

<b>DATE:</b>	<b>June 12, 2025</b>
<b>SUBJECT:</b>	<b>Tax Year 2025 Maximum Compressed Tax Rates</b>
<b>CATEGORY:</b>	<b>Funding Implications; Tax rate compression</b>
<b>NEXT STEPS:</b>	<b>Share with business and finance staff</b>

This correspondence details matters regarding tax rates for tax year (TY) 2025 and the related state funding implications for the 2025-2026 school year (SY) based on Texas Education Code (TEC), §§48.255, 48.2551 and 48.2552, and 19 Texas Administrative Code (TAC) §61.1000. As a reminder, the Tier One tax compression does not impact the overall level of funding to which a district is entitled. 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. Nothing shared in this correspondence supersedes the Texas Tax Code, Texas Education Code or the Texas Administrative Code.

### Tier One Tax Compression

State and local compression work in parallel to determine a district's maximum compressed tax rate (MCR) for Tier One. Districts receive the method which results in the greatest amount of compression (i.e., the lowest tax rate) for this portion of Maintenance and Operations (M&O) taxes.

### State Compression

To determine the MCR for a given tax year, state compression: (1) compares the extent to which estimated statewide property value growth (set by the General Appropriations Act at 5.60 percent for TY 2025) exceeds 2.5 percent, and (2) may further reduce the maximum state compression rate in accordance with TEC, §48.2552(c), after accounting for additional state revenue as determined under TEC, §48.2552(b). See calculations below.

$$\text{TY 2025 State Compression Rate: } 0.6855 \times (1.025 \div 1.056) - 0.0331 = \mathbf{\$0.6322}$$

### Local Compression

Similarly, local compression uses individual district property value growth compared to 2.5 percent to determine the MCR, using the prior-year MCR for each district as a starting point. Since districts receive the lesser of the MCR calculated under state compression or local compression, a district's MCR may be lower than the state MCR of \$0.6322, depending on the district's prior-year MCR and rate of local property value growth compared to 5.60 percent.

### Limit on Local Compression

To maintain tax rate equity, no district may have an MCR less than 90 percent of any other district. The limit on local compression for TY 2025 is \$0.5689 (\$0.6322 \* 0.90). This results in a range of possible TY 2025 MCRs of \$0.5689 to \$0.6322.

## **Additional Pending Tax Rate Compression Calculations**

The Texas Education Agency (TEA) will open a data collection (the Local Property Value Survey or LPVS) from July 18, 2025, through August 1, 2025. This data collection will focus on local school district property tax data for TY 2025 and historical local property values. TEA will use the locally estimated property value growth rates to calculate estimates of Comptroller-certified taxable 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 2025. More details related to this data collection will be shared in the July 2025 Public School Funding Updates newsletter. Please visit <https://public.govdelivery.com/accounts/TXTEA/subscriber/new> to sign up for these email updates.

## **Tax Compression Interaction with Senate Bill (SB) 4 and SB 23**

Senate Bill 4 of the 89th Texas Legislature increased the state mandatory homestead exemption applicable to school districts from \$100,000 to \$140,000 per eligible homestead and created additional state aid to hold districts harmless for the decrease in local tax revenue. Senate Bill 23 of the 89th Texas Legislature increased the homestead exemption of a person who is elderly or disabled applicable to school districts from \$10,000 to \$60,000 per eligible person’s residence homestead and created additional state aid to hold districts harmless for the decrease in local tax revenue.

The following guidance assumes that the bills will be enacted, and voters will approve the increases in November 2025. Because SB 4 increases the state mandatory homestead exemption and SB 23 increases the homestead exemption of a person who is elderly or disabled, local district taxable property values (and calculated estimates of district Comptroller-certified taxable property values, i.e., “T2”) for tax year 2025 will reflect the \$140,000 homestead exemption and the \$60,000 homestead exemption for elderly or disabled persons. The tax year 2024 “T2” value will reflect the previous homestead exemption of \$100,000 and the homestead exemption for elderly or disabled persons of \$10,000.

The calculation of local tax compression will otherwise be identical to prior years, except for the differences in homestead exemption levels between tax years.

## **Reminder about Tier Two and Voter Approval Tax Rate Elections**

Pursuant to Texas Tax Code, §26.08(n), the maximum tax rate districts can adopt without holding a Voter Approval Tax Rate Election is the district’s maximum Tier One compressed rate as discussed above, plus the greater of:

- five golden pennies; or
- the number of Tier Two voter-authorized enrichment pennies set in the prior year

The basis for determining whether voter approval elections are required will begin with the district’s TY 2025 MCR plus the number of enrichment pennies authorized and set in TY 2024, less any pennies adopted under disaster provisions. See Texas Tax Code, §26.042(e), (f), and (g).

<b>Tier</b>	<b>Pennies</b>	<b>Action Required to Access</b>
Tier Two Copper Pennies	9 – 17	Voter Approval Required (unless previously authorized in prior tax year)
Tier Two Golden Pennies	6 – 8	Voter Approval Required (unless previously authorized in prior tax year)
Tier Two Golden Pennies	1 – 5	No Voter Approval Required
Tier One	0 - MCR	No Voter Approval Required

## **Maximum M&O Tax Rate for TY 2025 or SY 2025-2026**

The maximum M&O tax rate for any district in TY 2025 will be \$0.8022 (\$0.6322 + \$0.17)<sup>1</sup>. Districts with local compression that exceeds state compression will have a lower maximum M&O tax rate.

## **TEA Technical Assistance in Calculating Tax Rates**

A Tax Rate and MCR Template is available under the District & Charter Planning Tools subheading on the [State Funding webpage](#), which can help districts understand the inputs and calculations behind the TY 2025 MCRs. Districts will need to enter the TY 2025 locally certified values based on the \$140,000 state homestead exemption to calculate accurate growth rates.

Districts are still required to complete the LPVS to calculate their MCR. Once the MCR is approved by TEA in August 2025, districts may adopt their 2025 tax rates in accordance with Tax Code, §26.08. A district's MCR will not be adjusted after approval by the TEA unless an appeal is granted. Please note that the purpose of this template is limited to assistance only and does not anticipate any tax rate increase that the district may be considering. Legal responsibility to adopt a tax rate in accordance with the law remains with the district, which should consult with its own legal counsel.

## **Questions**

If you have any questions related to maximum compressed tax rates as determined under TEC, §48.2551, please contact the Division of State Funding, Forecasting and Fiscal Analysis by phone at (512) 463-9238 or by email at [taxprograms@tea.texas.gov](mailto:taxprograms@tea.texas.gov).

<sup>1</sup> Except for certain Harris County districts with special authorization.