

Do Higher School Taxes Mean Higher Spending?

Most taxpayers understand that they pay more taxes when taxable values increase without a corresponding decrease in the tax rate. Because of this, many taxpayers find their school taxes to be very confusing. To shed light on this issue, the basics of Texas school district funding and its integral relationship to tax collections must be understood.

Understanding Tax Rates

Most taxpayers are concerned with the “bottom-line” – how much do they pay in taxes. At the same time, taxpayers should also be aware of where their school district tax dollars go.

School district tax rates are comprised of two parts. The first part is the Maintenance & Operations (M&O) tax rate. The M&O tax rate is used to fund the major operating expenses of school districts. Included in these expenses are salaries/benefits for teachers, general supplies, utilities, custodians and bus drivers, technology support, counselors, nurses, librarians and a host of other operational costs.

The minimum M&O tax rate is set by the State at \$1.00 per \$100 taxable value. School Boards may increase the rate up to \$1.04 without voter approval. Any amount of M&O tax rate above \$1.04 must be approved by the voters via a tax ratification election (TRE). The maximum allowable M&O tax rate is \$1.17. As a result of the November 2012 TRE election, Georgetown ISD’s current voter-approved M&O tax rate is \$1.08. M&O taxes, exceeding the state adopted threshold, are subject to recapture payments.

The second part is the Debt Service tax rate. Georgetown’s current debt service tax rate is \$0.329 per \$100 taxable value. When voters approve bond propositions, they are essentially approving the tax rate necessary to repay the

bonds that are sold. **It is important to note that the debt service taxes cannot be used for operational expenses and debt service taxes are not subject to recapture payments.** The maximum debt service tax rate allowed under current law is \$0.50.

Taxation Process

A separate entity, Williamson Central Appraisal District (WCAD), annually determines the taxable value of each property. The amounts determined by WCAD are intended to reflect each property’s market value.

The Georgetown ISD school board sets the tax rate. This rate is applied to taxable values established by WCAD and determine the actual taxes that are owed. The school board adopted tax rate is subject to the legal restrictions and maximum rates outlined in the previous section – **Understanding Tax Rates.**

The Williamson County Tax Assessor/Collector Office collects Georgetown ISD taxes. To save taxpayers money, the office collects taxes for the majority of taxing entities in Williamson County. The office also administers the truth-in-taxation requirements and calculates taxing entity rollback rates.

Truth in Taxation Requirements

All Texas governmental entities who assess property taxes must comply with truth-in-taxation requirements. Generally, taxing entities must consider taxable value increases when adopting the new tax rates. To avoid a roll-back election, taxing entities, **with the exception of school districts**, can adopt a rate that is the sum of their effective tax rate plus a percentage set by legislation, plus their debt service rate.

The truth-in-taxation requirements for Texas public schools differ from the requirements of other governmental entities. The State of Texas requires that school districts not only consider their local tax collections, but their state aid when calculating their rollback rate. An automatic election is required if a school district exceeds its rollback rate.

Where Do Georgetown ISD Taxes Go?

Not all the taxes levied in Georgetown ISD stay in the district. In June 2017, House Speaker Joe Strauss spoke at the Texas Association of School Boards Post-Legislative Conference stating that “rising property values allow the state to reduce state funding for schools and, unfortunately, that is what is happening.” His remarks specifically referenced the published statement by Fort Bend ISD Board President Kristin Tassin (January 2017) that “the additional funding provided by rising property appraisals does not go to school districts. The additional money goes to the State’s general fund and is not required to be used for education at all.”¹

For Texas school districts including Georgetown ISD, **higher taxes do not translate into higher spending or the ability to lower the M&O tax rate.** The primary determinant for how much a school district spends on maintenance and operations such as salaries, supplies and utilities, are the funding levels that are fixed by state legislation.² To meet the equalized wealth standards set by the State Supreme Court, the legislature has linked state aid and local taxes together to fund district operations.

The state aid/local tax process works something like the following funding illustration. Each glass represents the sum of state aid and local taxes that a district may receive. The size of each glass is controlled by state legislation. Districts with fewer tax dollars per student get more state aid and, conversely, districts with more tax dollars get less state aid. The third glass illustrates what happens when the amount of local taxes exceeds the allowable revenue per student. The overflow represents recapture payments that are paid to the State. Local taxes that exceed this funding level must be paid to the state. Georgetown ISD is represented by the third glass and is expected to pay recapture payments of \$18-\$19 million in 2018-2019 to the State. The state uses these local taxes to fund other components of the Texas school funding system.

Illustration of Relationship between Local Taxes and State Aid



¹ Houston Chronicle, January 20, 2017, *I am not an 'educrat'; an open letter to Dan Patrick*, Kristin Tassin.

² The State of Texas has established an equalized funding system for public schools. In essence, the State wants to ensure that substantially every penny of tax effort per student yields a similar amount of state aid and local tax dollars per student. As an illustration, a district whose penny of tax effort raises \$500,000 can generate the same tax revenues with a tenth of the effort than a district whose penny yields only \$50,000 per penny. To equalize the amount of tax revenues between these two districts, the State created a formula that gives the district with \$50,000 more state aid to make up the difference.

As local taxpayers experience higher property taxes, Georgetown ISD does not retain every tax dollar for the benefit of its students. **Higher taxes do not mean higher spending for Georgetown ISD.**

Fortunately, the State does not require revenue equalization for the debt service taxes. These tax dollars stay in Georgetown ISD and are used to repay its debt. Any excess collections are used to pay off debt earlier or to offset the effect of future debt issuance without increasing the tax rate.

(For more about taxation for Texas public schools, go to the website www.taxparencytexas.org)

Revised: March 2018