



## To the Administrator Addressed

Commissioner Mike Morath

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|--------------------|---|
| <b>DATE:</b>       | <b>June 11, 2019</b>  |
| <b>SUBJECT:</b>    | <b>House Bill 3 (HB3) Implementation: Tax rate compression</b>      |
| <b>CATEGORY:</b>   | <b>Funding Implications; Adoption of Tax Rate for 2019 Tax year</b> |
| <b>NEXT STEPS:</b> | <b>Share with business and finance staff</b>                        |

House Bill 3, as passed by the 86<sup>th</sup> Legislature, was signed into law today by Governor Abbott. These are the first three implementation notices sent to districts. Over the next several months, the agency will be releasing more To the Administrator Addressed (TAA) correspondence with additional information, as it becomes available. All TAA correspondence will be posted to our website at [tea.texas.gov/HB3](http://tea.texas.gov/HB3). If you have any general inquiries on HB3 please email [HB3info@tea.texas.gov](mailto:HB3info@tea.texas.gov).

This letter is to inform you about the tax rate compression required under HB3. Statutory citations below refer to the Texas Education Code and the Tax Code as amended by the bill.

1. **Requirement to reduce tax rate.** For the 2019 tax year, school districts will be required to reduce the tier one tax rate as defined under Section 45.0032, Education Code as well as any tax rate compression required to be applied to the enrichment tax rate under Section 48.202(f), Education Code.

Section 5.002 of House Bill 3 provides that *“a school district is required to calculate the district’s voter-approval tax rate for the 2019 tax year in the manner provided by Section 26.08, Tax Code, as amended by this Act, **regardless of whether the district has already calculated that rate or adopted a tax rate for the 2019 tax year before September 1.**”*

2. **How to calculate the components and required compression of a district’s maintenance and operations (M&O) tax.**

Any tax effort adopted in response to a disaster for the 2018 tax year should be excluded from any of the calculations below for the 2019 tax year.

- a. **Tier One Tax Rate** The tier one tax rate is defined as the lesser of \$1.00 or the total number of cents levied by the district for the 2018 tax year for M&O (excluding disaster tax rate increases in (a) above).

The tier one tax rate must be reduced by applying the state compression percentage which is 93 percent for the 2019-2020 school year.

- b. **Enrichment Tax Rate** The enrichment tax rate is defined as any tax effort in excess of the tier one tax rate and less than \$1.17. The enrichment tax rate will continue to be divided into the ‘golden pennies’ and the ‘copper pennies.’ The

golden pennies have been increased from 6 to 8 under Section 48.202 (a-1) (1) and the 'copper pennies' refer to 2018 tax effort between \$1.08 and \$1.17.

- c. The tax rate compression required for the enrichment tax rate is applied only to the copper pennies. The compression rate required under Section 48.202(f) will be 0.64834, calculated as the fraction of the guaranteed yield level of state and local funds per weighted student for the 2018-2019 schoolyear (\$31.95) divided by the guarantee level for the 2019-2020 schoolyear (\$49.28).
3. **Voter-Approval (Rollback) Tax Rate** The rollback tax rate provided for under Section 26.08, Tax Code, has been renamed the voter-approval tax rate. There is no longer an effective tax rate calculation. The voter-approval tax rate for the 2019 tax year will be the sum of:
    - a. The state compression percentage times \$1.00 (93 cents);
    - b. The greater of:
      - i. the district's tax effort for the 2018 tax year that exceeded \$1.00 minus any tax rate compression required for the enrichment tax rate in section (2) (b) (i) above,
      - or
      - ii. 4 cents; and
    - c. The district's current debt rate.
  4. **Prohibition on adopting M&O tax rate in excess of the voter-approval tax rate.** Districts whose 2019 voter-approval tax rate, excluding the districts' current debt rate, exceeds or equals \$0.97 will not be permitted to adopt an M&O tax rate in excess of the voter-approval tax rate excluding the debt rate, unless the district publicly adopted a strategic plan proposing a tax rate in excess of this amount before January 1, 2019 or the district must respond to a disaster as provided for under section 26.08(a-1), Tax Code. An efficiency audit will not be required for these districts to increase their tax rate for the 2019 tax year as the requirement for efficiency audits will not be effective until January 2020.
  5. **Districts which may increase their 2019 M&O Tax Rate**
    - a. ***Districts with a 2019 tax rate below \$0.97.*** Districts with a tax rate below \$0.97 may increase their adopted M&O tax rate up to \$0.97.
    - b. ***Districts which have publicly adopted a strategic plan that proposed an M&O tax rate increase.*** Districts which publicly adopted a strategic plan through action taken by the board of trustees in a public meeting before January 1, 2019 may, subject to voter approval, adopt the rate proposed in the plan minus the amount of required tax compression.
    - c. ***Districts which need to adopt a higher tax rate in response to a disaster in the 2018-2019 school year under Section 26.08(a-1), Tax Code.*** For the 2019 tax year, districts responding to a disaster may adopt a tax rate in excess of the

voter-approval tax rate without voter approval. The amount by which the tax rate exceeds the voter approval tax rate is not considered when calculating the voter approval tax rate for the subsequent tax year.

6. **Prohibition on using maintenance and operations surplus for the purpose of paying a district’s debt service.** Section 45.0021, Education Code prohibits a district from increasing the M&O tax rate in order to create a surplus in maintenance tax revenue for the purpose of paying the districts debt service.

7. **The following table illustrates the tax rate calculation for the 2019 tax year:**

| 2018 Tax Rate          | Compression Required   | 2019 Tax Rate   |
|------------------------|--|---|
| \$1.00 or less         | Multiply by 0.93   | 2019 TR = 2018 TR * 0.93                                      |
| \$1.00 to \$1.08       | Multiply first \$1.00 by 0.93  | 2019 TR = 0.93 + (2018 TR – \$1.00)                           |
| \$1.08 to \$1.17       | Multiply first \$1.00 by 0.93<br>Plus<br>(2018 TR – 1.08) * 0.64834                      | 2019 TR = 0.93 + 0.08 +<br>(2018 TR – 1.08) * 0.64834         |
| Districts over \$1.17* | Multiply first \$1.00 by 0.93<br>Plus (\$1.17 – 1.08) * 0.64834<br>Plus 2018 TR – \$1.17 | 2019 TR= 0.93 + 0.08 +<br>(0.09 * 0.64834) + (2018 TR – 1.17) |

\*Three districts currently have tax rates above \$1.17 as permitted by special law.

8. **Excel template:** Here is an [Excel template](#) to assist with clarifying tax rate adoption. Please note that the purpose of this template is limited to assistance only and does not anticipate any tax rate increase that the district may be considering. Legal responsibility to adopt a tax rate in accordance with the law remains with the district, which should consult with its own legal counsel.

**Questions**

If you have any questions related to this TAA on tax rate compression required under House Bill 3, please contact the division of state funding by phone at (512) 463-9238 or by email at [HB3info@tea.texas.gov](mailto:HB3info@tea.texas.gov).

Sincerely,

Al McKenzie  
Director of State Funding