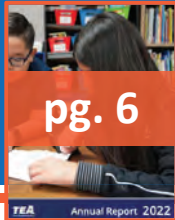




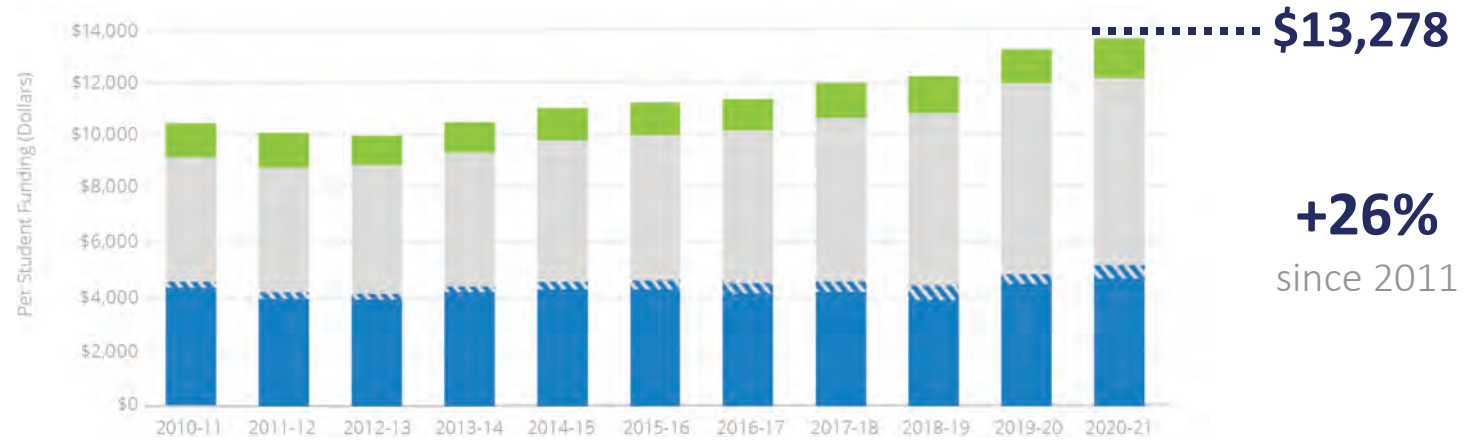
Rider 81. Property Tax Reduction



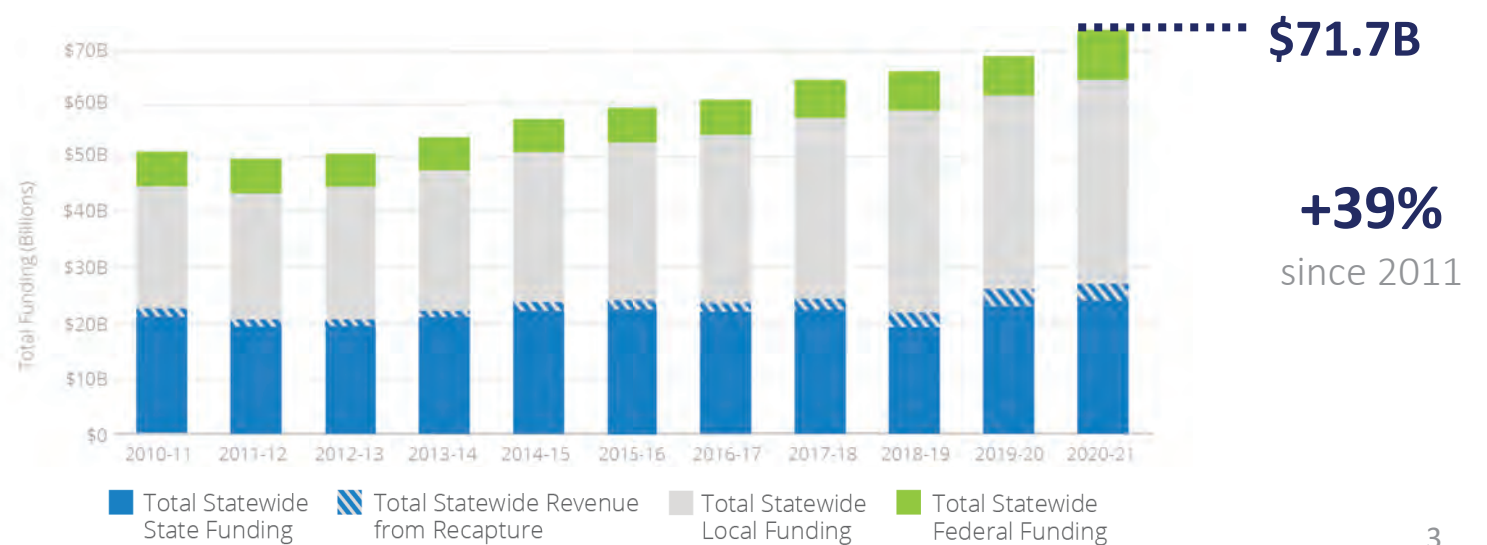
“All-in” funding for public education includes:

- Foundation School Program (FSP) formula funds to school systems to cover their cost to operate (M&O) from a mix of local property taxes and state revenues
- Debt service funds (I&S), primarily from local property taxes
- Federal funds, primarily for school lunch, special education, and low-income students
- Direct payments to TRS for teacher retirement from state revenues
- Funds to school systems for instructional materials from state revenues
- Other grants and supports from state revenues

PER STUDENT ANNUAL FUNDING



TOTAL ANNUAL FUNDING: \$71,710,051,834



■ Total Statewide State Funding
 Total Statewide Revenue from Recapture
 ■ Total Statewide Local Funding
 ■ Total Statewide Federal Funding

Foundation School Program (FSP)

This program establishes **how much funding** school districts and charter schools are entitled to.

Statutory formulas (TEC Ch. 46 & 48) consider both student and district characteristics:

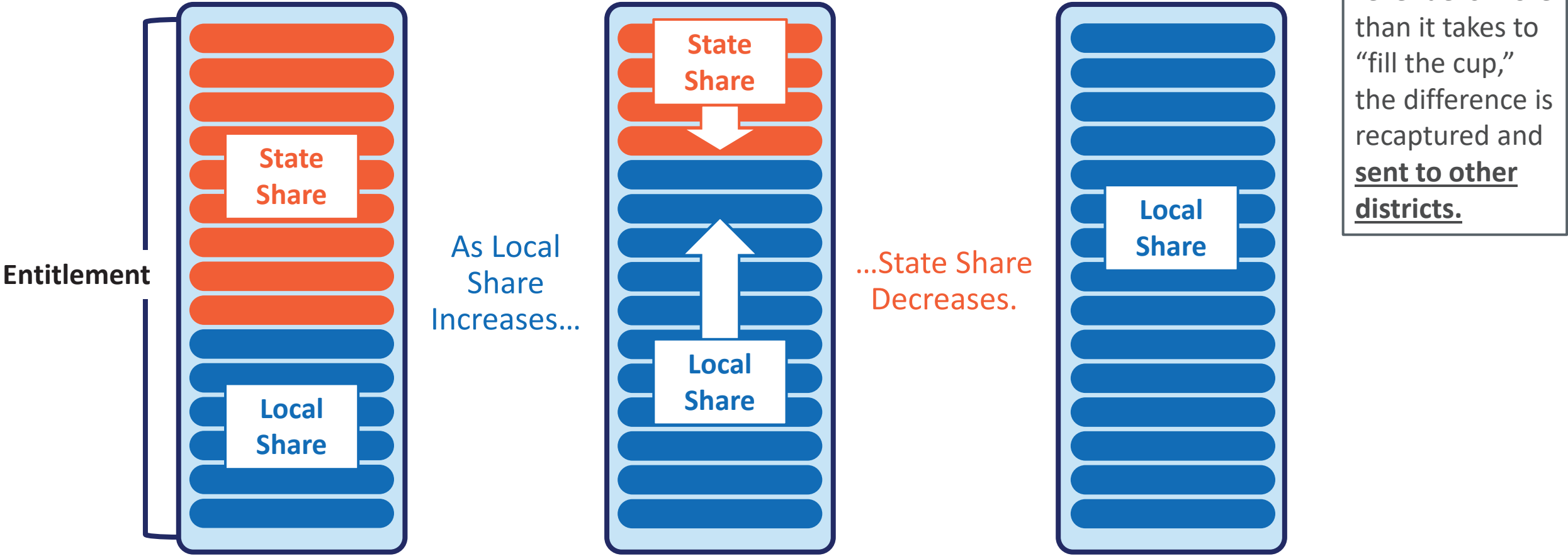
- Number and type of students
- District size
- Local taxable property values
- Tax rates (for Tier I entitlement and for Tier II enrichment)

Foundation School Program (FSP)

In addition to establishing entitlement levels, statutory formulas are used to determine:

- How much a district can generate locally (**local share**) through property taxes, and
- How much will be provided through state funds to complete the entitlement (**state share**), or
- How much **excess local revenue** the district will generate, which will be recaptured and sent to other districts.

FSP M&O Mechanism



Tax Compression under HB 3

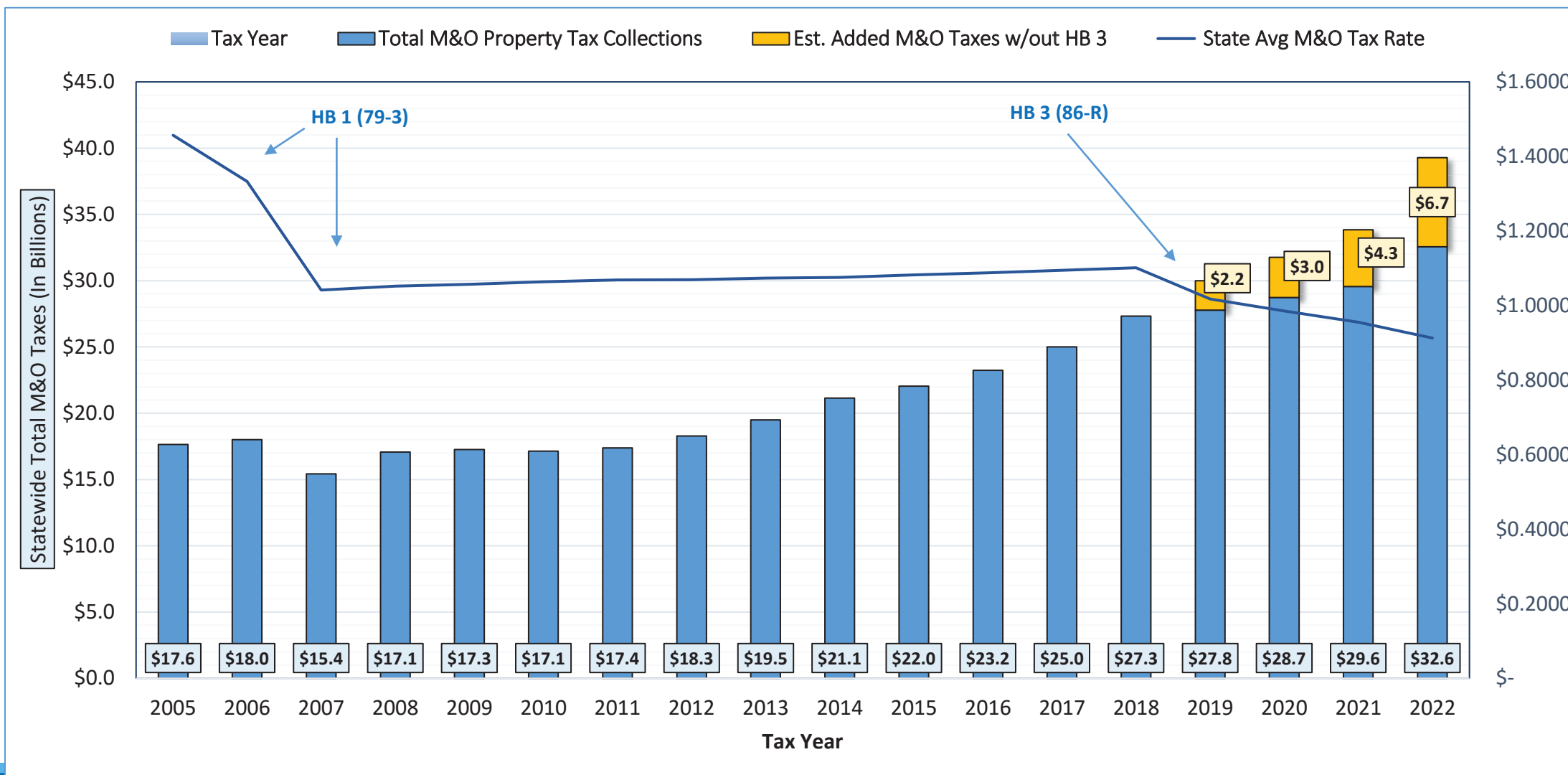
- HB 3 immediately compressed tax rates from \$1.00 to \$0.93 per \$100 of valuation (Tax Year 2019).
- For subsequent years, TEA calculates maximum compressed tax rates (**MCR**) in two ways:
 - State compression: compares estimated statewide property value growth to 2.5%
 - Local compression: compares estimated local property value growth to 2.5%
- Districts receive the **lower** of the state or local compressed rate.
- **No district can have a rate that is 10% lower than any other district (“equity band”).**

Compression Example

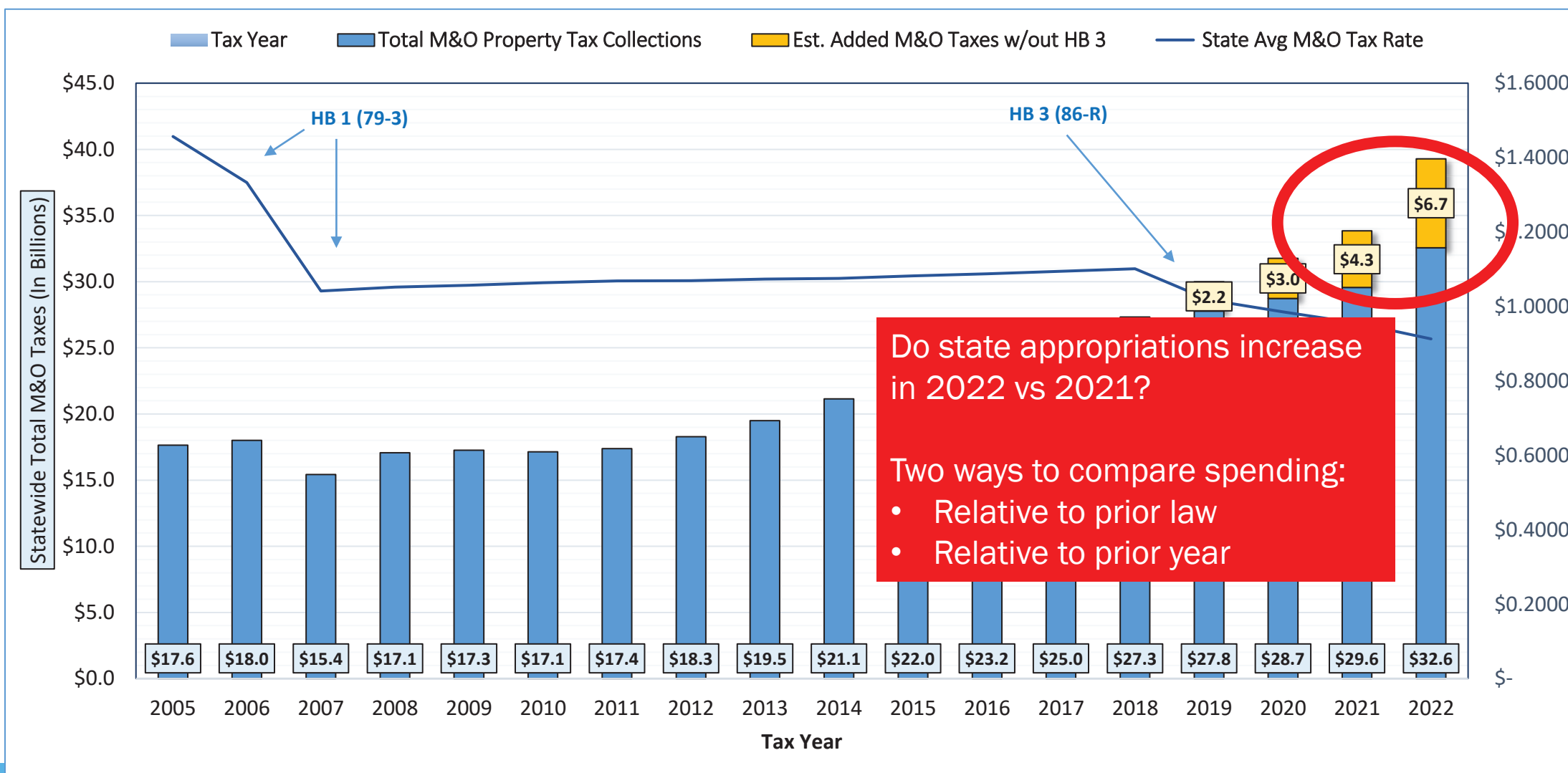
	This Year	Next Year (<u>no</u> compression)	Percent change
Property values	\$700M	\$742M	+6%
Tax Rate	\$0.9134	\$0.9134	No change in rate
Collections	\$6.39M	\$6.78M	+6% ←

	This Year	Next Year (<u>WITH</u> compression)	Percent change
Property values	\$700M	\$742M	+6%
Tax Rate	\$0.9134	\$0.8832	Rate adjusted down
Collections	\$6.39M	\$6.55M	+2.5% ←

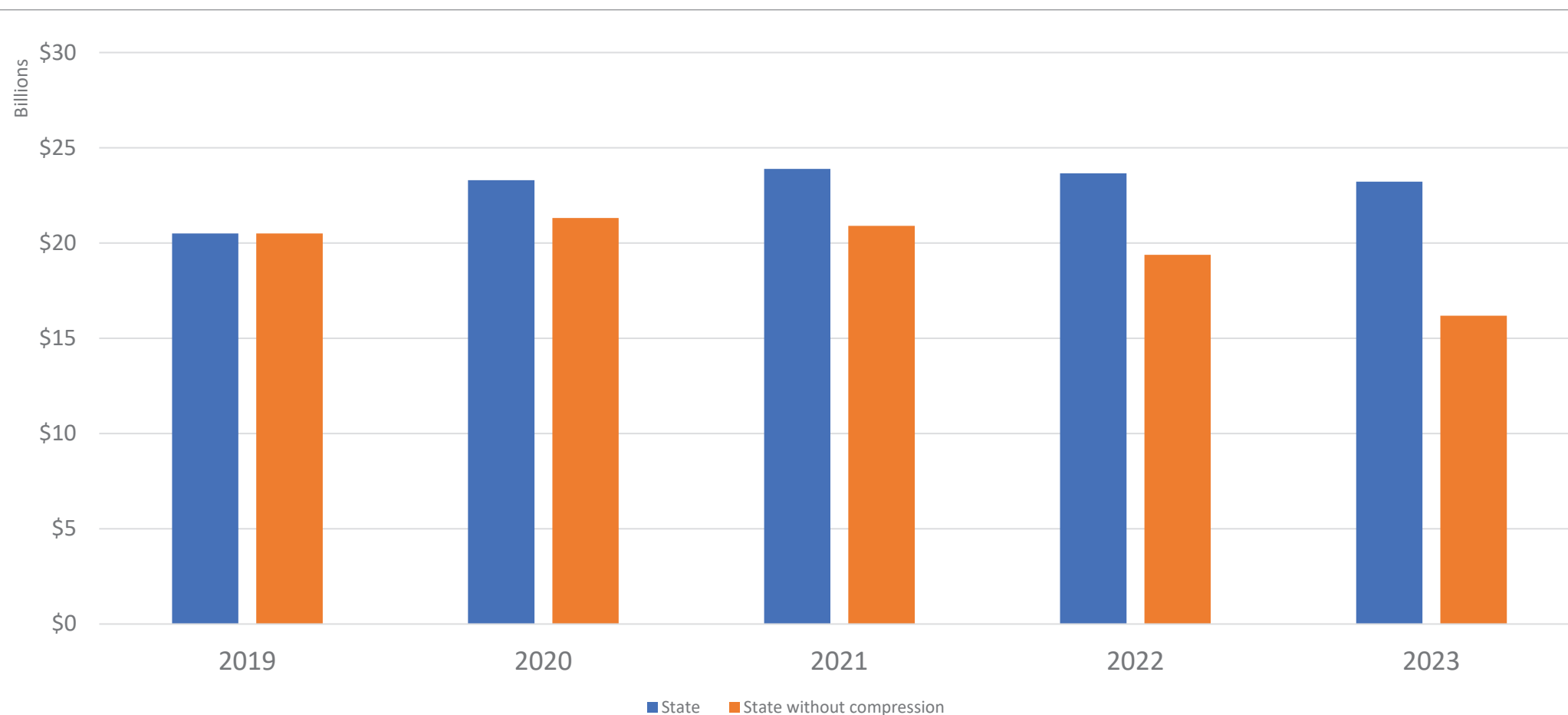
Tax Rates and Tax Collection History



Projecting the Sustainability of Tax Compression



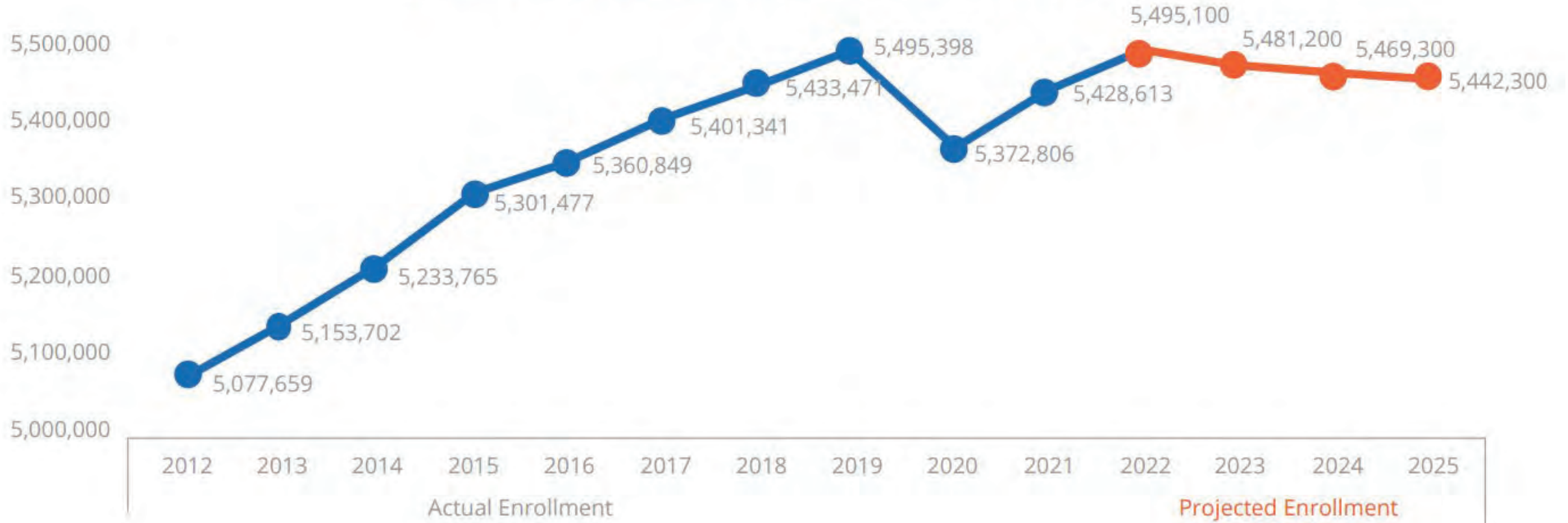
State appropriations for the FSP have not necessarily increased year over year even as property tax rates have been cut, because spending increases are dependent upon enrollment growth





State Appropriations for Public Education

ENROLLMENT TRENDS AND PROJECTIONS

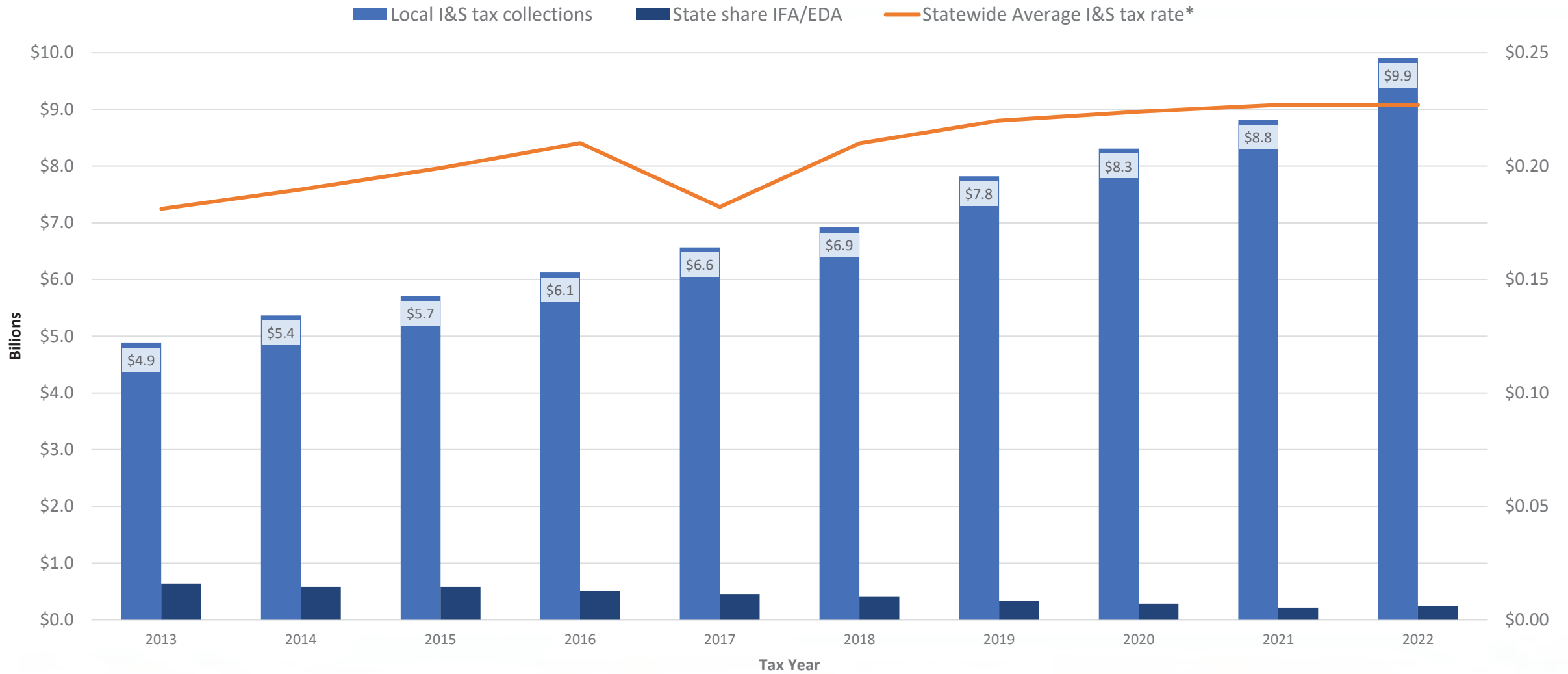


Reminder...

- Tax compression **does not affect the calculation of funding** that a school district is entitled to.
- It only decreases the amount of that funding that is collected through local taxes, as opposed to provided by the state.
- After local taxes are compressed, **the state will fill the gap**, or the district will have less excess local revenue (pay less in recapture).



I&S Funding & Tax Rates



*Statewide average I&S tax rate includes districts without an I&S tax rate