
Simplify Compliance: Hold Harmless Provisions

Creating predictable, permanent funding formulas that protect property-wealthy districts from sudden revenue loss

Legislative Priority

SIMPLIFY COMPLIANCE SO MORE DOLLARS REACH THE CLASSROOM

TSC supports the Legislature's goal of property tax relief and wants to be a partner in delivering it. TSC members are asking the 90th Legislature to replace complex, short-term hold harmless provisions with predictable, permanent funding that school districts can depend on during annual budget planning, so that tax policy changes such as compression do not leave recapture districts worse off.

Background

All legislative changes to the school finance formula require hold harmless provisions. However, the property wealthy school districts subject to recapture need an additional safeguard due to the continuous and inherent structural volatility they face.

Property-wealthy districts uniquely face a risk layer where recapture payments increase automatically as property values grow. This means they can lose revenue even when tax effort stays the same and enrollment grows.

The existing hold harmless provisions, which are complex and integrated into formula funding, have created administrative difficulties and are targeted for elimination by some legislators.

Current hold harmless provisions

House Bill 2 (89th Legislature) codified additional state aid for districts affected by tax compression under Section 48.283, Education Code. It also created additional state aid under Section 48.285 to ensure districts receive the new teacher and support staff retention allotments, a provision that expires September 1, 2028, and modified Section 48.257 so that districts subject to recapture that owe none because of the collections-related adjustment still receive aid for the teacher retention allotment.¹

Funding Options

The following concepts would replace the complex, formula-embedded hold harmless provisions with a simpler, more transparent way to prevent sudden revenue losses, outside the core equalized formula funding.

Option A: Apply a Fixed-Percentage Recapture Discount

Concept: Reduces each district's recapture bill by a fixed percentage.

Advantages:

- Simple to calculate: the state applies a uniform discount to a liability TEA already calculates.
- Sits outside the core equalized formulas.
- Gives districts and the state a predictable result each year.

Policy Rationale: This is the cleanest model, as the state just applies a uniform discount factor to an already calculated liability.

Considerations: This method protects against the size of recapture, not necessarily against year-over-year revenue loss. It would help only a small percentage of districts.

Option B: Create a State Stabilization Grant Based on Prior-Year Revenue

Concept: Creates a separate grant triggered when state-and-local M&O revenue after recapture falls below a threshold (e.g., 98% or 99% of the prior year, adjusted for ADA/enrollment).

¹ [House Bill 2 \(HB 2\) Implementation: Foundation School Program \(FSP\) Funding Formula Changes](#), Texas Education Agency, To the Administrator Addressed correspondence, July 10, 2025.

Advantages:

- Targets the actual harm, an abrupt loss of operating revenue.
- Separate from the core formulas.
- Gives districts a per-student revenue level they will not fall below.

Policy Rationale: Targets the actual harm: abrupt loss of operating revenue, and is separate from the core formula. It gives districts certainty by setting a revenue level per student that a district will not fall below.

Considerations: The choice of base year matters. Measuring against the prior year may phase the protection out over time, while a fixed base year such as 2025-26 would provide a more stable starting point.

Option C: Set a Floor on Local-Retained M&O Revenue per ADA

Concept: Sets a minimum local-retained M&O amount per ADA for recapture districts, with the state filling the gap if the district falls below the floor.

Advantages:

- Ties protection to a district's operating capacity per student.
- The state pays only when a district falls below the floor.
- Avoids the term "hold harmless."

Policy Rationale: Ties protection to educational operating capacity and is more neutral-sounding than "hold harmless."

Considerations: This option would need to be distinguished from the existing recapture adjustment, which entitles districts to at least their Tier One funding, and it may not help enough districts.

Option D: Set a Growth Corridor That Caps Revenue Loss

Concept: The state guarantees that no recapture district may lose more than X% of net M&O revenue year-to-year due to formula changes or recapture growth.

Advantages:

- Easy to explain to legislators and taxpayers.
- Works as a guardrail during formula transitions.
- Limits year-to-year losses, which makes budgets easier to plan.

Policy Rationale: Very easy to message and behaves like a guardrail during transitions.

Considerations: This option works much like Option B. The guarantee could be tied to a fixed year, so that a district does not fall below its 2025-26 revenue per student, or to a maximum percentage loss from the prior year.

Option E: Align Local Fund Assignment with Actual Tax Collections

Concept: Formally recognize the disconnect between local fund assignment and local tax collections through formula changes, so that the formulas do what actually happens.

Advantages:

- Makes the formulas reflect the revenue districts actually collect.
- Addresses a cause of revenue gaps rather than adding a separate protection.
- A permanent formula change rather than a temporary provision.

Policy Rationale: No district actually collects all of its local taxes, for various reasons such as the early payment discount and the local option homestead exemption.

Considerations: Measuring actual collections for each district would add a data requirement for TEA, and the change would affect state aid for all districts, not only recapture districts.

Other approaches under review

Additional ideas include allowing a district that falls below its revenue target to convert a copper penny to a golden penny without voter approval, and repealing the current hold harmless provisions and redirecting those funds into the basic allotment.

Impact on Recapture Districts

Because recapture payments rise automatically with property values, recapture districts can lose revenue even when tax effort is unchanged and enrollment grows. A simple, transparent protection outside the core formula would give these districts the budget stability to plan with confidence while the Legislature continues to pursue property tax relief.

Financial models for these options are under development. Fiscal estimates will be added when the modeling is complete.

Contact

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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.