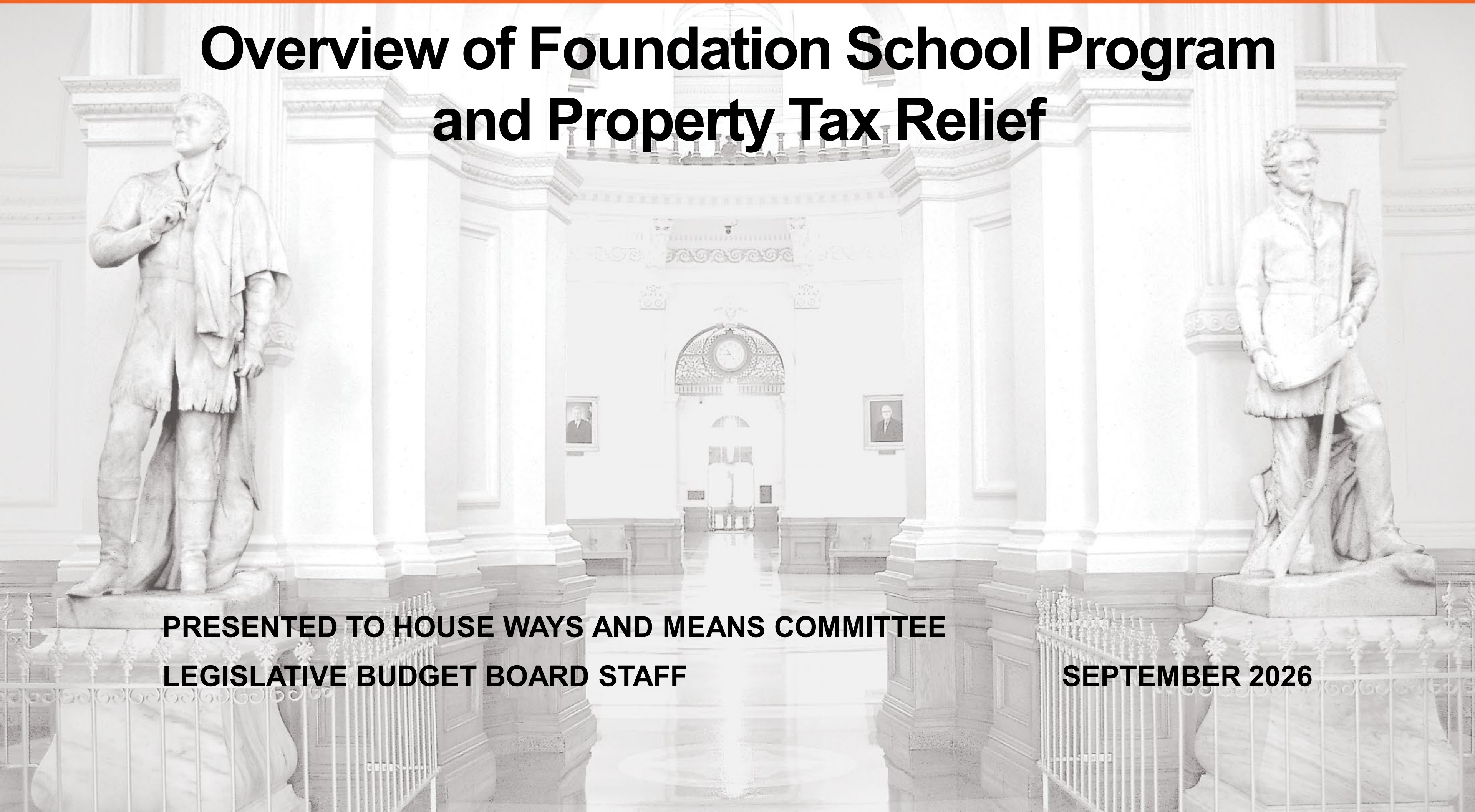
LEGISLATIVE BUDGET BOARD

Overview of Foundation School Program and Property Tax Relief



PRESENTED TO HOUSE WAYS AND MEANS COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF

SEPTEMBER 2026

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 established via formula set in statute and is based on several factors such as average daily attendance (ADA), various student characteristics, and other district-level factors.

- FSP Entitlement is first covered by local property tax revenue with state funds covering any remaining entitlement – including excess local revenue recaptured and redistributed by the state.

Foundation School Program Overview

Tier 1
Foundation

- Maintenance and Operations (M&O)
- Entitlement funding provided primarily through the Basic Allotment formula
- Includes other allotments such as school safety, career and technology education, and Teacher Incentive Allotment

Tier 2
Enrichment

- Maintenance and Operations (M&O)
- Optional for districts to provide a guaranteed yield per penny of property tax levied above the Tier I tax rate (golden and copper pennies)

Tier 3
I&S

- Interest and Sinking (I&S)
- Provides for debt service for facilities and hold harmless for homestead exemption (ASAHE)

86^{th} Legislature Property Tax Relief

- Prior to actions of the 86^{th} Legislature:
  - Most Tier 1 tax rates were $1.00 per $100 of property valuation
  - State-mandated residence homestead exemption was $25,000
  - Additional state-mandated residence homestead exemption for adults who are over 65 or disabled was $10,000
- As property values grew, so did local property taxes, which reduced the state share of the FSP.
- HB 3, 86(R) slowed collection growth by **reducing district Tier 1 tax rates** in proportion to property value growth each subsequent biennium. This process became known as rate compression.

87th Legislature Property Tax Relief

- SB 1, 87(R), General Appropriations Act
  - Continued new **Tier 1 rate compression** during the 2022-23 biennium through HB 3 district and statewide mechanisms
- SB 1, 87(3)
  - Increased state-mandated **residence homestead exemption** from **$25,000 to $40,000**

88th Legislature Property Tax Relief

- HB 1, 88(R), General Appropriations Act
    - Continued new **Tier 1 rate compression** during the 2024-25 biennium through HB 3 district and statewide mechanisms
- SB 2, 88(2)
    - Reduced **Tier 1 tax rates** by an additional **10.7 cents** beyond HB 3 mechanisms
    - Increased state-mandated **residence homestead exemption** from **$40,000 to $100,000**
    - Established a **20.0 percent circuit breaker** value limitation on certain real property other than residence homesteads for three tax years (2024-2026)

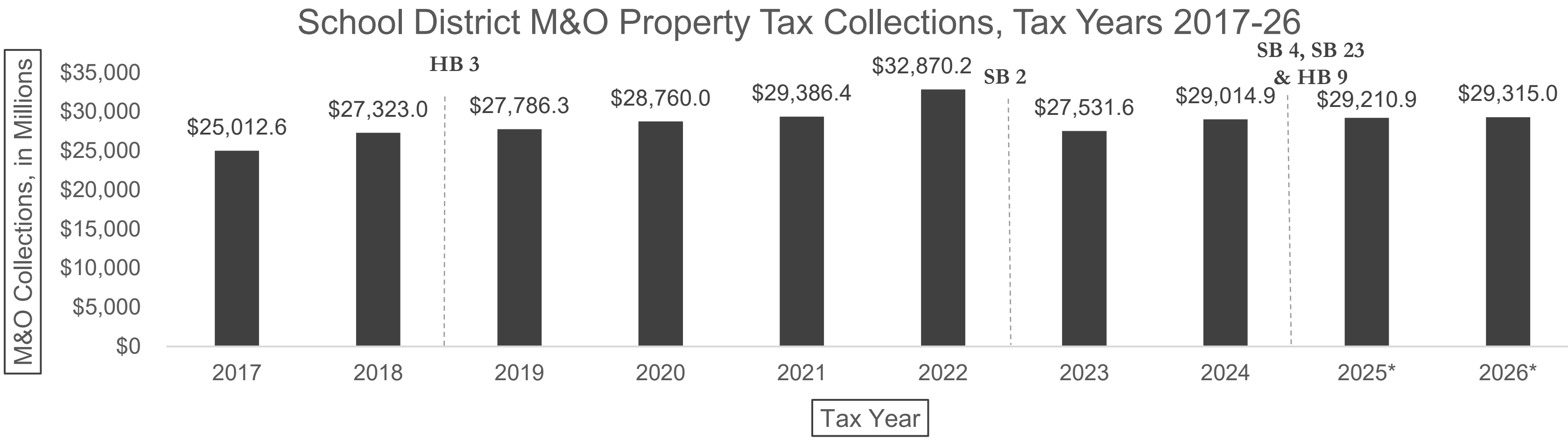
89th Legislature Property Tax Relief

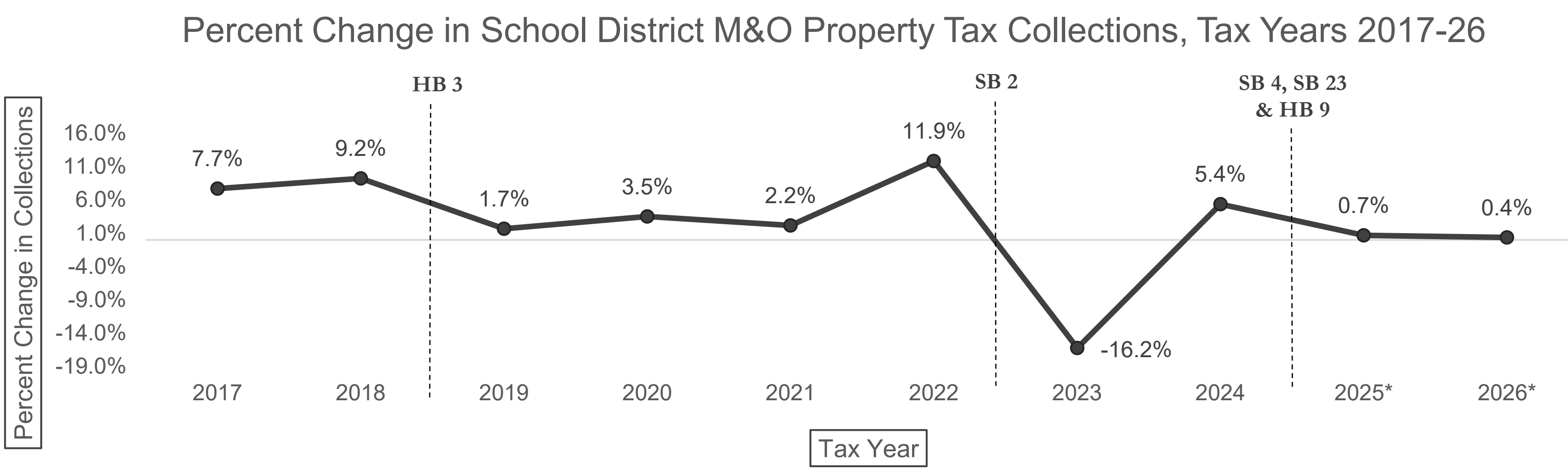
- SB 1, 89(R), General Appropriations Act
  - Included an estimated **$51.0 billion** in total tax relief included in FSP appropriations for tax relief legislation since 2019 (see slide 8)
  - Continued new **Tier 1 rate compression** during the 2026-27 biennium through HB 3 district and statewide mechanisms
- SB 4, 89(R)
  - Increased state-mandated **residence homestead exemption** from **$100,000 to $140,000**
- SB 23, 89(R)
  - Increased additional state-mandated residence homestead exemption for adults who are **over 65 or disabled** from **$10,000 to $60,000**
- HB 9, 89(R)
  - Increased **business personal property** (BPP) tax exemption from **$2,500 to $125,000** and expanded exemption from de minimus to universal

2026-27 Property Tax Relief Costs

Texas Education Agency Rider 76, Property Tax Relief		
Subsection	**Amount, in billions**	**Description**
-	$41.0	2024-25 biennial cost of maintaining all property tax relief provided since HB 3, 86(R) was passed
(b)	$3.5	2026-27 new cost of maintaining property tax relief provided in the 2024-25 biennium pursuant to HB 3, 86(R) and SB 2, 88(2)
(c)	$1.8	Cost of new HB 3, 86(R) rate compression due to projected property value growth in 2026-27 biennium
(d)	$0.8	Cost to provide 3.31 cents of new statewide HB 3, 86(R) compression due to 48.2552(c) limitation
(e)	$3.9	Contingency for SB 4, 89(R) ($140K homestead exemption), SB 23, 89(R) ($60K elderly or disabled homestead exemption), and HB 9, 89(R) (tax relief for businesses)
(a)	**$51.0**	**2026-27 cost to maintain tax relief since HB3, 86(R), and to provide new tax relief**

Maintenance and Operations Tax Collections





*Tax year 2025 is estimated; tax year 2026 is projected based on assumed 3.6% district property value growth.

Contact the LBB

Legislative Budget Board
www.lbb.texas.gov
512.463.1200