



## LEGISLATIVE BUDGET BOARD

# Property Tax Relief

**PRESENTED TO THE HOUSE APPROPRIATIONS COMMITTEE  
LEGISLATIVE BUDGET BOARD STAFF**

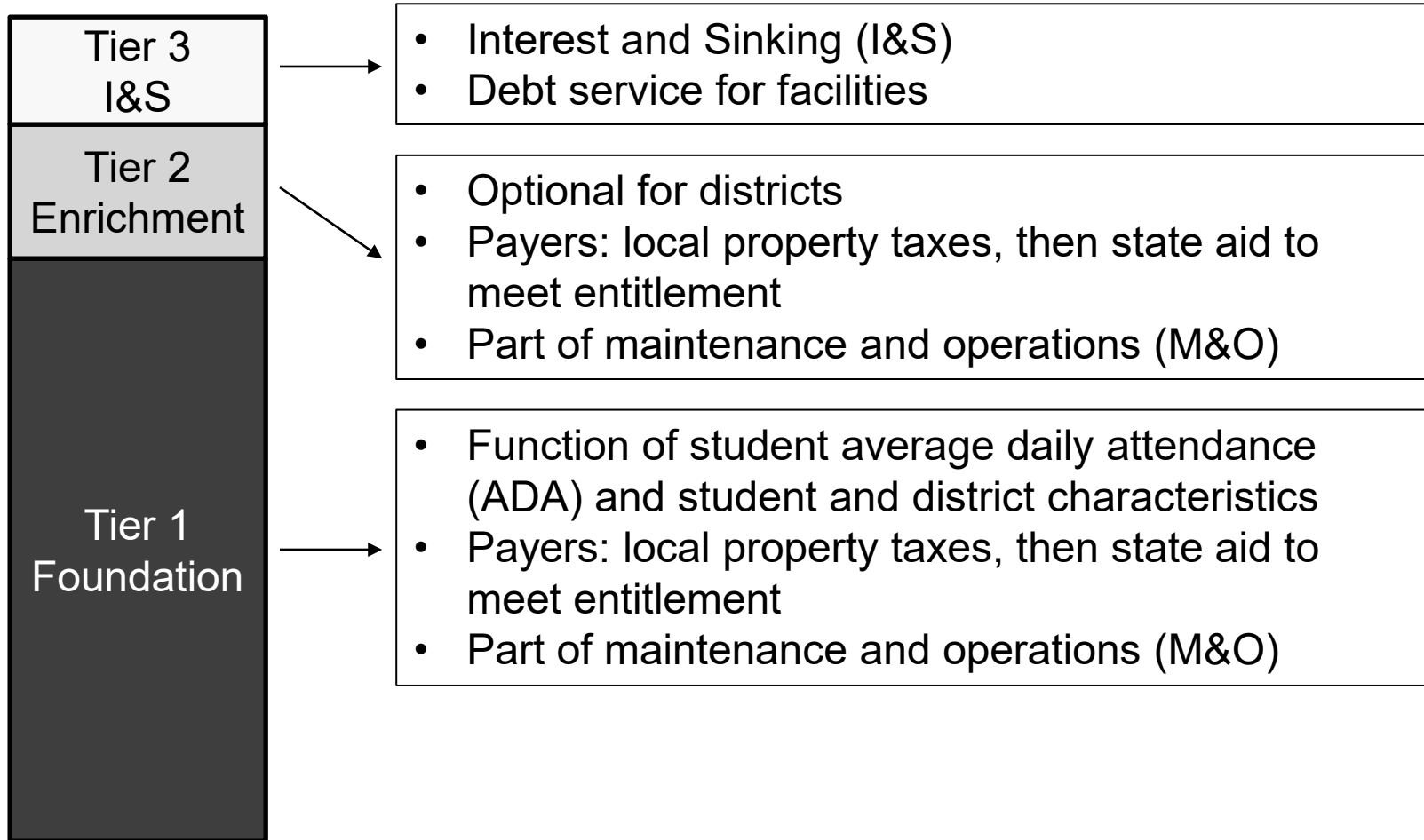
**February 2023**

# Foundation School Program Overview

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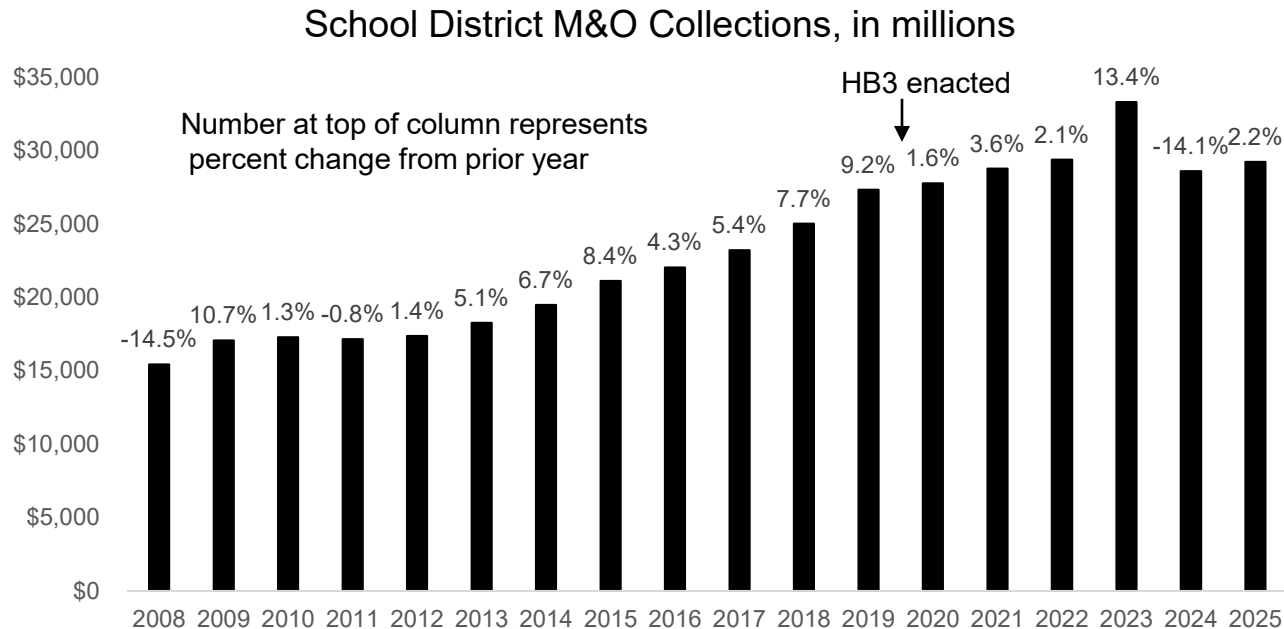
- The Foundation School Program (FSP) is the principal vehicle for distributing state aid to school districts.
- District maintenance and operations (M&O) entitlement is based on student average daily attendance, student characteristics, and other factors.
- Entitlement is funded with local property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

# Foundation School Program Overview



# HB3 Impact on Property Taxes

- 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.
- House Bill 3 slowed collection growth by reducing district Tier 1 tax rates in proportion to property value growth.



# Rider 81: Property Tax Relief

- TEA Rider 81, HB1 As Introduced outlines \$15.0 billion for property tax relief.
  - Section (a): \$3.1 billion required by current law due to property value growth expected in 2024-25 biennium
  - Section (b): \$2.2 billion required by current law due to certain state savings from 2022-23 biennium
  - Section (c): \$9.7 billion transfer from General Revenue Fund to Property Tax Relief Fund (PTRF)
  - Section (d): \$9.7 billion from PTRF for additional property tax relief; lists relief options

# Rider 81(a): Tier 1 Compression Overview

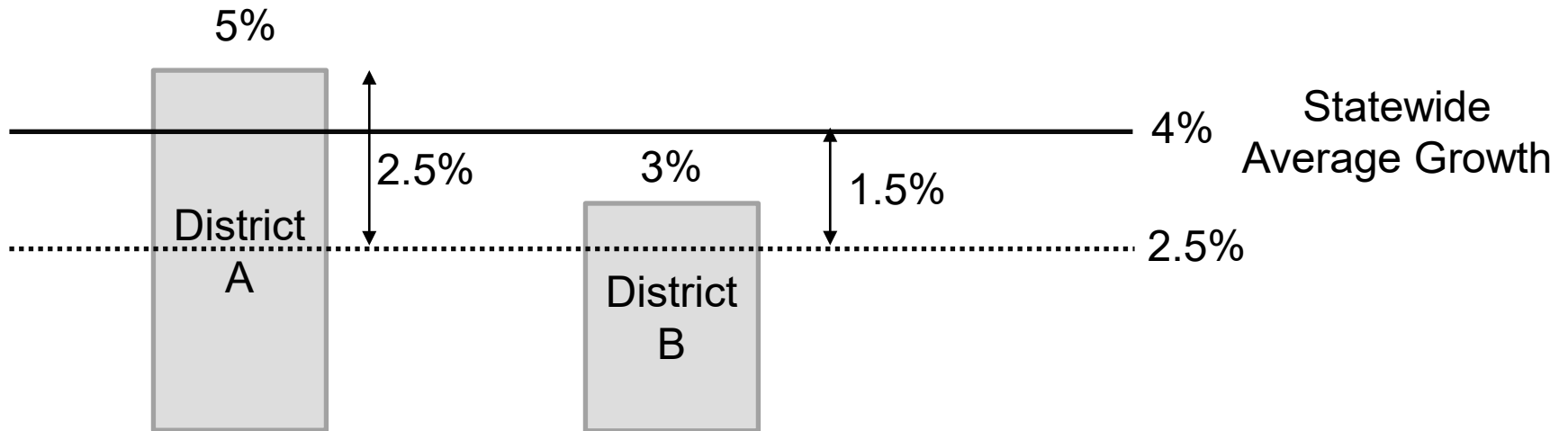
- MCR is the Tier 1 tax rate a district must levy to receive its full Tier 1 FSP funding entitlement.
- In general, district MCRs are compressed annually by the greater of:
  1. The amount that the district’s property value growth rate exceeds 2.5 percent, or
  2. The amount that the statewide average 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).

Rider 81 Section	2024-25 Cost to State*
(a)	\$3.1 billion

*\*Estimates are subject to change based on updated data.*

# Rider 81(a): Example Tier 1 Compression

- District A grows faster than statewide average, compression will be approximately 2.5%
- District B grows slower than statewide average, compression will be approximately 1.5%



# Rider 81(b): TEC 48.2552(c) Compression

- MCR floor is 90% of the SCP
- Education Code, Sec. 48.2552(c) requires SCP reduction using state savings realized in the prior biennium by limiting compression with the MCR floor.
- HB 1 As Introduced reduces the SCP by 7.75 percent in FY 2024.

Rider 81 Section		2024-25 Cost to State	
(b)		\$2.2 billion	
Rider 81 Sections	2024-25 Cost to State	SCP FY 2025	SCP Reduction
(a) and (b)	\$5.3 billion	\$0.7893	\$0.1048

*\*Estimates are subject to change based on updated data.*



# Rider 81(d) - Options for Additional Tax Relief

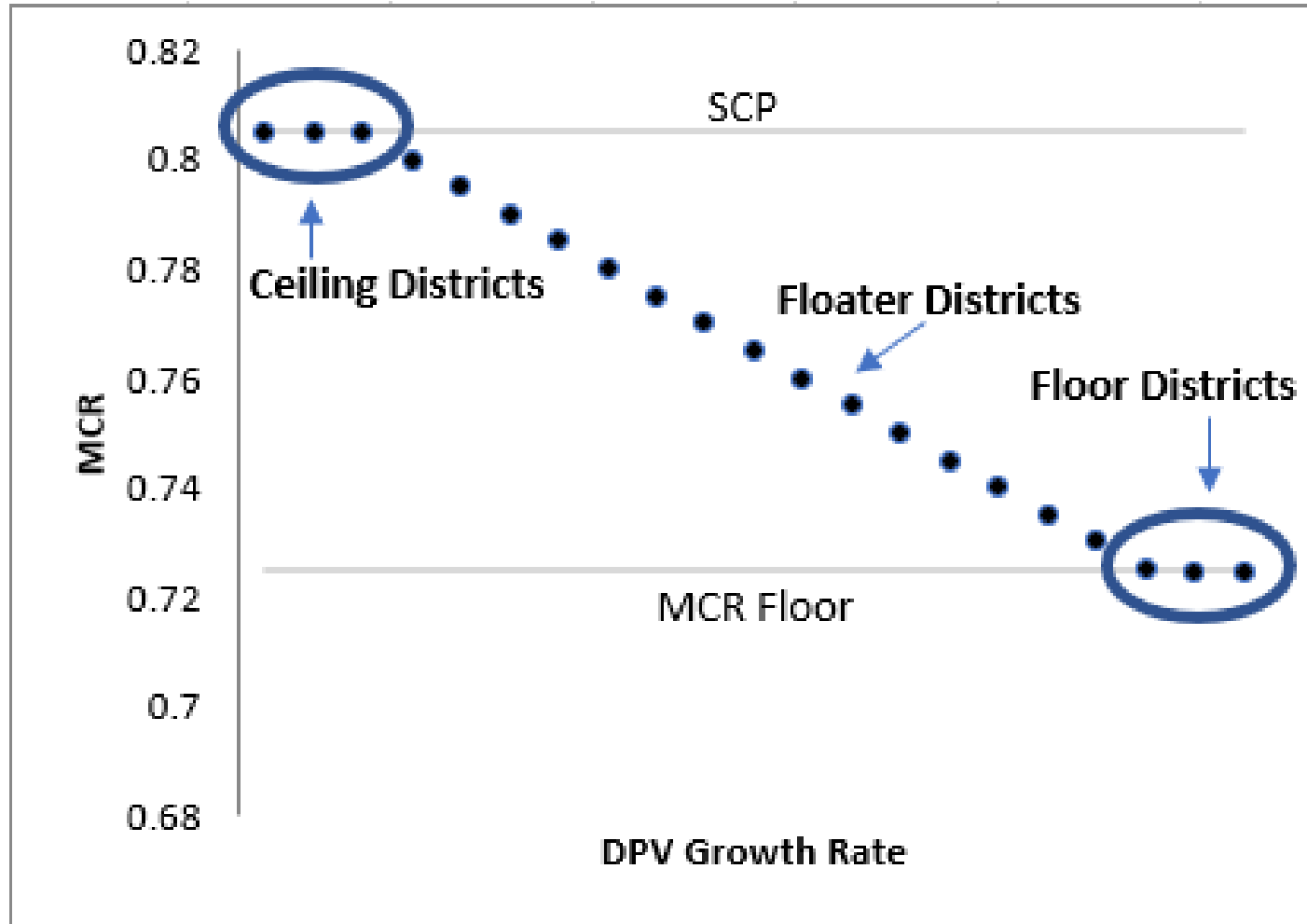
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1. Reduce SCP through GAA rider
2. Decrease MCRs by an equal amount\*
3. Collection limit reduction (CLR)\*
4. Exemptions and Special Appraisals\*\* (e.g. homestead exemption)

*\*Requires statutory change*

*\*\*Requires constitutional amendment and statutory change*

# District MCRs Visual



# SCP Reduction

- Additional SCP reduction can be done by rider in the GAA.
- Option would decrease the maximum and minimum Tier 1 tax rates.
- This affects different districts differently:
  - Ceiling districts receive 100% of the benefit
  - Floor districts receive up to 90% of the benefit
  - Floater districts may not see any benefit

<b>Additional SCP Decrease</b>	<b>2024-25 Cost to State*</b>
<b>\$0.10</b>	<b>\$6.5 billion</b>

*\*Estimates are subject to change based on updated data.*

# Equal MCR Reduction

- After current law compression, reduce all district MCRs by an equal amount
- Taxpayers in:
  - Ceiling and floater districts receive 100% of the benefit
  - Floor districts receive 90% of the benefit
- Requires statutory change

Equal MCR Reduction	2024-25 Cost to State*
\$0.10	\$7.6 billion

*\*Estimates are subject to change based on updated data.*

# Collection Limit Reduction (CLR)

- Under current law, local property tax levies can grow 2.5% before district Tier 1 tax rates compress.
- Option would reduce the 2.5% rate to slow local collection growth.
- All districts with growth higher than the new collection limit percentage would benefit, but floor districts only benefit 90%.
- Requires statutory change (Education Code, Sec. 48.255 and 48.2551)

Collection Limit	Collection Limit Reduction	2024-25 Cost to State*
1.0%	1.5%	\$1.4 billion

*\*Estimates are subject to change based on updated data.*

# Exemptions and Special Appraisals

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- Includes options that reduce taxable value (e.g, increasing the residence homestead exemption) or appraising certain property at something other than market value.
- Taxpayer benefit will vary within and between districts.
- Requires both constitutional amendment and statutory change.



## LEGISLATIVE BUDGET BOARD

# Contact the LBB

Legislative Budget Board

[www.lbb.texas.gov](http://www.lbb.texas.gov)

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