
Local Spending Limits and School Districts

Governor Abbott's Point 1: Capping local spending growth at population plus inflation or 3.5%, whichever is lower

Legislative Priority

SUPPORT TAX RELIEF THAT PROTECTS SCHOOL FUNDING

The state has committed \$51 billion to property tax relief in 2026-27. TSC supports continued relief that protects public school funding now and in the future.

Background

Governor Abbott's property tax plan, "Empowering Texas Taxpayers," would cap the growth of local government spending at the lower of population growth plus inflation or 3.5% a year. The plan requires legislative approval, and it does not yet say how a cap would apply to school districts.¹

School districts are already limited in ways cities and counties are not. Their maintenance and operations (M&O) revenue is set by the state's school finance formulas, and their tax rates are held down each year through the maximum compressed rate (MCR) that the Texas Education Agency calculates.² A spending cap written for cities and counties would add a second limit on top of the one districts already face.

Impact on School Districts

- **A second limit on top of the formulas.** District M&O revenue is already set by state formulas and MCR compression. A spending cap could limit districts again after the formulas have already done so.
- **State increases could be blocked.** If the Legislature raises the Basic Allotment or funds new requirements such as teacher raises or school safety, a cap could keep districts from spending money the state itself sent for those purposes.
- **Recapture could count as spending.** If recapture payments count against the cap, growth in recapture would use up capacity and squeeze instructional budgets in recapture-paying districts.
- **The formula does not fit schools.** General population growth is not student enrollment, and a 3.5% ceiling sits below recent inflation peaks.³ In a high-inflation year, a district's purchasing power would fall automatically.

What a Spending Cap Would Cost

No state cost estimate exists for Point 1. The Legislative Budget Board found no significant state cost for the 2025 bills that would have capped city and county spending, and those bills did not apply to school districts.⁴

For districts, the cost is purchasing power. When inflation runs above 3.5%, a capped budget buys less each year. In June 2022, consumer prices were up 9.1% over the prior year.⁵ Under a 3.5% cap, a district with a \$100 million budget would have fallen about \$5.6 million behind rising costs that year.

The \$5.6 million figure is a TSC illustration (9.1% minus 3.5%, applied to a \$100 million budget). It is not a projection for any district.

¹[Governor Abbott: Power to the Texas Taxpayer](https://www.gregabbott.com/point-1), gregabbott.com (2026).

²[Tax Year 2026 Maximum Compressed Tax Rates](#), Texas Education Agency.

³[Consumer prices up 9.1 percent over the year ended June 2022, largest increase in 40 years](#), U.S. Bureau of Labor Statistics, The Economics Daily.

⁴[Fiscal Note, HB 5267](#), 89th Legislature, Regular Session (April 30, 2025); [Fiscal Note, HB 73](#), 89th Legislature, 2nd Called Session (Aug. 21, 2025), Legislative Budget Board.

⁵[Consumer prices up 9.1 percent over the year ended June 2022, largest increase in 40 years](#), U.S. Bureau of Labor Statistics, The Economics Daily.

Policy Recommendation

Texas School Coalition supports property tax relief that protects school funding. If the Legislature adopts local spending limits, TSC recommends:

- **Exclude formula-funded school spending:** School district M&O spending is already limited through the formulas and MCR compression and should not be subject to a second cap.
- **Protect state-funded increases:** Increases the Legislature provides, including Basic Allotment increases and funding for new requirements, should never count against a local cap.
- **Leave recapture out of spending totals:** Recapture payments are sent to the state and should not reduce the amount a district may spend on its own students.
- **Base any school limit on students and costs:** If a limit applies to districts, it should follow student enrollment and the cost of delivering education rather than general population and a fixed 3.5% ceiling.
- **Preserve voter-approved funding:** Debt service on voter-approved bonds and voter-approved Tier 2 enrichment should stay outside any cap.
- **Report the effect on recapture:** Any spending limit bill should report its effect on school district budgets, state aid and recapture.

Impact on Recapture Districts

Recapture districts face a risk other districts do not. Their recapture payments are set by state law and can grow from year to year with local property values, regardless of the district's own budget decisions. If recapture counts as spending under a cap, a rising payment to the state would use up the district's allowed growth and force cuts to instruction to make room for money the district never keeps.

Recapture also saves the state money: each dollar recaptured reduces what the state must spend to fund the Foundation School Program. Counting recapture against a local cap would make recapture districts absorb the cost of producing those state savings. Leaving recapture out of spending totals, as recommended above, keeps the cap from penalizing districts for payments the state requires.

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About Texas School Coalition

The Texas School Coalition is a membership organization that was founded in 1997 to represent property-wealthy independent school districts whose local tax collections are subject to recapture. The mission of the Texas School Coalition is to advocate for the resources to provide all Texas public school students an excellent education and for a school finance system that balances sustainable state and local investments in the best interests of students and taxpayers.