



To the Administrator Addressed

Commissioner Mike Morath

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DATE:	January 9, 2020
SUBJECT:	House Bill 3 (HB 3) Implementation: 2020 Tax Rates
CATEGORY:	Funding Implications; Tax rate compression
NEXT STEPS:	Share with business and finance staff

House Bill (HB) 3, was passed by the 86th Legislature, 2019, and signed into law by Governor Abbott on June 11, 2019.

This letter details matters regarding tax rates for the 2020 tax year (TY) and the related state funding implications for the 2020–2021 school year (SY) based on HB 3.

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.

After adjusting for other changes related to the transition from prior law to HB 3, maintenance and operations (M&O) tax rates for TY 2019 were compressed by the state compression rate of 93%, or 0.93. M&O tax rates for TY 2020 will continue to be compressed using either state or local compression percentage rates using a base of 0.93 *for both*.

Tier one tax compression for TY 2020 and SY 2020–2021

In TY 2020, state *and* local compression of tax rates 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 now based on \$0.93 under HB 3 for TY 2019 and SY 2019–2020). 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 4.01 percent for TY 2020) exceeds 2.5 percent to determine the state maximum compressed rate (MCR) for TY 2020, calculated as follows:

$$\text{TY 2020 MCR} = 0.93 \times (1.025 \div 1.0401) = \mathbf{\$0.9164.}$$

Local Compression

Similarly, local compression uses individual district property value growth compared to 2.5 percent to determine MCR. Since districts receive the greater of the MCR calculated under state compression or local compression, only districts whose local value growth exceeds 4.01 percent (the statewide growth in property values) will have additional compression below \$0.9164 (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 which grow more than 15.58 percent for TY 2020 will meet this limitation. As a

result, no district will have a maximum tier one tax rate lower than \$0.8247 for TY 2020 and SY 2020–2021.

TEA Technical Assistance in Calculating Tax Rates

The Texas Education Agency will initiate a data collection scheduled to open on May 1, 2020. This data collection will focus on local school district property tax data for TY 2020 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 the agency will calculate and make available maximum compressed tier one tax rates in the summer of 2020. More details related to this data collection will come via TAA in April 2020.

Tier two and voter approval elections

There will be no further compression to the tier two tax rate in TY 2020, because copper penny compression in TY 2019 was linked to the increase in the copper penny yield from \$31.95 to \$49.28. For TY 2019, school districts were prohibited from holding a voter approval election unless meeting specific exception criteria set forth under HB 3.

Beginning in TY 2020, districts may:

- 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 unanimous 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 2020 MCR plus the number of enrichment pennies accessed in TY 2019.

Tier	Pennies	Action Required to Access
Tier Two Copper Pennies	9 - 17	Voter Approval Required (or previously accessed in TY 2019)
Tier Two Golden Pennies	6 – 8	
	5	Unanimous Board Vote or Voter Approval Required (or previously accessed in TY 2019)
	4	No Voter Approval
Tier One	0 - MCR	No Voter Approval

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

Maximum M&O tax rate for TY 2020 and SY 2020–2021

The maximum M&O tax rate for any district in TY 2020 will be \$1.0864² (\$0.9164 + \$0.17). Districts with local compression that exceeds state compression, will have a lower maximum M&O tax rate.

Questions

Nothing stated in this TAA supersedes Texas Education Code (TEC) or Texas Administrative Code (TAC). If you have any questions related to this TAA on tax rates under House Bill 3, please contact the division of state funding by phone at (512) 463-9238 or by email at HB3info@tea.texas.gov.

Sincerely,

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

² Five districts were authorized under special law to tax above \$1.17 in tax year 2018 and will therefore be able to exceed \$1.0864 in tax year 2020.