LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

March 14, 2023

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **SB4** by Bettencourt (Relating to the maximum compressed tax rate of a school district.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB4, As Introduced : a negative impact of ($418,497,000) through the biennium ending August 31, 2025.

In addition to the costs stated above, there would be additional costs associated with provisions of the bill providing a uniform reduction of school districts' maximum compressed rate. As the costs associated with implementing these provisions are subject to appropriation, the fiscal impact cannot be determined.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to *General Revenue Related Funds*
2024	($54,248,000)
2025	($364,249,000)
2026	($629,909,000)
2027	($863,812,000)
2028	($1,064,096,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Savings/(Cost) from *Recapture Payments Atten Crdts* 8905	Probable Revenue Gain/(Loss) from *School Districts*
2024	($54,248,000)	$17,381,000	($54,385,000)
2025	($364,249,000)	$166,400,000	($365,969,000)
2026	($629,909,000)	$296,020,000	($640,400,000)
2027	($863,812,000)	$441,452,000	($870,049,000)
2028	($1,064,096,000)	$561,030,000	($1,071,110,000)

Fiscal Analysis

The bill would amend Chapter 48 of the Education Code, relating to the Foundation School Program, to increase the allowable spread of school districts' maximum compressed rates (MCR) from within 90 percent of the highest district's MCR to within 80 percent, and stipulate no district have an MCR less than 80 percent of any other district.

The bill would add a new section which would reduce the MCR for all school districts by a uniform amount for the 2023-24 school year, with the the increased allowable spread in place, and instruct the Commissioner of Education to reduce each school district's calculated MCR by an equal amount using money appropriated for the purpose of reducing school district MCRs. The bill stipulates that for the 2024-2025 School Year, a school district's prior year MCR (PYMCR) is the reduced MCR as provided by this new section.

Methodology

Increasing the spread which school districts' maximum compressed rates may vary from 10 percent to 20 percent below that of the highest rate will allow increased compression of maintenance and operations (M&O) tax rates for school districts with property values growing faster than the estimated statewide property value growth and receiving individual district compression, creating a cost to the state through operation of the school funding formula.

Under current law, Education Code Sec. 48.2552(c) requires the legislature to appropriate an amount equal to the state savings resulting from limiting district MCRs to 90.0 percent of the highest district's MCR during a biennium to reduce the state compression percentage in the following biennium. However, because the legislature would be required to take action to appropriate the funds for this purpose, those current law costs are not assumed in the tables above. This analysis assumes that if the legislature acted to appropriate the funds, the costs above for the 2026-27 biennium would be reduced by approximately the amounts shown for the 2024-25 biennium. This effect would continue in subsequent biennia to reduce costs of the bill compared to current law.

The cost to the Foundation School Program (FSP) due to expanding the limit on the variation of district MCR's from 10.0 percent to 20.0 percent is estimated to be $54.2 million in fiscal year 2024, $364.2 million in fiscal year 2025, increasing to $1,064.1 million in fiscal year 2028. These estimates assume Comptroller statewide property value growth projections as of October 2022 of 3.82% in fiscal year 2024 and 4.56% in fiscal years 2025-2028. Effects of this provision depend on projected estimated statewide property value growth compared with property value growth in individual school districts. In a high-growth year, the cost of expanding the limit on the variation of district MCRs may be significantly higher.

The cost to the FSP includes estimated decreases in Recapture Payments - Attendance Credits of $17.4 million in fiscal year 2024, $166.4 million in fiscal year 2025, increasing to $561.0 million in fiscal year 2028 as a result of the reduction in school district MCRs. The decrease in recapture is reflected as a savings in the table above because recapture is appropriated as a method of finance for the FSP in the General Appropriations Act.

In addition, as the amount to be appropriated for enhanced school district MCR compression in the 2023-24 School Year is unknown, the fiscal implications of provisions related to reducing the MCR by an equal amount cannot be determined. Further, as the bill stipulates that the PYMCR for the 2024-2025 School Year is the MCR for the prior School Year, the additional 2023-2024 MCR compression will be ongoing and reflected in all subsequent School Years.

For illustrative purposes, if the bill were to reduce the MCR for all school districts by $0.0703 for the 2023-24 school year, the estimated total cost for the bill would be $2.8 billion in fiscal year 2024, $3.1 billion in fiscal year 2025, increasing to $3.8 billion in fiscal year 2028. This would be accompanied by a decrease in recapture of $1.1 billion in fiscal year 2024, $1.3 billion in fiscal year 2025, increasing to $1.7 billion in fiscal year 2028 as a result of the reduction in school district MCRs.

The Texas Education Agency assumes that any administrative costs associated with implementing the provisions of the bill could be absorbed with current funding levels.

Local Government Impact

The provisions of the bill would only apply to school districts. School Districts would have a uniform reduction in M&O tax rates and have a reduced local share of the FSP as a result. The reduced local share would result in greater state aid or reduced recapture to compensate for the loss of local property tax revenue.

Source Agencies: 304 Comptroller of Public Accounts, 701 Texas Education Agency

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