

DATE:	August 3, 2023
SUBJECT:	Preliminary Maximum Compressed Tax Rates (MCR) and Adoption of Tax Rate for Tax Year 2023
CATEGORY:	Funding Implications; Adoption of Tax Rate for Tax Year 2023 (2023-2024 School Year)
NEXT STEPS:	Share with business and finance staff

This correspondence is to inform you about preliminary maximum compressed tax rates (MCR) for school districts' maintenance and operations (M&O) tax rates required under Texas Education Code (TEC) §§ 48.2551 and 48.2552, [Senate Bill \(SB\) 2](#) (88th Second Called Session, 2023), and [19 Texas Administrative Code \(TAC\) §61.1000](#), for the 2023 tax year (school year 2023-2024). This notice does not apply to open-enrollment charter schools.

Background

Due to timing of recent legislative actions (specifically, SB 2), MCR determinations for tax year 2023 were calculated in *two steps*, incorporating laws effective with the 88th Texas Legislature, Regular (88-R) and Second Called (88-2) sessions. State and local compression apply to districts' Tier One tax rates. 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). As a reminder, tax compression does not impact the overall level of funding a district is entitled to. Rather, tax compression only impacts the balance of the state and local share of a school district's total Tier One entitlement.

Today's correspondence links to a published list of preliminary district MCRs as determined based on information submitted via the LPVS (*Step 1*) and adjusted based on provisions of SB 2 (*Step 2*).

Step 1: Local Property Value Survey

The Texas Education Agency (TEA) conducted a survey of local taxable property value growth through the Foundation School Program (FSP) system in the Texas Education Agency Login (TEAL). The Local Property Value Survey (LPVS) opened on July 18, 2023, and closed on August 1, 2023. Due to timing of legislative decisions, the LPVS application calculated MCRs under Regular session (88-R) law, before additional compression is applied and using values that recognize a homestead exemption of \$40,000. Consequently, the MCR shown in the LPVS in TEAL does not correctly reflect a district's final MCR as determined under SB 2 (88-2).

These are considered final and will not be adjusted unless an appeal is granted. Refer to the MCR Status and Appeals section below for more information.

Step 2: Tax Compression Interaction with SB 2 (88-2) and Preliminary MCR determinations

SB 2 of the 88th Texas Legislature, Second Called Session (contingent on the passage of HJR 2), increases the state mandatory homestead exemption applicable to school districts from \$40,000 to \$100,000 per eligible homestead and creates additional state aid to hold districts harmless for the decrease in local tax revenue. SB 2 (88-2) also directs the TEA to reduce districts' MCRs by an additional \$0.107, after determining districts MCRs under §§48.2551 and 48.2552(b), if applicable, and subject to the limit on local compression (90% equity floor), as follows:

TY 2023 State MCR¹: $0.8941 \times (1.025 \div 1.0443) - 0.0825 = \$0.7950 - \$0.1070 = \mathbf{\$0.6880}$

Where:

- 0.8941 = TY 2022 State MCR
- 1.025 = Value growth permitted by TEC, §48.255
- 1.0443 = Comptroller projection of statewide value growth for TY 2023 per the General Appropriations Act (GAA)²
- 0.0825 = Additional reduction for savings from the 90% equity floor from the prior biennium per the GAA³
- 0.7950 = State MCR before SB 2
- 0.1070 = Additional compression from SB 2
- 0.6880 = TY 2023 State MCR

SB 2 (88-2) was signed by the Governor and if enacted, local district MCRs for TY 2023 will range from \$0.6880 to \$0.6192.

Prior to publishing preliminary MCRs for tax year 2023, TEA used the information submitted by school districts in the LPVS (step 1) and then made the additional calculations outlined above (in step 2) to incorporate additional tax reduction required by SB 2 (88-2).

The preliminary MCR values for each district are available on the [State Funding webpage](#) under the District & Charter Planning Tools heading.

MCR Status and Appeals

Now that districts have submitted the LPVS data to TEA and received approval of the submission through the FSP system (the district's LPVS status shows as "Approved"), no additional action is required unless the district chooses to appeal the calculated rate. However, as outlined above, districts must wait for TEA to incorporate additional tax rate reduction calculations under SB 2 and determine preliminary MCRs prior to adopting a tax rate. Pursuant to TEC, §48.2551, districts that did not submit their LPVS will receive the lesser of the prior year MCR or the state compression rate of \$0.6880 [$\0.7950 (88-R) minus $\$0.1070$ (88-2)] as their MCR.

The LPVS must have been submitted by the August 1, 2023, deadline and approved by TEA for the district to be eligible for an appeal. District appeals must be received by August 11, 2023, in compliance with [19 TAC §61.1000](#), and should be submitted electronically to the attention of Amy Copeland on district letterhead, signed by the superintendent, to taxprograms@tea.texas.gov.

Final Determinations

If TEA receives an appeal of a preliminary MCR, a final determination will be issued to the school district no later than August 31, 2023. Final MCRs will also incorporate adjustments under SB 2 (88-2). The 2023–2024 Summary of Finances (SOF) reports will be updated in February 2024 to incorporate final TY 2023 MCRs when the TEA receives preliminary state certified property values and total adopted M&O tax rates for TY 2023 from the Texas comptroller's Property Tax Assistance Division.

¹ As defined by TEC, §48.255

² Article III, Rider 3

³ Determined in accordance with TEC, §48.2552(c)

Tax Rate and MCR Template Tool

On July 17, 2023, the TEA posted a new Tax Rate and MCR Template on the [State Funding webpage](#) under the District & Charter Planning Tools subheading, to help districts understand the calculations behind the TY 2023 MCRs. In [correspondence](#) dated July 17, 2023, districts were instructed to complete the LPVS and wait for preliminary MCR determinations to be published by TEA, which incorporates additional tax reduction calculations. 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.

Tax Rate Adoption

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 and determined in step 2 by TEA, plus the greater of:

- five golden pennies; or
- the number of Tier Two voter-authorized enrichment pennies levied in the prior year (subject to compression of the copper pennies only in a year when the state increases the guaranteed yield on those copper pennies via an increase in the basic allotment).

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 levied in TY 2022, less any pennies adopted under disaster provisions. See Texas Tax Code, §§26.042(e), (f) and (g).

Districts will use the preliminary MCR (or wait for their final MCR, if appealed) published on TEA's website to calculate the M&O portion of their voter-approval tax rates (VATRs), and these rates will be used for state aid purposes. For all of the other Truth-in-Taxation calculations that districts do using the worksheets on the comptroller's website that help calculate the allowed debt rate and no-new-revenue rate, districts will use the lower certified value with the \$100,000 homestead exemption recognized. This is important because it will be the value used to collect taxes for TY 2023 (SY 2023–2024).

If voters approve the increased homestead exemption, the state certified "T2" values will reflect the \$100,000 exemption and will be incorporated into the SOF reports in February 2024. When this happens, the local share of the FSP will be adjusted to reflect the increased homestead exemption.

Questions

If you have any questions related to the LPVS or calculation of the TY 2023 MCRs, please contact taxprograms@tea.texas.gov.