

School District Tax Rate Compression and Tax Ratification Elections

HB 3 passed by the 86th Legislature mandated that school districts reduce maintenance and operations (M&O) tax rates in the years to come, and appropriated \$5 billion to reimburse school districts for revenue lost due to that tax rate compression in the 2020-21 biennium. They also changed the requirements for voter approval of higher rates through tax ratification elections.

Things to Know

- In the 2019-20 school year, school district M&O rates were reduced by an average of \$0.08 statewide.
- In the 2020-21 school year, rates will be reduced further using revenue generated from school district property value growth in excess of 2.5%.
- The 86th Legislature appropriated \$5 billion for school district tax rate compression in the 2020-2021 biennium under HB 3.
- Increases in school district maintenance and operations (M&O) tax rates were prohibited in the 2019-20 school year unless a written strategic plan was in place before HB 3 passed.
- A school board can adopt an M&O tax rate up to the compressed rate + \$0.17 with voter approval (through a tax ratification election) in the 2020-21 and subsequent school years.

School property tax rates will be falling in the coming years through mandatory maintenance and operations (M&O) tax rate compression in HB 3. The state will make up the lost tax revenue, appropriating \$5 billion for the 2020-21 biennium alone just for tax relief. The requirements for voter approval through a tax ratification election, and calculations for the “voter-approval” tax rate were also changed to conform to the tax rate compression.

Reimbursement from the state is necessary because funding for schools is a shared responsibility between the state and local school districts. The state guarantees each district will have a certain dollar amount of revenue per student. If the district can't raise enough property tax revenue to meet the guarantee, the state makes up the difference. Therefore, when the Legislature mandated that school districts reduce their M&O tax rates, the district's “share” of the total cost was also reduced, and the state was obligated to replace that revenue.

Tax Rate Compression

In the 2019-20 school year, school districts were required to reduce their tier one tax rates by 7%. This was accomplished by applying a “compression percentage” of 93% to the tax rate by which a school

For a summary of all provisions in HB 3, see [HB 3 by Huberty, a True School Finance Overhaul](#)

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district raises its “share” of basic funding (tier one rate). Therefore, a district that previously raised its share of the cost with a tax rate of \$1.00, was now only required to contribute the amount generated by \$0.93. In addition, school districts with previous M&O tax rates between \$1.07 and the statutory M&O rate cap of \$1.17 were required to compress their rates even further, but received a higher state guarantee for each remaining penny in order to keep them whole. Due to this compression, the \$1.17 M&O tax rate cap was lowered to \$1.10 (except for 5 “special law” school districts that are authorized by their voters to tax at a higher rate under a law passed in 1953).

Tax Rate Compression 2020-21 School Year and Beyond

Beginning in the 2020-21 school year, the required amount of tax rate compression will vary among school districts depending on the district’s property value growth above 2.5%, and each district will be subject to its own M&O rate cap equal to its compressed rate plus \$0.17. A maximum compressed rate of \$0.9164 has been determined for 2020-21 using the Legislature’s estimate of statewide value growth of 4.01% for that school year. If a school district’s taxable value grows by more than 4.01%, that district’s compressed rate will be lower than \$0.9164. Due to equity concerns, the lowest rate allowable to receive a district’s full state entitlement will be \$0.8247 (90% of \$0.9164). The calculation for a school district with 8% value growth is set out below as an example:

2020-21 District Tax Rate Compression District with 8% Value Growth

Max Compressed Rate = $\$0.93 \times 1.025/1.08$

Max Compressed Rate = $\$0.8826$

Tax Ratification Election (TRE)

The “voter-approval” tax rate for school districts is equal to the district’s compressed tax rate, plus the greater of \$0.05 or the number of “enrichment” pennies that the district levied in the previous year, plus the district’s debt rate.

**Voter-Approval Tax Rate =
Compressed Rate + Greater of \$0.05 or Prior Year
Enrichment Pennies + Debt Rate**

In the 2019-20 school year, school districts were prohibited from adopting an M&O tax rate higher than the compressed rate plus prior year enrichment pennies unless the district had a written strategic plan in place to increase the rate before HB 3 passed. Therefore there were very few (if any) tax ratification elections in 2019.

The voter-approval tax rate for the 2020-21 school year is calculated with a restriction that a school board can only increase prior year enrichment pennies to \$0.05 without being subject to a tax ratification election if the board adopts the rate unanimously. Therefore, if the district’s prior year M&O rate was \$0.97 (\$0.93 + \$0.04), the school board can **unanimously** adopt an M&O rate for the 2020-21 school year equal to the new compressed rate + \$0.05, and a tax ratification election will not be required. The unanimous vote is not required in subsequent school years.

If a school board adopts a tax rate that exceeds the voter-approval tax rate, they must schedule an election on a uniform election date to allow voters to approve or reject the adopted rate (tax ratification election, or TRE). If voters do not approve the rate, the voter-approval rate replaces the adopted rate. A school board can adopt an M&O rate up to the district’s compressed rate + \$0.17 and put it before voters for approval. A school district must conduct an efficiency audit before scheduling a TRE.

Note: Section 26.08(a-1) of the Tax Code states that when increased expenditure of money by a school district is necessary to respond to a disaster, an election is not required to approve the tax rate adopted by the school district for the year following the year in which the disaster occurs. This provision applies for one year only.