



# To the Administrator Addressed

Commissioner Mike Morath

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<b>DATE:</b>	<b>June 22, 2023</b>
<b>SUBJECT:</b>	<b>Tax Year 2023 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 letter details matters regarding tax rates for the 2023 tax year (TY) and the related state funding implications for the 2023–2024 school year (SY) based on Texas Education Code (TEC) §§48.255, 48.2551, and 48.2552, and 19 Texas Administrative Code (TAC) §61.1000. **Please note that this correspondence is subject to change pending outcomes of the 88<sup>th</sup> Texas Legislature called special session(s).** 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 2023 and SY 2023–2024

In TY 2023, 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 4.43 percent for TY 2023) exceeds 2.5 percent to determine the MCR for TY 2023, 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 2023 will be reduced by an additional 8.25 pennies.

$$\text{TY 2023 State MCR: } 0.8941 \times (1.025 \div 1.0443) - 0.0825 = \mathbf{\$0.7950}$$

### 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 \$0.7950, depending on the district’s prior-year MCR and rate of local property value growth compared to 4.43%.

### 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. The limit on local compression for TY2023 is \$0.7155 (\$0.7950 \* 0.90).

### Additional Pending Tax Rate Compression Calculations

The Texas Education Agency (TEA) will open a data collection from July 18, 2023, through August 1, 2023. This data collection will focus on local school district property tax data for TY 2023 and historical local property values. The agency will use the locally estimated property value 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 2023. More details related to this data collection will come via email notifications to subscribers of Public School Funding Updates in July 2023. 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](https://public.govdelivery.com/accounts/TXTEA/subscriber/new?topic_id=TXTEA_5).

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

Pursuant to Texas Tax Code, Chapter 26, §26.08(n), the maximum rate districts can adopt without going to the voters for 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 (subject to compression of the copper pennies only in a year when the state increases the guaranteed yield on those pennies).

The basis for determining whether voter approval elections are required will begin with the district’s TY 2023 MCR plus the number of enrichment pennies authorized and set in TY 2022, less any pennies adopted under disaster provisions. See Texas Tax Code, §§ 26.042(e), (f) and (g).

Tier	Pennies	Action Required to Access
Tier Two Copper Pennies	9 – 17	Voter Approval Required (or previously authorized and set in TY 2022)
Tier Two Golden Pennies	6 – 8	
	1 – 5	No Voter Approval
Tier One	0 - MCR	No Voter Approval

**Maximum M&O tax rate for TY 2023 and SY 2023–2024**

The maximum M&O tax rate for any district in TY 2023 will be \$0.9650 (\$0.7950 + \$0.17)<sup>1</sup>. Districts with local compression that exceeds state compression will have a lower maximum M&O tax rate.

**Potential Legislative Action**

Nothing stated in this correspondence supersedes the Texas Tax Code, Texas Education Code or the Texas Administrative Code. Legislation currently under consideration could impact tax rates, which could impact this guidance. Additional updates will be issued as appropriate pending outcomes of the 88th Texas Legislature called special session(s).

**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 by phone at (512) 463-9238 or by email at [taxprograms@tea.texas.gov](mailto:taxprograms@tea.texas.gov).

Sincerely,

Amy Copeland  
Director of State Funding

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