



To the Administrator Addressed

Commissioner Mike Morath

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DATE:	February 3, 2022
SUBJECT:	2022 Maximum Compressed Tax Rates
CATEGORY:	Funding Implications; Tax rate compression
NEXT STEPS:	Share with business and finance staff

This letter details matters regarding tax rates for the 2022 tax year (TY) and the related state funding implications for the 2022–2023 school year (SY) based on Texas Education Code (TEC) §§48.255, 48.2551, and 48.2552, and 19 Texas Administrative Code (TAC) §61.1000. It is important to remember that Tier One tax compression does not impact the overall level of funding a district is entitled to. Rather, tax compression only impacts the balance of state and local share of a school district’s total Tier One entitlement. This notice does not apply to open-enrollment charter schools.

Tier One tax compression for TY 2022 and SY 2022–2023

In TY 2022, state *and* local compression will apply to district Tier One tax rates (the portion of the M&O tax rate that previously comprised the first \$1.00 in prior law but is now based on the maximum compressed tax rate (MCR). State and local compression work in parallel, and districts receive the method which results in the greatest amount of compression (i.e., the lowest tax rate).

State Compression

State compression compares the extent to which estimated statewide property value growth (set by the General Appropriations Act at 4.36 percent for TY 2022) exceeds 2.5 percent to determine the MCR for TY 2022, calculated using the formula below. Additionally, in accordance with TEC, §48.2552(c), after accounting for additional state revenue determined under TEC, §48.2552(b), the maximum state compression rate for TY 2022 will continue to be reduced by an additional 0.003 pennies.

$$\text{TY 2022 State MCR} = 0.9134 \times (1.025 \div 1.0436) - 0.003 = \mathbf{\$0.8941}$$

Local Compression

Similarly, local compression uses individual district property value growth compared to 2.5 percent to determine the MCR. Since districts receive the lesser of the MCR calculated under state compression or local compression, of the districts with a prior year MCR of \$0.9134, only districts whose local value growth exceeds 4.36 percent (the statewide growth in property values) will have additional compression below \$0.8941 (the state compression MCR).

Limit on Local Compression

In order to maintain tax rate equity, no district may have an MCR less than 90 percent of any other district. Districts whose prior year MCR was 0.9134 and which grow more than 15.92 percent for TY 2022 will meet this limitation. Other districts whose prior year MCR was below 0.9134 may reach this limitation with property value growth rates below 15.92 percent. As a result, no district will have a maximum Tier One tax rate lower than \$0.8046 for TY 2022 and SY 2022–2023.

Tax Compression Interaction with Senate Bill (SB) 1 (87-3)

Senate Bill 1 of the 87th Texas Legislature, 3rd Called Session, increased the state mandatory homestead exemption applicable to school districts from \$25,000 to \$40,000 per eligible homestead and created additional state aid to hold districts harmless for the decrease in local tax revenue. The following guidance assumes that voters will approve the increase in May 2022. Because SB 1 increases the homestead exemption, local district taxable property values (and calculated estimates of district comptroller property values, i.e., “T2”) for tax year 2022 will reflect the \$40,000 exemption, while tax year 2021 will reflect the previous exemption of \$25,000. The calculation of state compression will be unaffected by this change, and the calculation of local tax compression will otherwise be identical to prior years, except for the differences in homestead exemption levels between tax years.

TEA Technical Assistance in Calculating Tax Rates

The Texas Education Agency will open a data collection from July 18, 2022, through August 1, 2022. This data collection will focus on local school district property tax data for TY 2022 as well as for historical local property values. The agency will use the locally estimated property growth rates to calculate estimates of comptroller-certified property values used for state funding purposes (i.e., “T2” property values) and then will determine and make available maximum compressed Tier One tax rates in August 2022. More details related to this data collection will come via email notifications to subscribers of Public School Funding Updates in July 2022. Sign up to receive email notifications for Public School Funding Updates using this link:

https://public.govdelivery.com/accounts/TXTEA/subscriber/new?topic_id=TXTEA_5.

Reminder about Tier Two and voter approval elections

Pursuant to Texas Tax Code, Chapter 26, beginning in TY 2021, districts could:

- levy up to the district’s maximum Tier One compressed rate as discussed above without voter approval;
- levy the district’s maximum Tier One compressed rate plus four golden pennies without voter approval;
- levy an additional fifth golden penny¹ without voter approval, but only with a majority board vote; and
- levy a total of 17 enrichment pennies above the district’s maximum Tier One compressed rate (any previously authorized pennies do not require voter approval).

The basis for determining whether voter approval elections are required will begin with the district’s TY 2022 MCR plus the number of enrichment pennies accessed in TY 2021.

¹ Districts that have already accessed more than four golden pennies are not eligible to add additional pennies without a voter approval election.

Tier	Pennies	Action Required to Access
Tier Two Copper Pennies	9 – 17	Voter Approval Required (or previously accessed in TY 2021)
Tier Two Golden Pennies	6 – 8	Voter Approval Required (or previously accessed in TY 2021)
Tier Two Golden Pennies	1 – 5	No Voter Approval, but Majority Board Vote Required (or previously accessed in TY 2021)
Tier One	0 - MCR	No Voter Approval

Maximum M&O tax rate for TY 2022 and SY 2022–2023

The maximum M&O tax rate for any district in TY 2022 will be \$1.0641 (\$0.8941 + \$0.17). Districts with local compression that exceeds state compression will have a lower maximum M&O tax rate.

Questions

Nothing stated in this correspondence supersedes the Texas Education Code or the Texas Administrative Code. If you have any questions related to maximum compressed tax rates as determined under TEC, §48.2551, please contact the division of state funding by phone at (512) 463-9238 or by email at taxprograms@tea.texas.gov.

Sincerely,

Leo Lopez, RTSBA
Associate Commissioner for School Finance & Chief School Finance Officer