



LEGISLATIVE BUDGET BOARD

Foundation School Program (FSP) and Property Taxes

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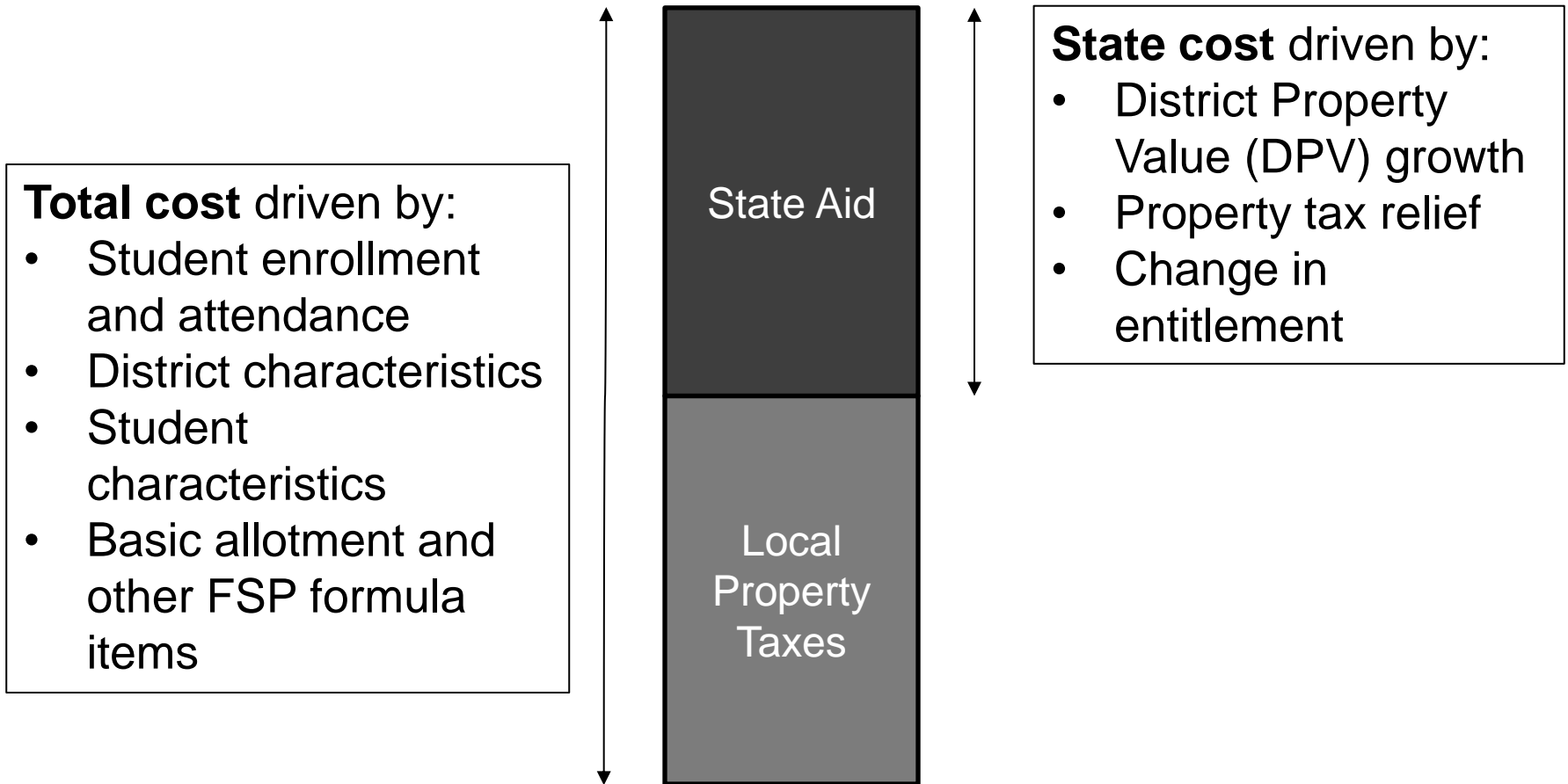
LEGISLATIVE BUDGET BOARD STAFF

FEBRUARY 2025

Foundation School Program Overview

- The Foundation School Program (FSP) is the principal vehicle for distributing state aid to school districts.
- District maintenance and operations (M&O) entitlement is based on student average daily attendance, student characteristics, and other factors.
- Entitlement is funded with local property taxes, then state aid
- Excess local revenue is recaptured and redistributed

FSP State Cost vs. Total Cost Drivers



Funding Increases Included in HB1

- \$8.75 billion in contingent funding, including
 - \$4.85 billion for public education funding increases;
 - **\$3.5 billion for property tax relief**; and
 - \$400.0 million for increases to the school safety allotment.
- \$1.7 billion for projected weighted student growth
- **\$3.0 billion in GR for HB3 tax compression**
- \$804.7 million for increases to the golden penny yield
- \$754.3 million for projected increases in TIA participation

2026-27 Property Tax Relief

- HB1 includes an estimated \$51.0 billion to maintain all property tax relief provided since enactment of HB3, 86(R), outlined in TEA, Rider 76.

Rider 76 subsection	Amount, in billions	Description
-	\$44.5	Cost of maintaining all property tax relief provided since HB3 was passed excluding new property tax relief provided during 2026-27.
(b)	\$2.0	Cost of HB3 compression due to projected DPV growth in current biennium.
(c)	\$1.0	Cost of HB3 compression due to floor savings from 2024-25, resulting in SCP decrease of 3.37 cents.
(d)	\$3.5	Contingency for property tax relief.
(a)	\$51.0	Cost of all property tax relief since HB3 was passed plus \$3.5 billion contingency for property tax relief. Sum of above amounts.

New Property Tax Relief

- \$6.5 billion of the \$51.0 billion is for new property tax relief for the 2026-27 biennium
 - \$3.0 billion related to HB3 compression
 - \$3.5 billion in funding for property tax relief, contingent upon enacting legislation

HB 3 Property Tax Relief

- Prior to HB 3, 86R, most Tier 1 tax rates were \$1.00 per \$100 of property valuation.
- As property values grew, so did local property taxes, which reduced the state share of the FSP.
- HB 3 slowed collection growth by reducing district Tier 1 tax rates in proportion to property value growth.

HB 3 Tax Relief Mechanisms

- Tax Year 2019: maximum Tier 1 rate compressed to \$0.93 per \$100 of taxable property valuation
- Beginning Tax Year 2020: Additional Tier 1 rate reduction using two main mechanisms:
 - (1) Annual district and statewide rate compression in proportion to property value growth
 - (2) Biennial reduction in statewide maximum rate (SCP) using state savings from prior biennium that resulted from limitation on district compression (TEC 48.2552(c))

2026-27 HB 3 Compression

HB3 Mechanism	Description	2026-27 GR Cost to State	SCP decrease FY 2025 to FY 2027	SCP FY 2027
(1)	DPV Growth ¹	\$2.0 billion	\$0.0343	-
(2)	TEC 48.2552(c) ²	\$1.0 billion	\$0.0337	-
Total		\$3.0 billion	\$0.0680	\$0.6175

¹Maximum Compressed Rate (MCR) compression due to statewide projected DPV growth of 5.50 percent in fiscal year 2026 and 4.94 percent in fiscal year 2027. Outlined in TEA Rider 76(b).

²TEC 48.2552(c) requires the Legislature to appropriate the state savings realized by capping district compression at the MCR Floor during the prior biennium (2024-25) to reduce the SCP by an additional amount in the following biennium (2026-27). Outlined in TEA Rider 76(c).

Maintaining Property Tax Relief

- Approximately \$44.5 billion of the \$51.0 billion is for maintaining property tax relief provided by 86th, 87th, and 88th Legislatures, including:
 - 86th Legislature:
 - HB3 – Tier 1 rate compression, including onetime rate reduction and ongoing rate reduction in proportion to property value growth, and Tier 2 copper penny compression due to the accompanying basic allotment increase
 - 87th Legislature:
 - Ongoing HB3 compression
 - SB8 – Allowed new homeowners to obtain homestead exemption during first year after purchase
 - SB12 - Reduced tax ceiling for homeowners over 65 or with disabilities when district's MCR compresses
 - SB2, 87(3) - Increased homestead exemption from \$25,000 to \$40,000
 - 88th Legislature:
 - Ongoing HB3 Compression
 - SB2, 88(2) – Increased homestead exemption from \$40,000 to \$100,000; reduced MCRs by \$0.107; 20.0 percent temporary circuit breaker on certain real property other than homesteads



LEGISLATIVE BUDGET BOARD

Contact the LBB

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