

The background of the slide is a photograph of a residential street. In the center, a two-story house with light blue siding and a white porch is the focal point. To its left is a house with light green siding, and to its right is a house with brown siding and a stone-textured lower level. The houses are set back from a paved street by a grassy lawn and some bare trees. A semi-transparent white rectangular box is overlaid on the center of the image, containing the main title and date information.

HB 3 in 30: Tax Rates*

June 25, 2019

*Updated July 25, 2019

Agenda

1. How have the components of the M&O tax changed?
2. How do I set my Tax Year (TY) 2019 M&O tax rate?
3. Lookup table mapping 2018 tax rates to 2019
4. Preliminary look at setting TY2020 M&O rates.
5. Other Tax Policy Changes
6. Next steps (TEA and Districts)



Relevant Staff

TEA Staff

Leo Lopez

Associate Commissioner for School Finance

Al McKenzie

Director of Forecasting & Fiscal Analysis

Amy Copeland

Assistant Director of State Funding

Sara Kohn

Assistant Director of Forecasting and Fiscal Analysis

- **The tax compression required under HB 3 helps implement two of the Texas commission on public school finance's major recommendations:**
 - Create a long term systemic balance between the state and local share of district foundation funding for public education
 - Significantly reduce the growth rate of property taxes and reliance on recapture as a method of finance for the state

Components of Maintenance and Operations Tax Rate

Overview and Location In Statute

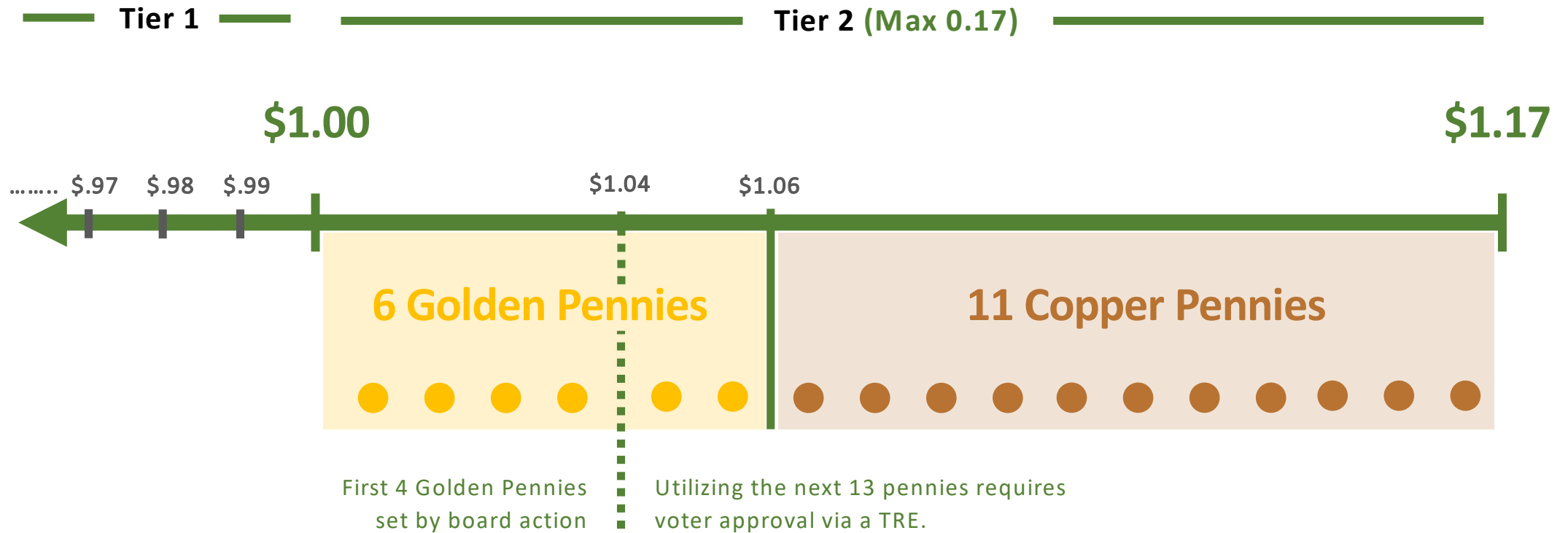
- **What are the components of my M&O tax rate under HB 3?**
 - HB 3 re-set how the M&O tax rate is divided into funding tiers
 - The tax rate is re-ordered
 - The Tier One tax rate is based on the first \$1 of tax effort, compressed to 93 percent
 - The enrichment tax rate is for tax effort above the tier one tax rate and is divided into 8 golden pennies and up to 9 copper pennies
 - For TY 2019 the Copper Pennies will be compressed by the ratio of the old law copper penny yield of (\$31.95) to the new law copper penny yield (\$49.28) for School Year (SY) 2020
- **To the Administrator Addressed: House Bill 3 (HB 3) Implementation: tax rate compression June 11, 2019**

In Statute:

Texas Education Code 45.0032 (Components of maintenance and operations tax), HB 3 Enrolled Section 1.009 - page 15.



Prior Law



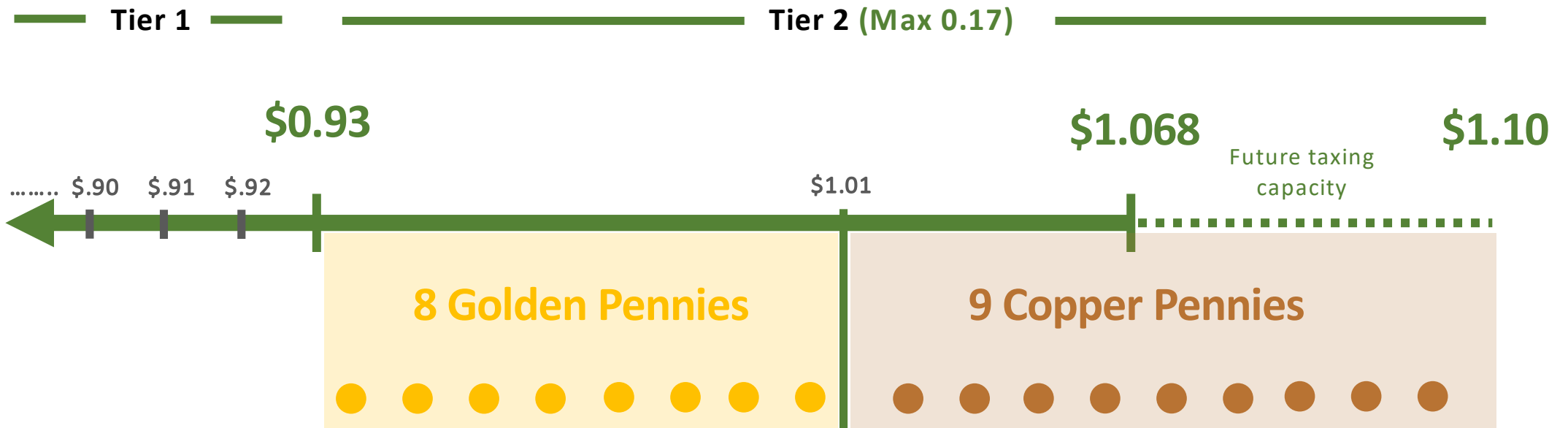


Max M&O Tax Rates Drop From \$1.17 To \$1.068



HB 3 Year 1 (FY2020)

1. Tax rate is re-ordered
2. Tier one rate compressed by a factor of 93%
3. First two copper pennies become golden pennies.
4. Remaining copper pennies compressed by a factor of ~65%.
5. Rates in most cases cannot be raised for year 1 (see slide 19)



Components of M&O Tax rate

Components of M&O Tax Rate	
Pennies adopted in Tax Year 2018 in response to disaster	Exclude these pennies from your TY 2019 tax rate
Tier One tax rate	The lesser of your 2018 adopted M&O tax rate or \$1.00. Multiplied by 0.93
Golden Pennies	First 8 pennies above the 93 pennies
Copper Pennies	9 additional pennies above the Golden Pennies. Multiplied by 0.64834.*
Additional un-equalized pennies	Certain districts authorized by special law which taxed above \$1.17 in TY 2018 will still have un-equalized local tax effort

* For TY 2019 the maximum number of copper pennies will be ~~5.84~~ 5.835

How Do I Set My 2019 Tax Rate?

How do I set my 2019 Tax rate?

- **How do I set my 2019 Tax Rate in compliance with HB 3?**
 - You must compress your M&O tax rate for tax year 2019
 - Section 5.002 of HB 3, on page 302 of the bill requires districts to compress their tax rates in compliance with the bill for the 2019 tax year regardless of whether the district has already calculated or adopted a rate before the effective date of the bill
 - The tier one tax rate must be compressed by 93 percent (multiply the lesser of \$1.00 or your 2018 adopted tax rate by 0.93)
 - Up to 8 pennies will be considered golden and exempt from compression
 - Any remaining copper pennies after reordering must be compressed by 0.64834
 - The voter approval (rollback) tax rate is set to the sum of 93 cents plus:
 - the greater of 4 cents or the district's enrichment tax rate after tax compression
 - For districts which adopted a tax rate of \$1.04 or above in TY 2018 the voter approval tax rate will be equal to their 2019 tax rate after compression

Examples using TEA's tax rate template

- Districts which had tax rates below \$1.04 in 2018 will be able to increase their tax rate up to 97 cents in TY 2019 without having an election
- Districts are generally* prohibited from adopting an M&O tax rate above the voter approval tax rate for 2019
- This was in the To the Administrator Addressed (TAA) letter: House Bill 3 (HB 3) Implementation: Tax Rate Compression from June 11, 2019
- **TEA attached a template to calculate tax year 2019 M&O tax rates to the above mentioned To the Administrator Addressed (TAA) letter from June 11, 2019**



- The template will autofill once you type in the district CDN
- Let's look at some examples on the next slide

In Statute:

Texas Education Code 48.255 (State Compression percentage), 48.202(f) (Tier Two allotment, Tax Code 26.08 (Election to ratify school taxes))

2019 tax rate examples: Example 1

District **below \$1.00** adopted tax rate in TY 2018

Districts adopted TY 2018 M&O Tax Rate	0.9000
Enter any additional tax rate adopted in TY 2018 in response to a disaster here (for 5 cents enter .05)	0.0000
Districts TY 2019 tax rate before compression	0.9000
2019-2020 school year Tier one tax rate (TR)	0.8370
2019-2020 school year Golden pennies	0.0000
2019-2020 school year Copper pennies	0.0000
2019-2020 Additional Unequalized pennies for districts authorized by special law	0.0000
Total (adopted tax rate)	0.8370
Voter Approval (Rollback) tax rate for 2019	
Section 26.08 (n) (A) State compression percentage times \$1.00	0.9300
(B) (i) Districts 2018 M&O rate minus \$1, minus any amount by which the district is required to reduce the enrichment tax rate	-0.1000
(B) (ii) 4 cents	0.0400
Voter Approval tax rate (line 13 + greater of line 14 or line 15)	0.9700

Can this district raise its tax rate? Yes...up to \$0.97

2019 tax rate examples: Example 2

District Below \$1.08 in TY 2018

Districts adopted TY 2018 M&O Tax Rate	1.0400
Enter any additional tax rate adopted in TY 2018 in response to a disaster here (for 5 cents enter .05)	0.0000
Districts TY 2019 tax rate before compression	1.0400
2019-2020 school year Tier one tax rate (TR)	0.9300
2019-2020 school year Golden pennies	0.0400
2019-2020 school year Copper pennies	0.0000
2019-2020 Additional Unequalized pennies for districts authorized by special law	0.0000
Total (adopted tax rate)	0.9700
Voter Approval (Rollback) tax rate for 2019	
Section 26.08 (n) (A) State compression percentage times \$1.00	0.9300
(B) (i) Districts 2018 M&O rate minus \$1, minus any amount by which the district is required to reduce the enrichment tax rate	0.0400
(B) (ii) 4 cents	0.0400
Voter Approval tax rate (line 13 + greater of line 14 or line 15)	0.9700

Can this district raise its tax rate? **No**

2019 tax rate examples: Example 3

District at \$1.17 in TY 2018

Districts adopted TY 2018 M&O Tax Rate	1.1700
Enter any additional tax rate adopted in TY 2018 in response to a disaster here (for 5 cents enter .05)	0.0000
Districts TY 2019 tax rate before compression	1.1700
2019-2020 school year Tier one tax rate (TR)	0.9300
2019-2020 school year Golden pennies	0.0800
2019-2020 school year Copper pennies	0.0584 0.05835
2019-2020 Additional Unequalized pennies for districts authorized by special law	0.0000
Total (adopted tax rate)	1.0684 1.06835
Voter Approval (Rollback) tax rate for 2019	
Section 26.08 (n) (A) State compression percentage times \$1.00	0.9300
(B) (i) Districts 2018 M&O rate minus \$1, minus any amount by which the district is required to reduce the enrichment tax rate	0.1384
(B) (ii) 4 cents	0.0400
Voter Approval tax rate (line 13 + greater of line 14 or line 15)	1.0684 1.06835

Can this district raise its tax rate? **No**

Frequently Asked Question (FAQ):

How many decimals can my tax rate contain?

Answer:

Although a district can adopt a tax rate with a greater number of decimals, the agency, in calculating funding under the FSP, will round down to 4 decimal places e.g. (~~1.0684~~ 1.0683).

This has been long-standing agency practice.

Key Point:

Tax rates with more than 4 decimals will not have the additional fractions of a penny recognized for state funding purposes.

Frequently Asked Question (FAQ):

What happens if I don't compress my taxes in compliance with HB 3?

Answer:

The agency, in calculating funding under the FSP, will reduce state aid or adjust recapture in an amount equal to the amount of revenue generated by a school district's tax effort that is not in compliance with HB 3.

Key Point:

The district will not benefit from the additional tax revenue. The district may be liable for other civil remedies for failure to appropriately reduce tax rates.

Frequently Asked Questions

Frequently Asked Question:

What if I have already adopted my 2019 Tax rate?

Answer:

The district must re-adopt its tax rate to be in compliance with HB 3

Key Point:

Having adopted a tax rate prior to the passage or effective date of HB 3 does not exempt the district from the tax rate compression requirements of HB 3.

Exception to 2019 Tax Rate Increase Prohibition

- Districts with a 2019 tax rate after compression of less than 97 cents (which translates into a 2018 adopted tax rate of under \$1.04) are allowed to increase their tax rate up to \$0.97 without holding an election.
 - This allows everyone to access a full basic allotment in Tier One as well as 4 Golden Pennies without holding an election.
 - The opportunity to access golden pennies without an election continues in subsequent tax years, with an additional golden penny
- Districts boards that took specific action to begin a TRE prior to January 1 may be allowed to continue to access additional pennies, as compressed
- Disaster exceptions continue to apply

In Statute:

Tax Code 26.08 (Election to Ratify School taxes), HB 3 Enrolled Section 1.063 - page 169. HB3 Enrolled Section 1A.008, page 187

Most Common 2018 Tax Rates in 2019

Lookup table for most common 2018 tax rates

2018 Adopted M&O tax Rate	2019 Tax rate (in compliance with HB3)
0.90	0.837
1.02	0.95
1.0333	0.9633
1.0374	0.9674
1.04	0.97
1.0401	0.9701
1.06	0.99
1.07	1.00
1.08	1.01
1.09	1.0165 1.01648
1.10	1.023 1.02296
1.11	1.0295 1.02945
1.12	1.0359
1.14	1.0489
1.15	1.0554 1.05538
1.16	1.0619 1.06186
1.17	1.0684 1.06835

There are currently ~ 91 different M&O tax rates in Texas. This chart shows some of the most common tax rate scenarios. An excel document has been provided on the HB 3 webpage converting every known tax rate.

Preliminary TY 2020 Tax Rate Information

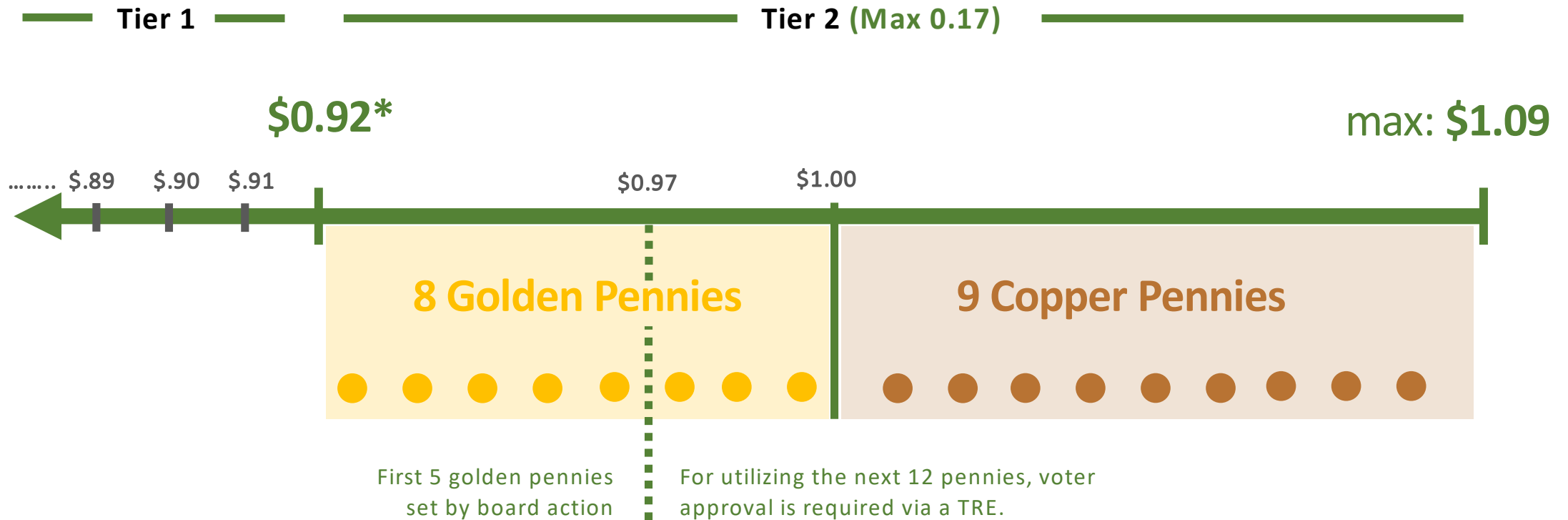


Tier One M&O Rates Continue to Decline



HB 3 Year 2 (FY2021)

1. 2.5% Compression begins on Tier One
2. TRE threshold increased by one penny



* Assumes statewide or local property value growth in excess of 2.5%

Other Tax Policy Changes

- Effective January 1, 2020, requires **Efficiency Audits** before a district seeks voter approval for increasing tax rates. LBB establishes guidelines. Districts must select the auditor **at least** four months **before** the scheduled tax increase election date; the audit must be completed and posted on the district's website at least 30 days before the election.
- New statutory language clarifies that a school district may not increase the M&O tax rate in order to create a surplus for the purpose of paying the district's debt service. (I.e. No more "swap and drops" or "tax swaps")
- Tax Ratification Elections (TREs) must happen on uniform election days.
- Bond election notices must include "THIS IS A PROPERTY TAX INCREASE" language

TEA Next Steps

- TEA has posted a state funding template https://tea.texas.gov/About_TEA/Government_Relations_and_Legal/GR/House_Bill_3/

District Next Steps

- Districts must adopt their 2019 tax rate in compliance with HB 3
- Districts which have already adopted their tax rate for 2019 must re-adopt their tax rate if it is not in compliance with the tax compression required in HB 3

House Bill 3 Resources

- **Contact us** with any questions: HB3info@tea.texas.gov
 - In the subject line, please include the HB 3-related topic
- Visit TEA's website (tea.texas.gov/HB3) for the **most recent information** from the agency on HB 3 implementation



Thank you!