



LEGISLATIVE BUDGET BOARD

Overview of Foundation School Program and Property Tax Relief

PRESENTED TO SENATE COMMITTEE ON LOCAL GOVERNMENT

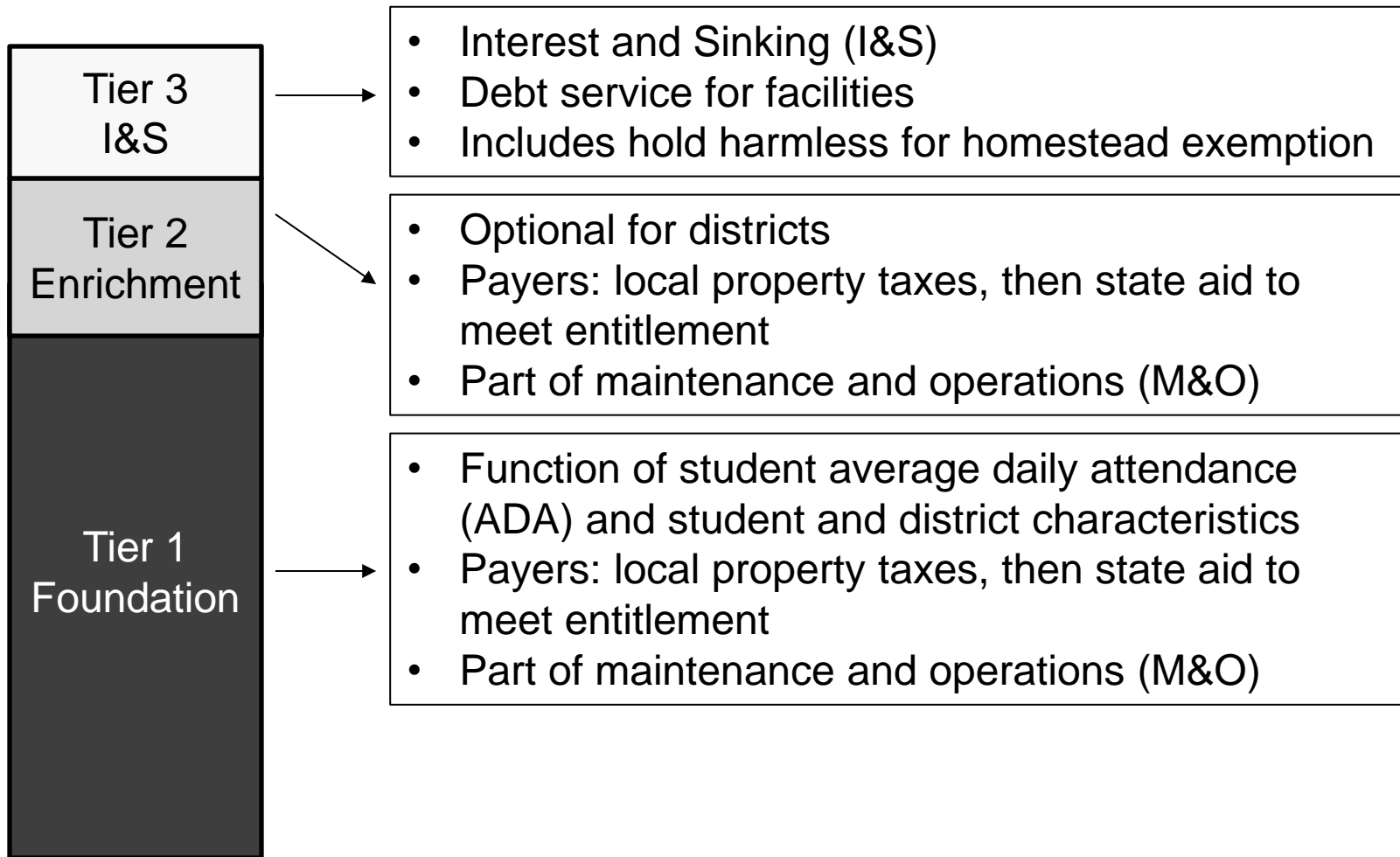
LEGISLATIVE BUDGET BOARD STAFF

NOVEMBER 2024

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.
- First payer of FSP entitlement is local property taxes, then state aid
- Excess local revenue is recaptured and redistributed

Foundation School Program Overview

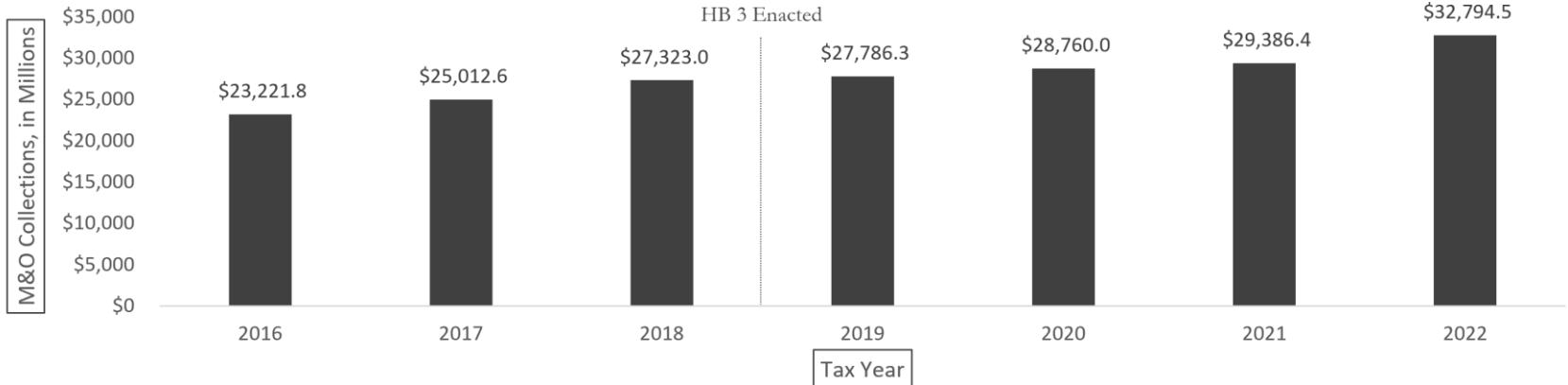


HB 3 Property Tax Relief

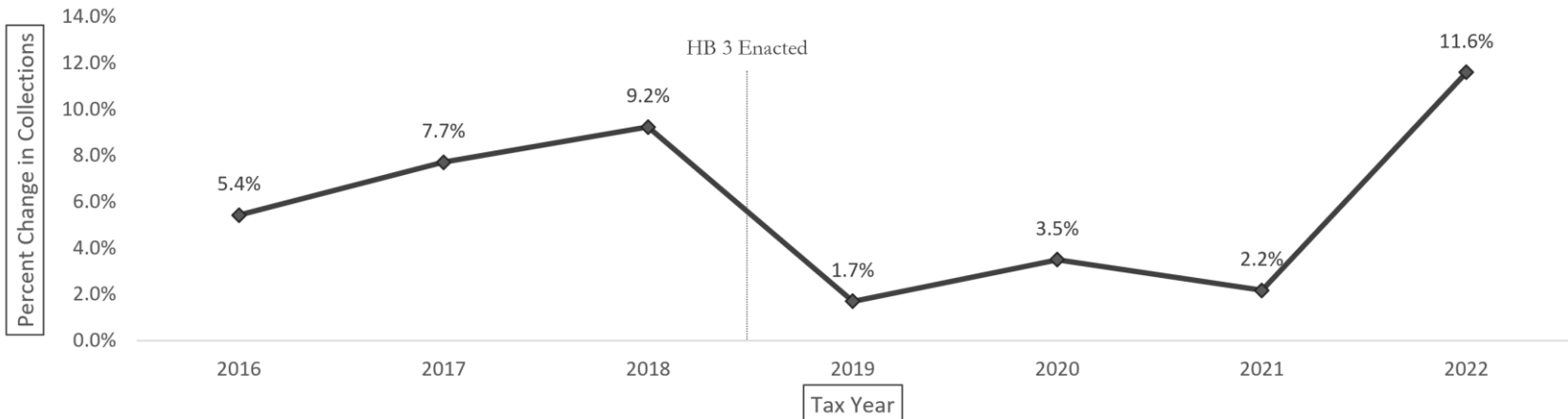
- Prior to HB 3, 86R, most Tier 1 tax rates were \$1.00 per \$100 of property valuation.
- As property values grew, so did local property taxes, which reduced the state share of the FSP.
- HB 3 slowed collection growth by reducing district Tier 1 tax rates in proportion to property value growth.

HB 3 Property Tax Relief

School District M&O Property Tax Collections, Tax Years 2016-22

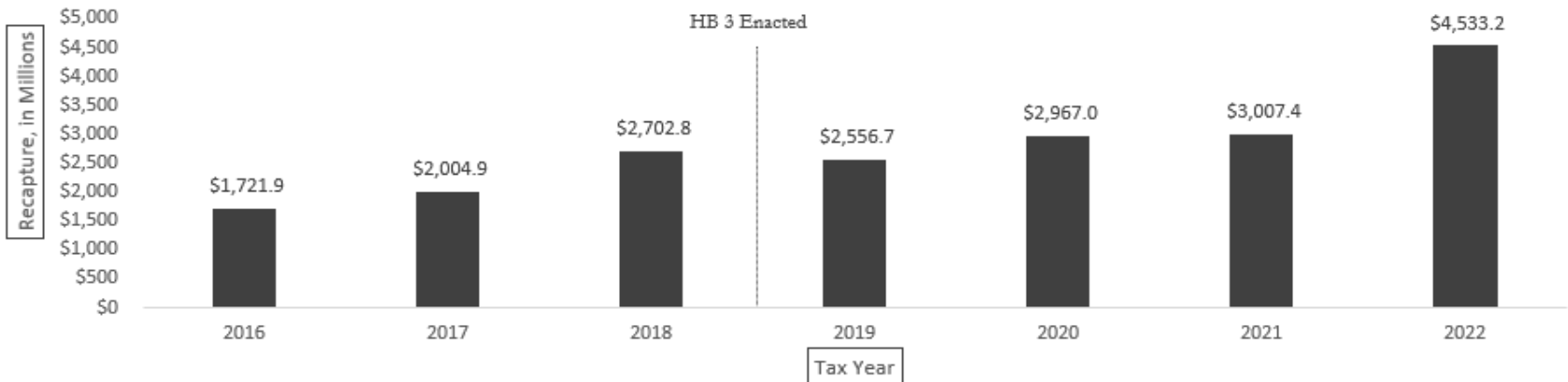


Percent Change in School District M&O Property Tax Collections, Tax Years 2016-22

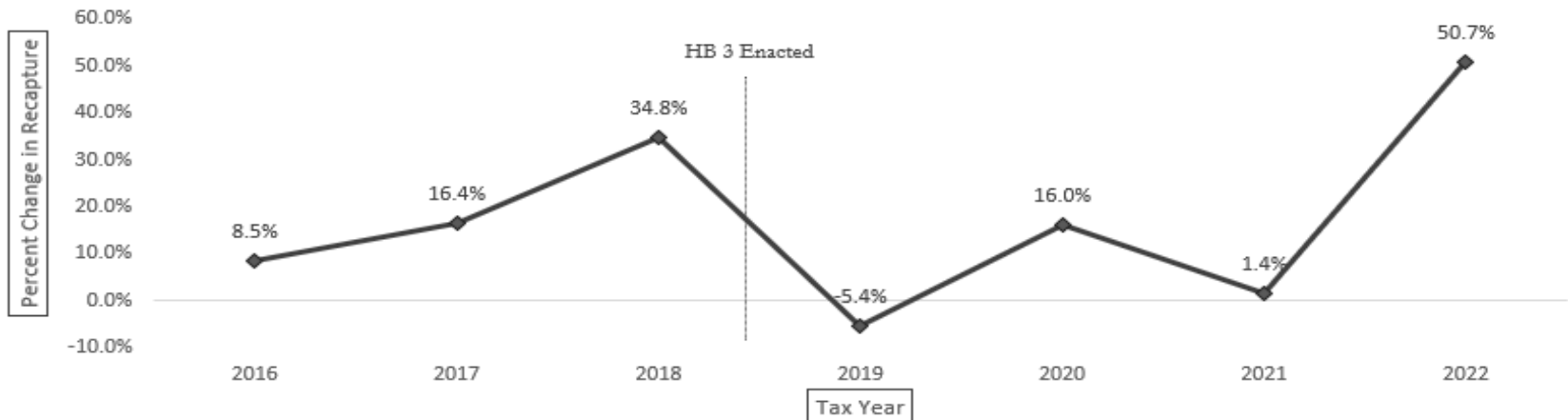


HB 3 Property Tax Relief

Recapture, Tax Years 2016-22



Percent Change in Recapture, Tax Years 2016-22



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))
- Estimated additional cost for these HB 3 compression provisions in 2024-25: **\$5.3 billion**

HB 3 Tax Relief Mechanisms

Maximum Compressed Rate (MCR) is the Tier 1 tax rate a district must levy to receive its full Tier 1 FSP funding entitlement.

District MCRs are generally compressed annually by the greater of:

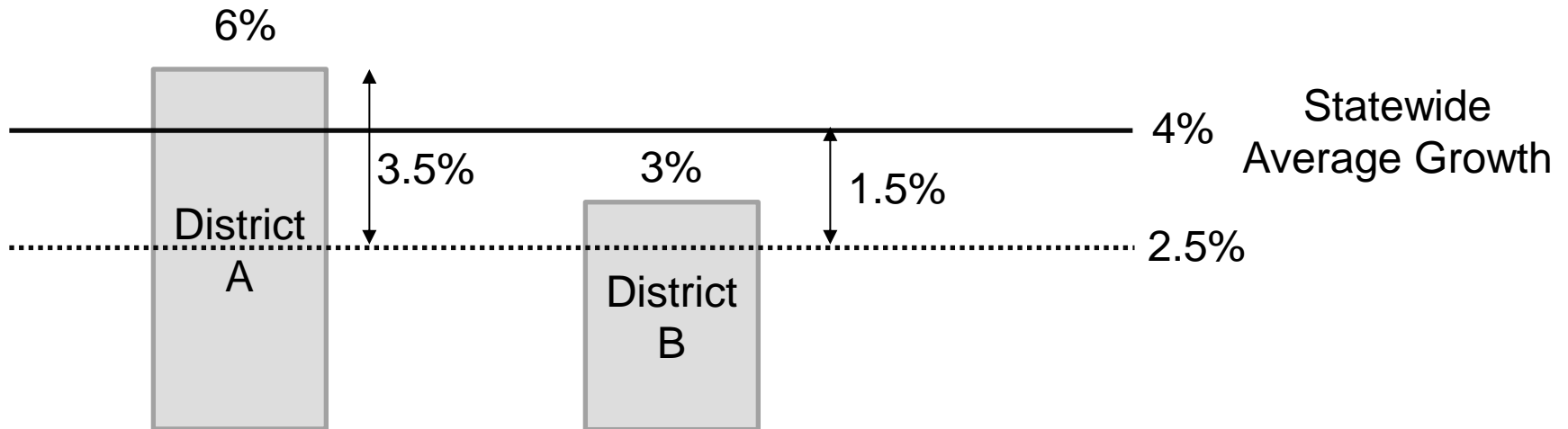
1. The amount that the district's property value growth rate exceeds 2.5 percent, or
2. The amount that the statewide property value growth rate exceeds 2.5 percent.

No district's MCR can be less than 90% of the highest MCR, which is the State Compression Percentage (SCP).

HB 3 Tax Relief Mechanisms

Example

- District A grows faster than statewide average, compression will be approximately 3.5%
- District B grows slower than statewide average, compression will be approximately 1.5%



HB 3 Tax Relief Mechanisms

- MCR floor is 90% of the SCP
- Limits compression of fast-growth districts; allows for collection growth over 2.5%
- Collection growth results in state FSP savings

Floor Savings Requirement: TEC 48.2552(c)

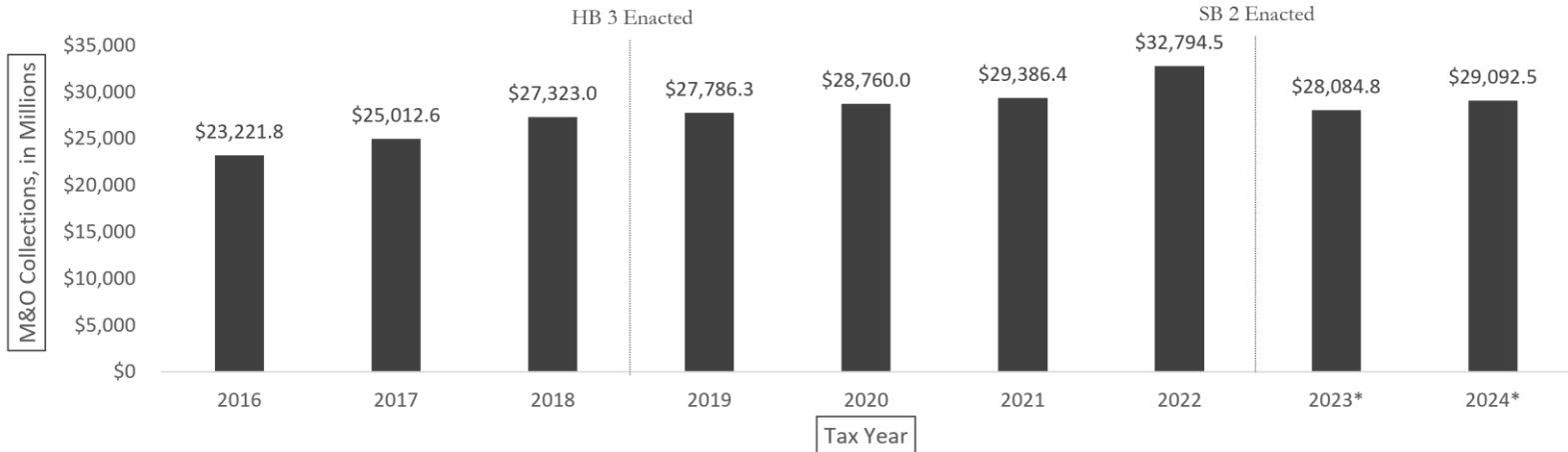
- Requires using state savings realized in prior biennium to further reduce SCP
- For 2024-25, SCP was reduced by 8.25 cents, based on a 2022-23 floor savings of \$2.5 billion

SB 2 Property Tax Relief

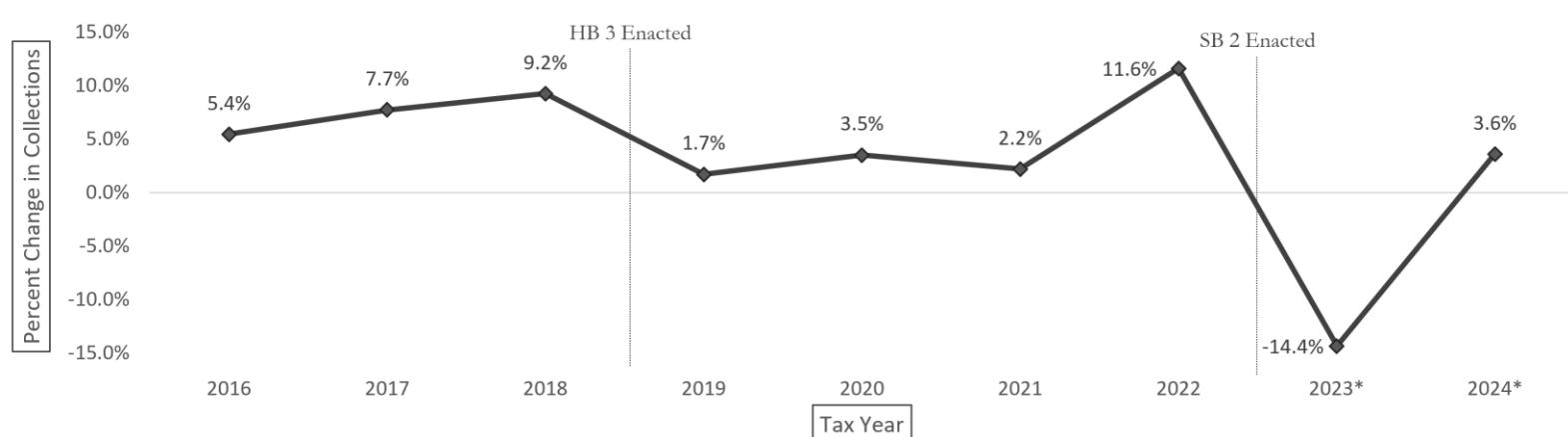
- Historic DPV growth in tax year 2022 led to 11.6 percent increase in M&O collections.
- SB 2, 88(2) provided additional property tax relief on top of HB 3 compression through the following mechanisms:
 1. Reduced MCRs (Tier 1 tax rates) by an additional 10.7 cents
 2. Increased residence homestead exemption from \$40,000 to \$100,000
 3. Established a 20.0 percent circuit breaker value limitation on certain real property other than residence homesteads for three tax years (2024-2026)
- Additionally, provided hold harmless provisions to school districts to offset revenue losses
- Estimated fiscal note cost of SB2 provisions in 2024-25: **\$12.7 billion**

HB 3 & SB 2 Property Tax Relief

School District M&O Property Tax Collections, Tax Years 2016-24

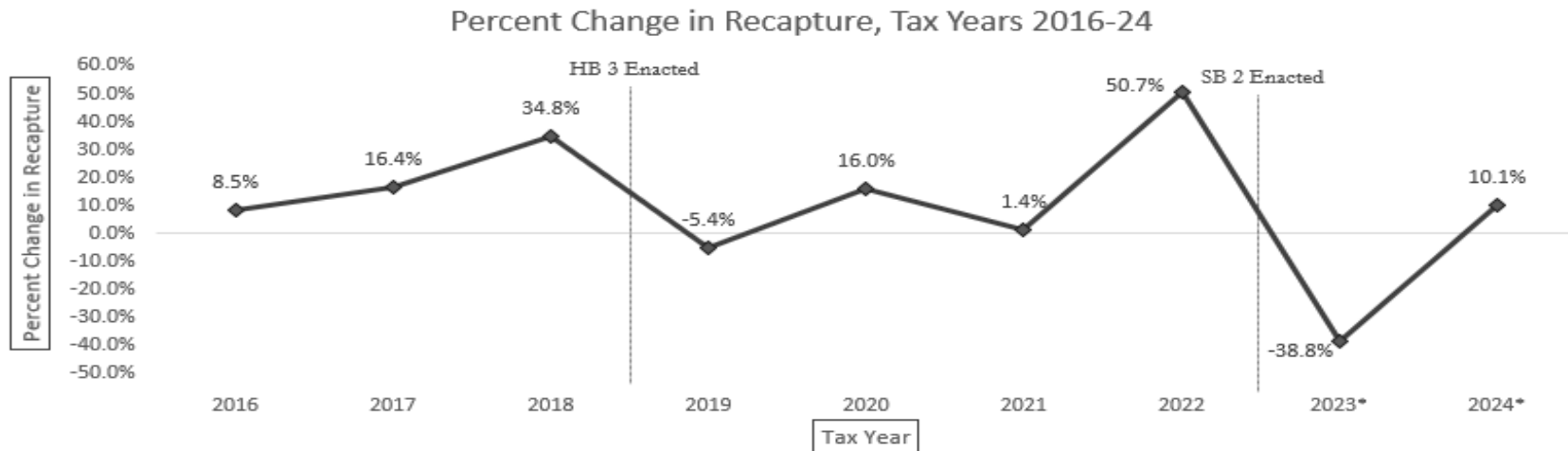
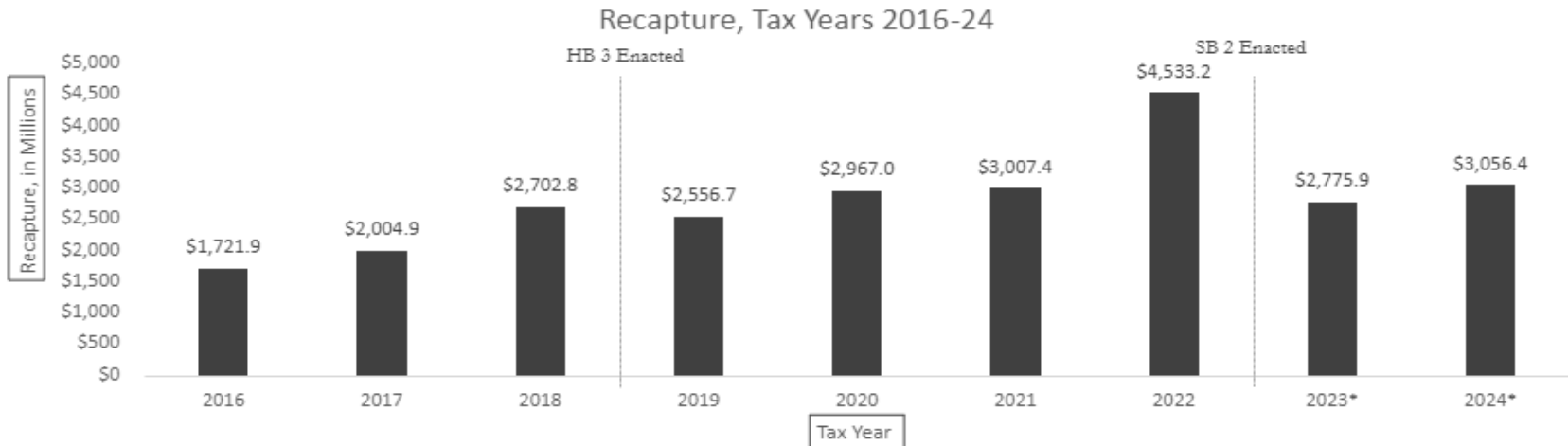


Percent Change in School District M&O Property Tax Collections, Tax Years 2016-2024



*Tax year 2023 is estimated; tax year 2024 is projected based on assumed 4.2% district property value growth.

HB 3 & SB 2 Property Tax Relief



*Tax year 2023 is estimated; tax year 2024 is projected based on assumed 4.2% district property value growth.

2024-25 Property Tax Relief

2024-25 Cost	Tax Relief Mechanism
\$2.8 billion	HB 3 rate compression due to property value growth
\$2.5 billion	HB 3 SCP reduction for MCR floor savings
\$5.4 billion	SB 2 \$100,000 homestead exemption
\$0.2 billion	SB 2 20.0% circuit breaker
\$8.1 billion	SB 2 10.7 cent MCR reduction
(\$1.0) billion	SB 2 impact of interaction between tax rates and values
\$18.0 billion	Total Property Tax Relief Cost

Reflects increases in state FSP aid from General Revenue and the Property Tax Relief Fund over the 2022-23 biennium.

Current Property Tax Levies

TY 2023	Estimated Tax Levy
School District Tier 1	\$24.6 billion
School District Tier 2	\$3.7 billion
School District I&S	\$11.2 billion
Non-School District Property Taxes	\$42.0 billion
Total Property Tax Levy	\$81.5 billion

Additional Considerations:

- School district tax revenue decreases are mostly, but not completely, offset by increases in state aid through the FSP formulas.
- Tax levies reflect significant local discretion over tax rates and resulting funding levels.
 - School district MCRs under Tier 1 are established pursuant to statutory formulas based on legislative direction.
 - School district Tier 2 and I&S tax rates are based on local school board decisions and voter approval (as applicable).



LEGISLATIVE BUDGET BOARD

Contact the LBB

Legislative Budget Board

www.lbb.texas.gov

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