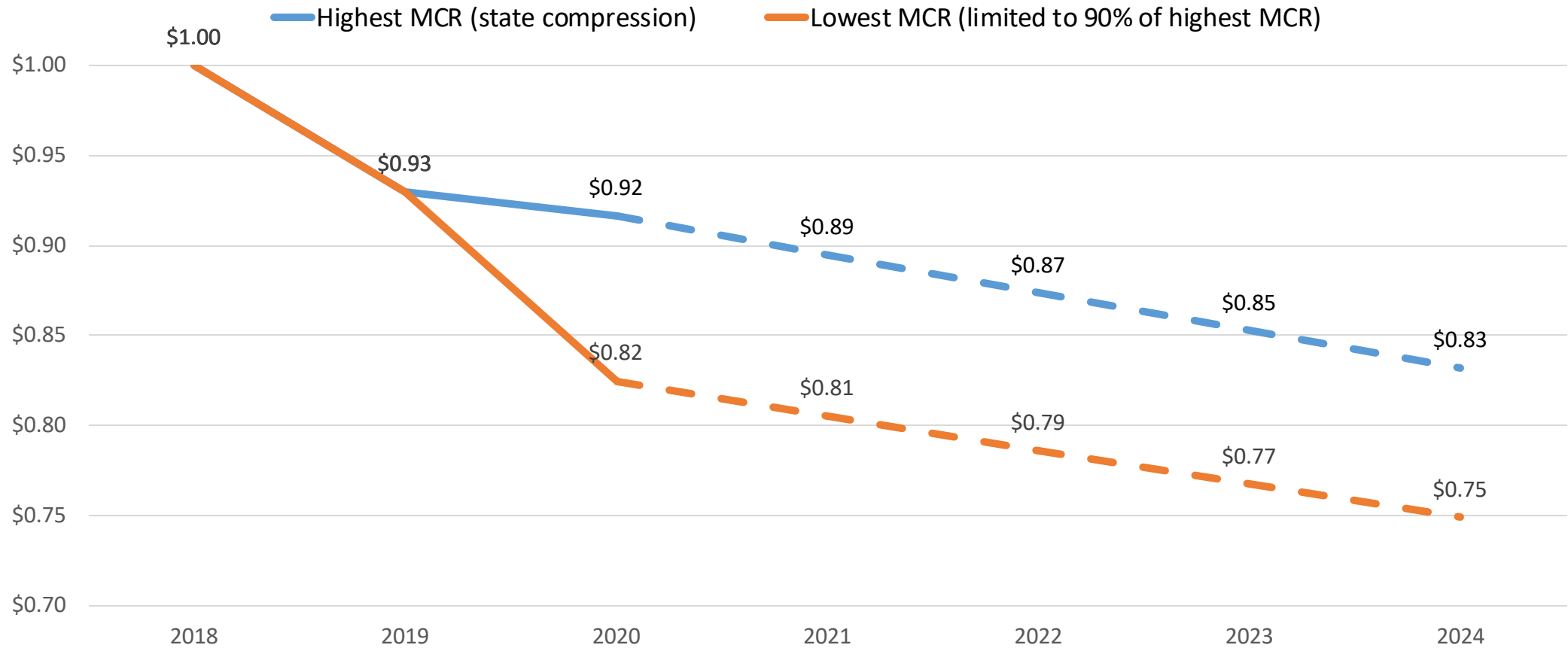
\$0.8946
(State
Compression
MCR)



\$0.8051 (lowest local
compression rate for
districts with average 2-
year property value
growth in excess of 11%)

Tax Compression – Tax Years 2019 through 2024*

Maximum MCRs and Minimum MCRs 2019-2024



*2021-2024 values assume a statewide property value growth rate of 5%

Tier Two and Voter Approval Elections

Voter Approval Elections for TY 2019 (refresher)

- In TY 2019, districts with M&O tax rates above or equal to \$0.97 are **prohibited from holding a voter approval election** (HB 3, Section 1.007, TEC 45.0021).
 - **Districts below \$0.97 can increase their M&O tax rate** to \$0.97 (\$0.93 Tier One tax rate + \$0.04 golden pennies) without a voter election.

Voter approval elections for TY 2020

In TY 2020, voter approval elections are allowed again.

But first, let's review what districts can do without an election.

- Districts can increase their M&O tax rate to the sum of their Maximum Compressed tax rate plus \$0.04 golden pennies without a voter election.
- **For TY 2020, districts can access a 5th golden penny**, without a voter election - but only with unanimous Board approval.
- This 5th golden penny will be available in every future year. It is **only in tax year 2020 that the unanimous Board approval is required.**

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 district's maximum compressed tax rate and
- \$0.17 of enrichment

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

*Five districts are authorized by special law to tax above \$1.17 in TY 2018 and will be able to exceed this amount.

Frequently Asked Question (FAQ)



Question

Can my district choose to adopt a rate below my district's MCR?



Answer

YES. Districts can choose to adopt tax rates lower than the maximums published by the agency. Districts which adopt lower tax rates will receive prorated basic allotments. The basic allotment will be prorated by the ratio of the adopted tax rate divided by the MCR.



Key Takeaway

Districts may adopt tax rates below the MCR's published by the agency if they choose.

Frequently Asked Question (FAQ)



Question

What happens if my district adopts a tax rate in excess of the rate authorized by the Tax and Education Codes under HB 3?



Answer

A tax rate out of compliance with the law is void. The agency, in calculating funding under the FSP, will reduce state aid or adjust recapture in an amount equal to the amount of revenue generated by a school district's tax effort that is not in compliance with HB 3.



Key Takeaway

Districts will not benefit from the additional tax revenue generated from a tax rate out of compliance. The district may be liable for other civil remedies for failure to appropriately reduce tax rates.

Frequently Asked Question (FAQ)



Question

What if my property values decline? Does my tax rate need to go back up?



Answer

No. Even districts with declining values will have a maximum compressed tax rate of \$0.9164 in TY 2020 (the state compression MCR).



Key Takeaway

No district will need to have a tax rate above \$0.9164 in order to receive the full basic allotment of \$6,160 for the 2021 school year.
Districts with declining values will not have to raise their tax rates.

Additional Resources - Templates

- TEA funding Template: [https://tea.texas.gov/Finance and Grants/State Funding](https://tea.texas.gov/Finance_and_Grants/State_Funding)
- TY 2019, TY 2020 Tax Rate Template: [https://tea.texas.gov/About TEA/Government Relations and Legal/Government Relations/House Bill 3](https://tea.texas.gov/About_TEA/Government_Relations_and_Legal/Government_Relations/House_Bill_3)

House Bill 3: Resources

Stay tuned for the most up-to-date information from TEA on the implementation of House Bill 3



tea.texas.gov/HB3

Visit tea.texas.gov/HB3 for the most up-to-date information



HB3info@tea.texas.gov

Email HB3info@tea.texas.gov with any questions