

Substitute the following for **CSHB 1**:

A BILL TO BE ENTITLED AN ACT RELATING TO PUBLIC SCHOOL FINANCE

ARTICLE 1: EDUCATION FINANCE REFORM

SECTION 1. SHORT TITLE. This Act may be cited as the Texas Great Classroom Fund Act.

SECTION 2. REPEALER. Chapter 41, Education Code, is repealed in its entirety as of September 1, \_\_\_\_\_.

SECTION 3. REPEALER. Chapter 42, Education Code, is repealed in its entirety as of September 1, \_\_\_\_\_.

SECTION 4. REPEALER. Chapter 46, Education Code, is repealed in its entirety as of September 1, \_\_\_\_\_.

SECTION 5. A new Chapter 47, Education Code, shall read as follows:

Chapter 47. Texas Great Classroom Program

SUBCHAPTER A: GENERAL PROVISIONS

Sec. 47.001. State Policy

It is the policy of this state that the provision of public education is a state responsibility and that a thorough and efficient system be provided and substantially financed through state revenue sources so that each student enrolled in the public school system shall have access to programs and services that are appropriate to the student's educational needs and that are substantially equal to those available to any similar student, notwithstanding varying local economic factors.

Sec. 47.002. Purpose of the Texas Great Classroom Program

(a) The purpose of the Texas Great Classroom Program as set forth in this Chapter is to guarantee that each school district in the state has:

(1) adequate resources to provide each eligible student a basic instructional program and education facilities suitable to the student's educational needs; and

(2) access to a substantially equalized program of financing for teacher compensation, instructional spending, and educational facilities.

(b) The Texas Great Classroom Program consists of two components:

(1) a teaching and instruction component, set forth in subchapter B, sufficient to provide a basic program of education that is rated academically acceptable or higher under section 39.072 and meets other applicable legal standards; and

(2) an instructional facilities component, set forth in subchapter C, that provides each district with adequate funding for instructional facilities.

Sec. 47.003. Definitions

In this Chapter "commissioner" means the Commissioner of Education.

Sec. 47.004. Rules

The commissioner may adopt rules for the administration of this Chapter.

SUBCHAPTER B: TEACHING AND INSTRUCTION

Sec. 47.101. Teaching and Instruction Allotment

(a) Each school district in this state is entitled to receive, for each pupil in refined average daily attendance, a Texas Great Classroom "Teaching and Instruction Allotment" in the amount given by the following formula:

$$[(\text{Target Amount}) \times (\text{Poverty Factor}) \times (\text{Sparsity Factor})] - [\text{District's TIA Ability to Pay}]$$

(b) "Target Amount" means the 60th percentile compensation for a full-time employee, working in the state of Texas, with a college degree, divided by 14.4, with that quotient then multiplied by 1.. For any given year, the "60th percentile compensation," is the annual compensation amount, including salary and benefits, for the preceding year, expressed in current year U.S. dollars, as that amount is periodically reported by the United States Department of Labor, Bureau of Labor Statistics.

(c) The "Poverty Factor" is based on the child poverty rate for the preceding year, for each given school district, as that rate is calculated annually by the United States Department of Education. The Poverty Factor equals one plus  $[2 \times (\text{child poverty rate for the district} - 0.11)^2]$ .

(d) The "Sparsity Factor" is based on the Sparsity of the school district. "Sparsity" is calculated by dividing the geographic area of the school district, expressed in square miles,

by the number students in refined average daily attendance in that district for the current year. The "Sparsity Factor" equals one plus 2 X {(Sparsity -0.10) /-by 100}].

(e) The "District's TIA Ability to Pay" is based on the Aggregate Household Incomes, which is the sum of the income of all people who live in the district, as reported by the Census of Population and intercensal income estimates reported periodically by the U.S. Government. It is also based on the Aggregate Non-Residential Property Tax Base, which is the sum of the appraised value of all non-residential property situated within the school district. The "District's TIA Ability To Pay" is calculated as the sum of (0.01125 X Aggregate Household Income) and (0.005 X Aggregate Non-Residential Property Tax Base).

(f) The commissioner shall determine the Target Amount, and each district's Poverty Factor, Sparsity Factor, and TIA Ability To Pay, in accordance with the provisions of this chapter. All districts shall be notified by the commissioner of its determinations. The commissioner's determinations under this subchapter are final and not appealable.

(g) A district that qualifies for an enhancement of its Teaching and Instruction Allotment under both the Sparsity Factor and the Poverty Factor is entitled to have both adjustments apply for purposes of calculating its Teaching and Instruction Allotment.

(h) A district is entitled to a Teaching and Instruction Allotment in the amount set forth in this section, or the Guaranteed State Funds as provided in § 47.102 of this chapter, whichever is greater.

#### Sec. 47.102. Guarantee of Historic Funding Levels

(a) For purposes of this subsection:

(1) A district's "Prior Education Funding" means the funds the district was entitled to receive under Tier I and Tier II of the former provisions of Chapter 42 of the Education Code for the last full year before enactment of this Act;

(2) "Guaranteed State Funds Inflator" means one-half (1/2) the percentage increase in the Texas Great Classroom Fund Teaching and Instruction Allotment from the prior year, expressed as a decimal, calculated according to the following formula:

$$0.5 \times ((CTIA - PTIA) / PTIA)$$

where "CTIA" is the current year Teaching and Instruction Allotment for the district, and "PTIA" is the prior year Teaching and Instruction Allotment.

(3) For the five year period following the enactment of this Act, a district's "Guaranteed State Funds" shall be calculated according to the following formula:

$$GSF = PEF + (GSFI * PEF)$$

where "GSF" means a district's Guaranteed State Funds, "PEF" means the district's Prior Education Funding, and "GSFI" means the Guaranteed State Funds Inflator.

(4) After the five year period following the enactment of this Act, a district's "Guaranteed State Funds" means the district's Guaranteed State Funds as calculated for the fifth year following the enactment of this Act.

(b) For each school district, the commissioner shall determine the district's Prior Education Funding. All districts shall be notified by the commissioner of the Prior Education Funding determination.

(c) On an annual basis, the commissioner shall calculate and publish the Guaranteed State Funds Inflator.

(d) If the Guaranteed State Funds for any school district exceeds the district's Teaching and Instruction Allotment under section 47.101, the district shall be entitled to the amount of its Guaranteed State Funds in lieu of the teaching and instruction allotment under section 47.101.

(e) The commissioner's determinations under this subchapter are final and not appealable.

#### Sec. 47.103. Use of Teaching and Instruction Allotment

(a) A school district may use the teaching and instruction allotment to which it is entitled under section 47.101 or section 47.102 only for purposes of teacher compensation and instructional spending.

(b) Subject to the limitation imposed by subsection (a), a school district is permitted to use its teaching and instruction allotment for any purpose related to teacher compensation and/or instructional spending, including, without limitation, to:

(1) increase teacher salaries;  
(2) compensate selected teachers with merit pay;  
(3) award select teachers with competitive grants;  
(4) fund special programs to attract or retain  
talented teachers;

(5) fund special programs to attract or retain  
teachers with unique skills or abilities

(6) reduce average class size within the district;  
(7) provide for remedial education  
(8) provide special educational services to disabled  
students

(9) provide for English language instruction  
(c) A district may petition the commissioner for a  
determination whether a proposed expenditure constitutes spending  
on teacher compensation or instructional spending. The  
commissioner's decision under this subsection is binding and not  
appealable.

(d) A district shall set aside for future use any portion of  
its teaching and instruction allotment not used during the current  
academic year. Except as provided by section 47.104, such funds  
shall not be used for any purpose other than teaching and  
instruction.

(e) The commissioner shall adopt rules for the  
administration of this section.

#### Sec. 47.104. Application for Waiver

(a) A district may apply to the commissioner for a waiver  
permitting the district to spend a portion of its teaching and  
instruction allotment for non-instructional purposes.

(b) The commissioner may grant a district a waiver for  
non-instructional spending only if the district was receiving state  
aid under former Chapter 42, Education Code.

#### SUBCHAPTER C: INSTRUCTIONAL FACILITIES

#### Sec. 47.201. Noninstructional Facilities

In adopting rules for the administration of this Chapter, the  
commissioner's rules may limit the amount of an allotment under  
this subchapter that is to be used to construct, acquire, renovate,  
or improve an instructional facility that may also be used for

non-instructional or extracurricular activities.

Sec. 47.202. Basic Facilities Allotment

(a) For each academic year, a district is entitled to receive, for each pupil in refined average daily attendance, a basic instructional Facilities Allotment calculated according to the following formula:

$$\text{FA} = [36 \times (\text{MPOP})] - [\text{District's FA Ability To Pay}]$$

where:

"FA" is the basic instructional Facilities Allotment to which the district is entitled under this section;

"MPOP" is average market price for office space, expressed in dollars per square foot and assuming a 10 year depreciation period, in the relevant geographical area, as determined by the commissioner using public or private cost estimates of the market price for office space.

"District's FA Ability To Pay" is based on the Aggregate Household Incomes and Aggregate Non-Residential Property Tax Base as those terms are defined in § 47.101 of this chapter. The District's FA Ability To Pay is calculated as the sum of [0.0025 X Aggregate Household Incomes] plus [0.001 X Aggregate Non-Residential Property Tax Base].

Sec. 47.203. Adjustments to the Basic Facilities Allotment

(a) For purposes of this subsection:

(1) "Sparsity Factor" has the same definition in this subsection as in § 47.101 of this chapter.

(2) "Enrollment Fluctuation Factor" equals one plus [the "Percentage Enrollment Increase" - 0.10]. The "Percentage Enrollment Increase" is calculated as the difference between the district's enrollment in the current year, and the district's enrollment five years ago, with that difference divided by the district's enrollment five years ago, and expressed as a decimal.

(b) A district is entitled to an Enhanced Facilities Allotment as calculated by the formula:

$$\text{EFA} = 36 \times (\text{MPOP}) \times \text{Sparsity Factor} - [\text{District's FA Ability To Pay}]$$

or by the formula:

$$\text{EFA} = 36 \times (\text{MPOP}) \times \text{Enrollment Fluctuation Factor} -$$

[District's FA Ability To Pay]

whichever is greater.

(c) No school district may apply both the Sparsity Factor and the Enrollment Fluctuation Factor to enhance its Basic Facilities Allotment. Any school district that has elected to apply a Sparsity Factor to enhance its Basic Facilities Allotment in the previous five years is not eligible to apply the Enrollment Fluctuation Factor based on those same five years.

(d) Each year, the commissioner shall determine each district's Enrollment Fluctuation Factor and Sparsity Factor in accordance with the provisions of this act. All districts shall be notified by the commissioner of its determinations. The commissioner's determinations under this subchapter are final and not appealable.

Sec. 47.204. New Instructional Facilities Allotment

(a) A school district is entitled to a new instructional facilities allotment as provided by this section for operational expenses associated with opening a new instructional facility.

(b) For the first school year in which students attend a new instructional facility, a school district is entitled to an allotment of \$250 for each student in average daily attendance at the facility. For the second school year in which students attend that instructional facility, a school district is entitled to an allotment of \$250 for each additional student in average daily attendance at the facility.

(c) For purposes of this section, the number of additional students in average daily attendance at a facility is the difference between the number of students in average daily attendance in the current year at that facility and the number of students in average daily attendance at that facility in the preceding year.

(d) The total amount appropriated for allotments under this section may not exceed \$25 million in a school year. If the total amount of allotments to which districts are entitled under this section for a school year exceeds the amount appropriated for allotments under this section, the commissioner shall reduce each district's allotment under this section on a pro rata basis.

(e) The commissioner may adopt rules necessary to implement this section.

Sec. 47.205. Use of Instructional Facilities Allotment

(a) Districts may use the instructional facilities allotments awarded under this section only for the following purposes:

(1) payments for construction, acquisition, renovation, and improvement of an instructional facility;

(2) payments of principal and interest on bonds issued solely to construct, acquire, renovate, or improve an instructional facility; or

(3) payments under a lease-purchase agreement for an instructional facility.

(b) A district shall set aside for future use any funds allocated pursuant to sections 47.204 and 47.205 and not used during the current academic year. Such funds shall not be used for any purpose other than those specified in the previous subsection.

(c) The commissioner shall adopt rules for the administration of this section.

Sec. 47.206. Standards

The commissioner shall establish standards for adequacy of school facilities. The standards must include requirements related to space, educational adequacy, and construction quality. All new facilities constructed after September 1, 1998, must meet the standards to be eligible to be financed with state or local tax funds.

Sec. 47.207. Sale of Instructional Facility Financed With State Funds

(a) If an instructional facility financed by bonds paid with state and local funds under this subchapter is sold before the bonds are fully paid, the school district shall send to the comptroller an amount equal to the district's net proceeds from the sale multiplied by a percentage determined by dividing the amount of state funds used to pay the principal of and interest on the bonds by the total amount of principal and interest paid on the bonds with funds other than the proceeds of the sale.

(b) In this section:



(1) "net proceeds" means the difference between the total amount received from the sale less:

(A) the amount necessary to fully pay the outstanding principal of and interest on the bonds; and

(B) the school district's costs of the sale, as approved by the commissioner;

(2) "state funds" includes facilities allotments made pursuant to prior Chapter 46, Education Code, prior to the effective date of this Act, and does not include funds allocated to school districts pursuant to this Chapter after the effective date of this Act.

#### Sec. 47.208. Applicability to Open-Enrollment Charter Schools

An open-enrollment charter school is not entitled to an allotment under this subchapter.

#### SUBCHAPTER D: DISTRIBUTION OF FUNDS BY THE COMMISSIONER

##### Sec. 47.301. Distribution of State Funds

(a) Each year the commissioner shall pay to each school district:

(1) the teaching and instruction allotment to which the district is entitled pursuant to section 47.101 or 47.102;

(2) the facilities allotment to which the district is entitled pursuant to section 47.202 and 47.203; and

(3) the new instructional facilities allotment, if any, to which the district is entitled pursuant to section 47.204.

(b) The commissioner shall distribute the allotments set forth in subsection (a) on a quarterly basis. From time to time the commissioner shall request from the comptroller sufficient funds from which to make quarterly distributions to the respective school districts. Upon receiving such request, the comptroller shall make the requested funds available to the commissioner from the Texas Great Classroom Fund.

#### SUBCHAPTER E: SUPPLEMENTATION

##### Sec. 47.401 Property Tax Rollback

(a) For purposes of this section:

(1) "Expected State Aid" for a district means the sum of:

(A) the teaching and instruction allotment to which the district will be entitled pursuant to sections 47.101 or 47.102;

(B) the facilities allotment to which the district will be entitled pursuant to section 47.202 and 47.203; and

(C) the new instructional facilities allotment to which the district will be entitled pursuant to section 47.204.

(2) "Prior Education Budget" means the funds the district was entitled to receive under Tier I and Tier II of the former provisions of Chapter 42 of the Education Code, plus funds the district raised from local ad valorem taxes, minus payments made to the state pursuant to prior Chapter 41, Subchapter D, Education Code, for the last full year before enactment of this Act.

(b) The commissioner shall calculate each district's Expected State Aid for the 2004-2005 academic year, and shall report the calculated amount to each district no later than March 31, 2004.

(c) As a precondition to receiving any educational funds pursuant to section 47.301 after January 1, 2005, each district must reduce its ad valorem tax rate as follows:

(1) if a district's Expected State Aid for 2004-2005 exceeds the district's Prior Education Budget, the district's ad valorem tax must be eliminated;

(2) if a district's Expected State Aid for 2004-2005 is less than the district's Prior Education Budget, the district's ad valorem tax must be reduced by an amount such that the new tax rate will generate revenue approximately equivalent to the difference between the district's Prior Education Budget and Expected State Aid for 2004-2005.

(d) No later than December 31, 2004, each district shall certify to the commissioner that it has complied with the requirements of subsection (c).

(e) The commissioner shall verify that a district has complied with this section before distributing any funds to the district pursuant to section 47.301 after December 31, 2004.

Sec. 47.402. Local Supplementation

After a district has complied with the requirements of section 47.401, the district may levy ad valorem taxes in accordance with the provisions of section 45.003 in order to supplement the state funds distributed pursuant to section 47.301, provided, however, that 10% of any such supplemental amount is remitted annually to the State of Texas. The State shall place such funds to the credit of the Competitive Grant Fund. A school district that is entitled, for any given year, to receive grants under the Competitive Grant Fund, Section 47.504 of this Act, is not required to remit 10% of its supplemental amount to the State.

#### SUBCHAPTER F: OTHER PROVISIONS

##### Sec. 47.501. Average Daily Attendance

(a) A district's average daily attendance is equal to the quotient of the sum of attendance for each day of the minimum number of days of instruction as described under section 25.081(a) divided by the minimum number of days of instruction.

(b) A school district that experiences a decline of two percent or more in average daily attendance shall be funded on the basis of:

(1) the actual average daily attendance of the preceding school year, if the decline is the result of the closing or reduction in personnel of a military base; or

(2) subject to Subsection (e), an average daily attendance not to exceed 98 percent of the actual average daily attendance of the preceding school year, if the decline is not the result of the closing or reduction in personnel of a military base.

(c) The commissioner shall adjust the average daily attendance of a school district that has a significant percentage of students who are migratory children as defined by 20 U.S.C. section 6399.

(d) The commissioner may adjust the average daily attendance of a school district in which a disaster, flood, extreme weather condition, fuel curtailment, or other calamity has a significant effect on the district's attendance.

(e) For each school year, the commissioner shall adjust the average daily attendance of school districts that are entitled to funding on the basis of an adjusted average daily attendance under

Subsection (b)(2) so that:

(1) all districts are funded on the basis of the same percentage of the preceding year's actual average daily attendance; and

(2) the total cost to the state does not exceed the amount specifically appropriated for that year for purposes of Subsection (b)(2).

Sec. 47.502. Public Education Information Management System (PEIMS)

(a) Each school district shall participate in the Public Education Information Management System (PEIMS) and shall provide through that system information required for the administration of this Act and of other appropriate provisions of this code.

(b) Each school district shall use a uniform accounting system adopted by the commissioner for the data required to be reported for the Public Education Information Management System.

(c) Annually, the commissioner shall review the Public Education Information Management System and shall repeal or amend rules that require school districts to provide information through the Public Education Information Management System that is not necessary. In reviewing and revising the Public Education Information Management System, the commissioner shall develop rules to ensure that the system:

(1) provides useful, accurate, and timely information on student demographics and academic performance, personnel, and school district finances;

(2) contains only the data necessary for the legislature and the agency to perform their legally authorized functions in overseeing the public education system; and

(3) does not contain any information related to instructional methods, except as required by federal law.

Sec. 47.503. Limit on Administrative Costs

(a) The commissioner by rule shall determine annually:

(1) an administrative cost ratio for school districts with fewer than 500 students in average daily attendance;

(2) an administrative cost ratio for school districts with 500 to 999 students in average daily attendance;

(3) an administrative cost ratio for school districts with 1,000 to 4,999 students in average daily attendance;

(4) an administrative cost ratio for school districts with 5,000 to 9,999 students in average daily attendance; and

(5) an administrative cost ratio for school districts with more than 10,000 students in average daily attendance.

(b) The commissioner may adjust the administrative cost ratio of a district to allow for additional administrative costs required by:

(1) the sparsity of the district; or

(2) students with special needs.

(c) Not later than February 1 of each year, the commissioner shall notify all districts of the requirements and standards for determining administrative cost ratios for the following year. Not later than May 1 of each year, agency staff shall conduct a desk audit of prior-year expenditure data available through the Public Education Information Management System (PEIMS) to identify those districts whose administrative cost ratio in the preceding year exceeded their adjusted group standard. Districts with an administrative cost ratio in excess of their adjusted group standard shall be notified not later than May 15 that they have excessive administrative costs and that they are required to reduce these costs to the level of the adjusted group standard for the following school year. Not later than the 60th day after receiving notification, a district shall respond to the commissioner by submitting a description of the district's plan to comply with the standard for the following year or request a waiver from the commissioner explaining why the district cannot comply with the standard. Not later than August 15, the commissioner shall notify responding districts if further action is needed.

(d) If a school district fails to reduce administrative costs to the level required by this section, the commissioner shall deduct from a school district's teaching and instruction allotment an amount equal to the amount by which the district's administrative costs exceed the amount permitted by its administrative cost ratio, unless the commissioner has granted a waiver in response to the district's request.

(e) The commissioner may grant a waiver to a school district that exceeds its administrative cost ratio if the excess is justified by unusual circumstances.

(f) A school district shall include a statement of any amount withheld under Subsection (d) in the district report required by section 39.053.

(g) In this section:

(1) "Administrative cost ratio" means a school district's administrative costs divided by its instructional costs, expressed as a percentage.

(2) "Administrative costs" are defined as operating expenses made from funds other than federal funds associated with managing, planning, directing, coordinating, and evaluating a school district in accordance with Accounting functions 21--Instructional Leadership, and 41--General Administration, as described in the Financial Accountability Resource guide, Bulletin 679, Module 1: Financial Accounting and Reporting, First Edition, published by the Texas Education Agency.

(3) "Instructional costs" are defined as operating expenses made from funds other than federal funds associated with teacher-student instruction in accordance with Accounting functions 11--Instruction, 12--Instructional Resources and Media Services, 13--Curriculum Development and Instructional Staff Development, and 31--Guidance and Counseling Services, as described in the Financial Accountability Resource guide, Bulletin 679, Module 1: Financial Accounting and Reporting, First Edition, published by the Texas Education Agency.

(4) "Adjusted group standard" is the acceptable administrative cost ratio for each district as determined in accordance with Subsections (a) and (b).

#### Sec. 47.504 Competitive Grant Program

(a) School districts whose annual average household income level falls within the lowest 25% of the annual average household incomes of school districts within this State may be awarded Competitive Grants under the Competitive Grant Program.

(b) All grants under this program must be used for the benefit of disadvantaged students who (i) are currently enrolled in

the Texas public education system or (ii) have graduated from the Texas public education system. A disadvantaged student who graduated from a private institution with the assistance of monies provided by any State-funded voucher program shall be considered to have graduated from the Texas public education system for the purposes of this provision.

(c) Such grants must be used for either the purchase of education technology or for student scholarships.

(d) A five member Commission shall be established to administer and oversee the Competitive Grant Program, and shall have the power to develop all rules necessary to implement the program in accordance with the guidelines specified in this section. One commissioner shall be appointed by the Governor, one commissioner shall be appointed by the Lieutenant Governor, one commissioner shall be appointed by the Speaker of the House, one commissioner shall be appointed by the Commissioner of Education, and one commissioner shall be appointed by Chair of the State Board of Education. The commissioners shall serve for a term of two years.

(e) The Competitive Grant Program shall be funded by the Competitive Grant Fund created pursuant to section 403.1035, Government Code.

#### Sec. 47.505. School Nutrition Program

(a) The Agriculture Commissioner and the Education Commissioner shall together develop rules and guidelines to establish and administer a program to ensure that students in the public schools have access to foods meeting a minimal nutritional level, to encourage students to eat a balanced and nutritious diet, and to discourage students from consuming an excessive amount of foods determined by the Commissioners to be of sub-standard nutritional value. This program shall be referred to as the "School Nutrition Program."

(b) Pursuant to eligibility rules established by the Commissioner of Education and the Commissioner of Agriculture, each school district shall be to eligible to receive funding from the Texas Great Classroom Fund, pursuant to Section 403.1035(g) of the Government Code, provided that this funding does not exceed \$30 per pupil in refined average daily attendance per year, for each year

that such district shall participate in the School Nutrition Program.

#### SUBCHAPTER G: TEXAS TEACHERS SCHOLARSHIP PROGRAM

##### Sec. 47.601. Definitions

In this subchapter,

(a) "Board" means the Texas Teachers Accreditation Board or such other board as shall be established by the Texas Teachers Accreditation Board for the express purpose of establishing and administering the Texas Teachers Scholarship Program established in Section 47.602 of this code.

(b) "Board rules" means rules established by the Board in accordance with this subchapter.

(c) "Graduate study" means full-time enrollment in a public or private institution of higher education for the purpose of obtaining a graduate degree in education.

(d) "Public or private institution of higher education" means an institution of higher education or a private college or university accredited by a recognized accrediting agency.

(e) "Undergraduate study" means full-time enrollment in a public or private institution of higher education for the purpose of obtaining an undergraduate degree in education.

##### Sec. 47.602. Scholarship Program

(a) The Board shall establish and administer, in accordance with this subchapter and Board rules, a scholarship program known as the Texas Teachers Scholarship Program, the purpose of which is to provide financial assistance to persons desiring to become teachers.

(b) The Texas Teachers Scholarship Program shall be established and administered in a manner that the Board determines best promotes the educational needs of this state.

(c) The Board shall adopt reasonable rules, consistent with the purposes of this subchapter, to carry out and enforce the requirements expressed by this subchapter.

##### Sec. 47.603. Award of Scholarship

(a) The Board shall award the following scholarships to persons who meet the criteria established under this subchapter and Board rules:



(1) a scholarship of \$10,000 per year for four academic years of full-time undergraduate study; and

(2) a scholarship of \$10,000 per year for two academic years of full-time graduate study.

(b) A scholarship awarded under this section may be used only for payment of tuition, textbooks, and room and board.

Sec. 47.604. Eligibility

(a) The Board shall establish criteria for selecting persons to receive the scholarships. The criteria may include:

(1) scholastic ability and performance;

(2) financial need;

(3) the geographical area in which the person is likely to teach upon graduation;

(4) the type of certificate or academic degree held or pursued; or

(5) any additional factors the Board considers relevant to promoting the educational needs of the state.

(b) To be eligible to receive funds, a person must satisfy the eligibility requirements established by the Board in accordance with subsection (a) and

(1) apply for a scholarship each year on a form and in the manner provided by Board rules;

(2) retain good academic standing, as required by Board rules;

(3) commit to teaching full-time in a Texas public school for a certain period of time in accordance with the terms of Section 47.605; and

(4) meet any other reasonable requirements established by Board rules.

Sec. 47.605. Repayment of Scholarship Funds

(a) Scholarship recipients must teach full-time in a Texas public school for a period of

(1) five academic years, for those persons receiving undergraduate scholarships; or

(2) three academic years, for those persons receiving graduate scholarships.

(b) If a scholarship recipient fulfills his or her teaching

commitment under subsection (a), then such recipient will not be required to repay any of the scholarship funds received.

(c) If scholarship recipient does not fulfill his or her teaching commitment under subsection (a), then such recipient must pay back to the Board part or all of the scholarship funds received in accordance with Board rules.

#### Sec. 47.606. Appropriations and Funding

(a) Scholarships provided under this subchapter shall be paid solely from funds received by the Board from funds appropriated for the Texas Great Classroom Fund as provided in chapter 47 of this code and from any gifts, grants, and donations solicited and accepted by the Board for purposes of this subchapter.

### SUBCHAPTER H: THE TEXAS NATURE PROGRAM

#### Sec. 47.701. Definitions

In this subchapter,

(a) "Commissioner" means the Commissioner of Education.

(b) "Natural park" includes:

(1) Texas state parks;

(2) national parks in Texas; and

(3) other areas of natural preservation or natural beauty in Texas.

(c) "Program" means the Texas Nature Program.

#### Sec. 47.702. Establishment

In order to foster an appreciation and respect for the natural resources of Texas and to allow students who may not otherwise be able to experience the natural beauty of Texas to see it first-hand, the commissioner shall establish a program to distribute appropriated funds to low-income schools and those schools in the inner city for the purpose of allowing students to visit natural parks.

#### Sec. 47.703. Application

(a) A low-income school may request funds for the purpose of allowing students to visit a natural park.

(b) A request shall be made by application to the commissioner. The commissioner shall determine the form of the application.

(c) The commissioner shall determine by rule the definition of a "low-income school" and an "inner city school " keeping in mind the best interests of the students and the purpose and goals of the program.

Sec. 47.704. Distribution

(a) The commissioner shall freely grant reasonable requests for funds.

(b) In determining whether a request is reasonable, the commissioner shall consider:

(1) the purpose and goals of the program;

(2) the amount of funds requested;

(3) the cost effectiveness of the planned visit;

(4) the needs of other low-income schools or inner city schools;

(5) previous amounts distributed to the requesting school; and

(6) the availability of funds.

Sec. 47.705 The Rules

The commissioner shall adopt rules for the administration of this subchapter.

SUBCHAPTER I: EARLY CHILDHOOD DEVELOPMENT PROGRAM

Sec. 47.801.

For purposes of this subchapter, a "qualified provider" is a public or private child care provider that:

(a) provides full-day child care to pre-kindergarten children; and

(b) either:

(1) meets the Texas Rising Star Provider criteria as described by Title 40, Part 20, Section 809.15(b) of the Texas Administrative Code; or

(2) is accredited by the National Association for the Education of Young Children.

Sec. 47.802.

The Commission of Education shall establish a program by which qualified providers may apply for and receive a \$4,500 voucher for each qualified participant enrolled in the qualified provider's child care program.

Sec. 47.803.

For purposes of this Subchapter, a "qualified participant" is a child whose household income is at or below 200% of the federal poverty level.

SUBCHAPTER J: TEXAS NURSING SCHOLARSHIP PROGRAM

Sec. 47.901. Definitions.

In this subchapter,

(a) "Board" means the board that handles nursing licenses in the State of Texas or as shall be established by that board for the express purpose of establishing and administering the Texas Nursing Scholarship Program established in Section 47.902 of this code.

(b) "Board rules" means rules established by the Board in accordance with this subchapter.

(c) "Graduate study" means full-time enrollment in a public or private institution of higher education for the purpose of obtaining a graduate degree in education.

(d) "Public or private institution of higher education" means an institution of higher education or a private college or university accredited by a recognized accrediting agency.

(e) "Undergraduate study" means full-time enrollment in a public or private institution of higher education for the purpose of obtaining an undergraduate degree in education.

Sec. 47.902. Scholarship Program

(a) The Board shall establish and administer, in accordance with this subchapter and Board rules, a scholarship program known as the Texas Nursing Scholarship Program, the purpose of which is to provide financial assistance to persons desiring to become nurses.

(b) The Texas Nursing Scholarship Program shall be established and administered in a manner that the Board determines best promotes the nursing needs of this state.

(c) The Board shall adopt reasonable rules, consistent with the purposes of this subchapter, to carry out and enforce the requirements expressed by this subchapter.

Sec. 47.903. Award of Scholarship

(a) The Board shall award the following scholarships to persons who meet the criteria established under this subchapter and Board rules:

(1) a scholarship of \$10,000 per year for four academic years of full-time undergraduate study towards an accredited nursing degree

(b) A scholarship awarded under this section may be used only for payment of tuition, textbooks, and room and board.

Sec. 47.904. Eligibility

(a) The Board shall establish criteria for selecting persons to receive the scholarships. The criteria may include:

(1) scholastic ability and performance;

(2) financial need;

(3) the geographical area in which the person is likely to nurse upon graduation;

(4) the type of certificate or academic degree held or pursued; or

(5) any additional factors the Board considers relevant to promoting the nursing needs of the state.

(b) To be eligible to receive funds, a person must satisfy the eligibility requirements established by the Board in accordance with subsection (a) and

(1) apply for a scholarship each year on a form and in the manner provided by Board rules;

(2) retain good academic standing, as required by Board rules;

(3) commit to nursing full-time in a Texas public or county hospital for a certain period of time in accordance with the terms of Section 47.605; and

(4) meet any other reasonable requirements established by Board rules.

Sec. 47.905. Repayment of Scholarship Funds

(a) Scholarship recipients must nurse full-time in a Texas public or county hospital for a period of five years.

(b) If a scholarship recipient fulfills his or her nursing commitment under subsection (a), then such recipient will not be required to repay any of the scholarship funds received.

(c) If scholarship recipient does not fulfill his or her nursing commitment under subsection (a), then such recipient must pay back to the Board part or all of the scholarship funds received

in accordance with Board rules.

Sec. 47.906. Appropriations and Funding

Scholarships provided under this subchapter shall be paid solely from funds received by the Board from funds appropriated for the Texas Great Classroom Fund as provided in chapter 47 of this code and from any gifts, grants, and donations solicited and accepted by the Board for purposes of this subchapter.

SUBCHAPTER K: INCENTIVES FOR SCHOOL CAMPUSES

[In conformity with the February 2004 Koret Task Force Report on K-12 Education, with specific details to be included later, this subchapter provides financial incentives to those school campuses that are successful in raising student achievement. Such incentives will be funded by \$1.0 billion as provided in section \_\_\_\_\_ of this Act. Fifty percent of such funds will be devoted to financial incentives for these campuses.]

Campuses will qualify for such incentives on the basis of objective, quantitative information about student performance on these campuses, including TAKS scores or other objective test results. School campuses will qualify for such financial incentives in one of two distinct ways. First, a campus may be rewarded incentives for successfully achieving a high level of student achievement. Second, a campus may qualify for incentives by making significant improvements in overall student performance, even if the aggregate level of student achievement is not as high as the achievement level of other campuses.

The fundamental concept for evaluating and awarding incentives is the "value-added" of the school campus. Value-added refers to the contribution of that school campus to the educational performance of its students over and above the educational achievement that would be expected of the students given their native language, family income, parents' education, and other factors beyond the control of the school campus. In other words, the "value added" metric will be designed to reward those school campuses that succeed in making a relatively greater improvement than another school campus, after adjusting for factors that are beyond the school campus's control such as native language, family income, and parents' education.

The rewards for campuses program will operate in conjunction with the Professional Contract Program set forth in subchapter L.

Conforming amendments or changes may be made to subchapter F §§ 47.504, 47.505 of this Act.]

SUBCHAPTER L: THE PROFESSIONAL CONTRACT FOR TEACHERS AND PRINCIPALS, AND DEREGULATION OF LICENSING

[In conformity with the February 2004 Koret Task Force Report on K-12 Education, with specific details to be included later, teachers and principals will be eligible for generous performance-based incentives if they agree to terminate their current teacher contract and instead accept a new Professional Contract. Such incentives will be funded by \$1.0 billion as provided in section \_\_\_\_\_ of this Act. Fifty percent of such funds will be devoted to financial incentives to teachers and principals who opt to work under a Professional Contract.

The incentives made available under the Professional Contract will be based on the concept of "value-added," as measured by objective, quantitative test information and in conformity with subsection K of this Act. The incentives shall also be based on input from supervisors and parents.

A school district may develop its own plan for rewarding teachers and principals who opt to work under a Professional Contract, subject to approval by the Commissioner of Education. The State of Texas will develop a default plan for those districts that choose not to develop a custom plan. In general, 50% to 60% of the incentives will be based on the quantitatively-measured "value-added" performance of the teacher or principal, 10% to 25% will be based on a supervisor's evaluation, and 5% to 15% will be based on evaluations of the teacher or principal by parents.

The Professional Contract Program will be designed to reward teachers and principals who succeed in either (i) creating a high level of student achievement or (ii) those who succeed in achieving a significant increase in average student achievement relative to prior years (even if those achievement levels are not as high as those in other schools or districts). Furthermore, in order to reward superior teachers in substandard school districts, teachers will be eligible for such incentives even if the school or district

in which they work is not eligible.

The Professional Contract that entitles a principal or teacher to receive the performance incentives described in this subchapter shall decouple pay from seniority, will eliminate job protection based on seniority, and be an at-will employment contract. School districts will be encouraged to customize their Professional Contracts and use them as opportunities for innovation. In addition to monetary incentives, those opting for the Professional Contract will be eligible for an exemption from certain licensing or other educational regulations.

This subchapter shall also provide for changes in the current statewide licensing and certification process so that it is based on those criteria for which the empirical data shows a correlation between the licensing or certification criteria and actual teacher quality. The statewide training requirements may not necessarily be uniform across the state. In general, this subsection will provide districts with the ability to experiment with new ways of training and certifying teachers and principals, as well as new ways of assigning, compensating, and evaluating them. This subsection will also provide for a more active recruitment of potential school principals in fields other than education.]

#### SUBCHAPTER M: CHARTER SCHOOLS

[In conformity with the February 2004 Koret Task Force Report on K-12 Education, with specific details to be included later, this subsection will create a new system of charter schools for students in Texas, especially those students located in urban areas. It will eliminate the current cap on the number of charter schools in Texas (currently 236). The cap will be eliminated in order to encourage competition between the charter schools and the public schools, based on the principle that such healthy competition between conventional public schools and charter schools will improve overall educational quality.

This subsection will be drafted to encourage the formation of multi-campus charter schools, and also to encourage the formation of charter school "franchisers." A multi-charter school will permit efficiency gains because it may be run by a single board and set of managers that operate multiple charter school campuses. Likewise,



efficiency is promoted by encouraging the creation of franchisers that have responsibility for centralized management tasks (real estate acquisition; facilities maintenance; repair and construction; purchasing; budgeting; student recordkeeping; fulfilling state reporting requirements; development of curricula and purchasing of educational materials; selection of curriculum and textbooks; evaluation; staff development; private fundraising; special and bilingual educational services; compliance with laws, safety codes, and payroll regulations; marketing and public relations; testing and accountability; data management; and contracting).

Such charter school franchisers may be modeled on the Chicago International Charter School in Illinois, which supervises three educational management organizations operating seven campuses. This subsection will impose no limits on the number of campuses that may be operated by a multi-campus charter school or charter franchiser, so long as its schools demonstrate success and meet otherwise applicable legal, financial or other requirements.]

#### SUBCHAPTER N: SCHOOL BOARD ELECTIONS

[In conformity with the February 2004 Koret Task Force Report on K-12 Education, with specific details to be included later, this subsection shall enact certain amendments or additions to the Texas Election Code to provide that school board elections, and school bond elections, shall be held at the same time as general elections (i.e. in November of even numbered years). This subsection will provide that Texas school board members shall serve for four-year terms, staggered in such a way that one-half of school board seats shall be filled during each general election. This subsection will also require school board candidates to declare their party affiliation and incumbency status on the ballot, and prohibits school district employees from serving on school boards in the districts where they work.]

#### SUBCHAPTER O: THE TESTING OF READING

[In conformity with the February 2004 Koret Task Force Report on K-12 Education, with specific details to be included later, this subsection directs the Commissioner of Education to structure the TAKS reading test so that it will be based on the vocabulary and

content of the school's curriculum for the appropriate grade level. The TAKS test requirement will be designed to facilitate a student's comprehension of the school's curriculum for that grade level, rather than being based on the reading of arbitrary passages (which promotes an excessive emphasis on the teaching of formal reading strategies). The Commissioner is directed to design a TAKS reading test that refers to grade level content in history, science, art, and literature as specified by the TEKS content standards.]

#### SUBCHAPTER P: ACCOUNTABILITY

[In conformity with the February 2004 Koret Task Force Report on K-12 Education, with specific details to be included later, this subsection directs the Commissioner to gradually raise various objective standards used to assess educational quality within Texas public schools. In general, the Commissioner is directed to raise the proficiency bar for TAKS to ensure rigorous testing standards for 2004, 2005 and beyond; to accelerate the Annual Measurable Objectives under the federal No Child Left Behind Act; to account for student achievement growth in various assessment standards (in order to identify and reward schools that are successfully raising the achievement level of their students); to exempt successful schools from certain otherwise applicable regulations; to design a program of campus recognition and rewards that are tied to individual students; to phase in computer-assisted testing where possible (to eliminate "ceiling" problems for gifted individual students) and to make it more difficult to "teach to the test."]

SECTION 6. Section 11.202, Education Code, is amended to read as follows:

(a) The principal of a school is the instructional leader of the school and shall be provided with adequate training and personnel assistance to assume that role.

(b) Each principal shall:

(1) except as provided by Subsection (d), approve all teacher and staff appointments for that principal's campus from a pool of applicants selected by the district or of applicants who meet the hiring requirements established by the district, based on criteria developed by the principal after informal consultation

with the faculty;

(2) set specific education objectives for the principal's campus, through the planning process under Section 11.253;

(3) develop budgets for the principal's campus;

(4) assume the administrative responsibility and instructional leadership, under the supervision of the superintendent, for discipline at the campus;

(5) assign, evaluate, promote, and demote personnel assigned to the campus;

(6) determine and communicate to the superintendent on the termination or suspension of an employee assigned to the campus or the nonrenewal of the term contract of an employee assigned to the campus which can only be overruled by a 2/3 majority vote of the board of trustees; and

(7) perform other duties assigned by the superintendent pursuant to the policy of the board of trustees.

(c) The board of trustees of a school district shall adopt a policy for the selection of a campus principal that includes qualifications required for that position.

(d) The superintendent or the person designated by the superintendent has the final placement authority for a teacher transferred because of enrollment shifts or program changes in the district.

SECTION 7. Section 45.003, Education Code, is amended to read as follows:

#### 45.003. Bond and Tax Elections

(a) Bonds described by Section 45.001 may not be issued and taxes described by Section 45.001, ~~[or]~~ 45.002, or 47.402 may not be levied unless authorized by ~~[a majority of the qualified voters of the district]~~ the percentage of qualified voters of the district specified in subsection (e), voting at an election held for that purpose, at the expense of the district, in accordance with the Election Code, except as provided by this section. Each election must be called by resolution or order of the governing board or commissioners court. The resolution or order must state the date of the election, the proposition or propositions to be submitted and

voted on, the polling place or places, and any other matters considered necessary or advisable by the governing board or commissioners court.

(b) A proposition submitted to authorize the issuance of bonds must include the question of whether the governing board or commissioners court may levy, pledge, assess, and collect annual ad valorem taxes, on all taxable property in the district, either:

(1) sufficient, without limit as to rate or amount, to pay the principal of and interest on the bonds; or

(2) sufficient to pay the principal of and interest on the bonds, provided that the annual aggregate bond taxes in the district may never be more than the rate stated in the proposition.

(c) If bonds are ever voted in a district pursuant to Subsection (b)(1), then all bonds thereafter proposed must be submitted pursuant to that subsection, and Subsection (b)(2) does not apply to the district.

(d) A proposition submitted to authorize the levy of maintenance taxes must include the question of whether the governing board or commissioners court may levy, assess, and collect annual ad valorem taxes for the further maintenance of public schools, at a rate not to exceed the rate, which may be not more than [~~\$1.50~~] \$1.25 on the \$100 valuation of taxable property in the district, stated in the proposition.

(e) A proposition put to the district's voters pursuant to subsection (a) shall be deemed approved:

(1) for propositions relating to the issuance of bonds pursuant to section 45.001(a)(1), only if the proposition is authorized by a majority of those actually voting in the election;

(2) for propositions to authorize an ad valorem tax of not more than \$1.25 on the \$100 valuation of taxable property in the district, only if approved by a majority of those actually voting in the election;

(3) no district may propose an ad valorem tax of more than \$1.25 on the \$100 valuation of taxable property in the district.

SECTION 8. Amend the following sections of the Education Code for conformity: Sections 12.029, 29.001, 29.014, 29.203,

37.011, and 56.208.

SECTION 9. Amend the following sections of the Government Code for conformity: Sections 317.005, 322.008, 403.302, 403.303, 404.121, 466.355, 825.405, 1371.001, 1402.143, 1431.001, and 2175.304.

SECTION 10. Amend the following sections of the Tax Code for conformity: 6.02, 6.03, 21.01, 21.02, 25.25, 26.08, 312.002, 312.210, and 313.026.

SECTION 11. Amend the following section of the Utilities Code for conformity: 39.901.

#### ARTICLE 2: TEXAS GREAT CLASSROOM FUND

SECTION 1. Section 403.1035, Chapter 403, Subtitle A, Title 4, Government Code is added to read as follows:

##### 403.1035. Permanent Fund for Texas Great Classroom Program

(a) A permanent fund for the implementation of the Texas Great Classroom Program is established as a dedicated account in the general revenue fund. The fund shall be referred to as the "Texas Great Classroom Fund". The fund is composed of:

(1) the balance of the foundation school fund at the time the Texas Great Classroom Fund is established;

(2) subsequent transfers to the foundation school fund;

(3) money transferred to the fund at the direction of the legislature;

(4) gifts and grants contributed to the fund;

(5) collections of fees, taxes, and other amounts designated as amounts to be transferred to the fund;

(6) transfers from special accounts or other funds as amounts designated for the funding of the Texas Great Classroom Program;

(7) the available earnings of the fund determined in accordance with Section 403.1068.

(b) Money in the fund may not be appropriated for any purpose other than to fund the Texas Great Classroom Program as provided in Chapter 47, Education Code.

(c) The available earnings of the fund may be appropriated to the Commissioner of Education in amounts necessary to fund the

Texas Great Classroom Program as provided by Chapter 47, Education Code.

(d) The comptroller may solicit and accept gifts and grants to the fund. A gift or grant to the fund may be appropriated in the same manner as available earnings of the fund, subject to any limitation or requirement placed on the gift or grant by the donor or granting entity.

(e) Sections 403.095 and 404.071 do not apply to the fund.

(f) The following special accounts shall be established within the Texas Great Classroom Fund, as follows:

(1) Early Childhood Development Fund, provided such fund is dedicated to funding the Texas Early Childhood Program created pursuant to section 47.802, Subchapter I, Chapter 47, Education Code;

(2) Texas Teachers Scholarship Fund, provided such fund is dedicated to funding the Texas Teacher Scholarship Program created pursuant to section 47.602, Subchapter G, Chapter 47, Education Code;

(3) Texas Nursing Scholarship Fund, provided such fund is dedicated to funding the Texas Nursing Scholarship Program created pursuant to section 47.902, Subchapter J, Chapter 47, Education Code;

(4) Education Reserve Account;

(5) Competitive Grant Fund;

(6) Texas Nature Fund, provided such fund is dedicated to funding the Texas Nature Program created pursuant to section 47.701, Subchapter H, Chapter 47, Education Code; and the

(7) Education Rewards and Incentives Fund, provided such fund is dedicated to funding the Education Rewards and Incentives Program created pursuant to section 47.\_\_\_\_, Subchapter K, Chapter 47, Education Code.

(g) On an annual basis, the comptroller shall distribute all surplus education funds as provided in this section. For purposes of this section "surplus education funds," means any revenue dedicated to the Texas Great Classroom Fund during the previous year and not spent during such previous year to meet the requirements of the Texas Great Classroom Program. Such surplus

education funds shall be allocated and distributed in the following order of priority such that items of higher priority shall be fully funded up to the specified level before items of lower priority are funded:

(1) An amount not to exceed \$1 billion to the Education Rewards and Incentives Fund;

(2) An amount necessary to fund the School Nutrition Program created and administered pursuant to section 47.506, Subchapter F, Chapter 47, Education Code

(3) An amount not to exceed \$500 million to the Early Childhood Development Fund;

(4) An amount not to exceed \$250 million to the Children's Health Insurance Program; ("CHIP"), authorized by Chapters 62 & 63, Subtitle C, Title 2, Health & Safety Code and Chapter 370, Part 15, Title 1, Administrative Code at Title 1, Part 15, Chapter 370;

(5) An amount not to exceed \$12 million to be distributed equally among the following:

(A) the Master Reading Program created pursuant to section 21.410, Subchapter I, Chapter 21, Subtitle D, Title 2, Education Code;

(B) the Master Mathematics Program created pursuant to section 21.411, Subchapter I, Chapter 21, Subtitle D, Title 2, Education Code;

(C) the Master Technology Program created pursuant to section 21.411, Subchapter I Chapter 21, Subtitle D, Title 2, Education Code; and

(D) the Master Science Teacher Program created pursuant to section 21.413, Subchapter I, Chapter 21, Subtitle D, Title 2, Education Code.

(6) Equal amounts to the Texas Student Ambassador Program and the Texas Nature Fund, provided the combined amounts do not exceed \$2 million;

(7) An amount not to exceed \$50 million to the Texas Teachers Scholarship Fund;

(8) An amount not to exceed \$50 million to the Texas Nursing Scholarship Fund;

(9) All remaining surplus education funds to be added to the Education Reserve Account.

(h) At no time may the balance of the Education Reserve Account exceed ten percent (10%) of the revenue dedicated to the Texas Great Classroom Fund during the previous year. The comptroller shall distribute one-half of any excess funds of the Education Reserve Account to the Competitive Grant Fund and the remainder to the Economic Stabilization Fund created pursuant to Article III, Section 49-g of the Constitution.

(i) At no time may the Competitive Grant Fund exceed an amount equal five percent (5%) of the revenue dedicated to the Texas Great Classroom Fund during the previous year. The comptroller shall distribute any excess funds to the principal amount of the Permanent School Fund.

(j) In the event the Texas Great Classroom Fund is insufficient to make available the funds requested by the Commissioner of Education pursuant to section 47.301(b), Education Code, to fund the Texas Great Classroom Program for any year, the comptroller shall make the requested funds available, to the extent such funds are available from the following accounts in the order specified:

- (1) the Foundation School Fund,
- (2) the Education Reserve Account,
- (3) the Available School Fund, and
- (4) the Permanent School Fund.

SECTION 2. Section 403.1068(a), Chapter 403, Subtitle A, Title 4, Government Code is amended to read as follows:

403.1068. Management of Certain Funds

(a) This section applies only to management of the permanent funds established under Sections 403.1035, 403.105, 403.1055, 403.106, 403.1065, and 403.1066.

SECTION 3. Subsection (d) of Section 403.093, Subchapter F, Chapter 403, Subtitle A, Title 4, Government Code are amended as follows:

403.093. Allocations From General Revenue Fund

(d) To the extent not specifically transferred to the Texas Great Classroom Fund upon receipt, all net revenues allocated or



specifically dedicated to the Texas Great Classroom Fund from taxes imposed by Chapters 150, 151, 152, and 172, Tax Code, shall be deposited to the credit of the general revenue fund. The comptroller, as a ministerial duty on the 10th day of each month and on the last day of each fiscal year, shall transfer from the general revenue fund to the ~~[foundation school fund]~~ Texas Great Classroom Fund amounts computed by the comptroller equal to the amounts required by each such chapter and the amount of any additional money necessary to fund the ~~[foundation school program]~~ Texas Great Classroom Program as provided by Chapter ~~[42]~~ 47, Education Code. ~~[The comptroller shall make the transfers in installments as necessary to comply with Section 42.259, Education Code. An installment must be made not earlier than two days before the date an installment to school districts is required by Section 42.259, Education Code, and must not exceed the amount necessary for that payment.]~~

SECTION 4. Subsections (a) and (b), Section 1402.143, Subchapter H, Chapter 1402, Subtitle G, Title 9, Government Code, are amended to read as follows:

1402.143. Deduction From Foundation School Fund Payments

(a) Except as provided by Section 1402.144, if a school district fails to make a timely payment of principal and interest due on a loan made to the district under this chapter, the agency shall:

(1) deduct the total amount due the board or the fund, including interest and any applicable late payment charge as of the date of notification, from the ~~[foundation school fund]~~ Texas Great Classroom Fund payment next due the district, including any allocation to the district under Chapter ~~[42]~~ 47, Education Code; and

(2) continue making the deductions from subsequent ~~[foundation school fund]~~ Texas Great Classroom Fund payments until the total amount then due has been deducted.

(b) The agency shall credit the full amount of a ~~[foundation school fund]~~ Texas Great Classroom Fund entitlement to a school district before making the deduction. The amount of the deduction shall then be paid to the credit of the school facilities aid fund

or to an account in that fund as the board may direct, on behalf of the district.

### ARTICLE 3: PROPERTY TAX REFORM

SECTION 1. LEGISLATIVE FINDINGS. The Legislature finds that a substantial amount of taxes which could be used for the benefit of the citizens of Texas cannot be collected because of the failure of persons and entities to completely render their personal property for taxation. The Legislature further finds that such failure would be deterred through imposition of a penalty.

SECTION 2. OBJECTIVE. It is the intent of the Legislature to increase compliance with the provisions of the Tax Code with regard to rendering for taxation of all personal property by amending Section 22.01, Subchapter A, Chapter 22, to add subparagraphs (k) and (l) imposing penalties for failing to comply with Sections 22.01(a) - (e)(3) of such Subchapter.

(k) A person or entity who violates this section shall be subject to a civil penalty.

(l) A person or entity who knowingly violates this section shall, in addition to the penalty imposed in subsection (k) above, be subject to a civil penalty of \$2,000 per day for each day following the filing date specified in section 22.23 of this Subchapter until the requirements of this section are met.

SECTION 3. It is in the public interest that State and local taxing authorities efficiently and inexpensively determine the value of real property for imposition of appropriate taxes. Section 12.001, Chapter 12, Property Code is hereby amended to read as follows:

#### 12.001 Instruments Concerning Property

(a) [remains the same]

(b) An instrument conveying residential or commercial property may not be recorded unless:

(1) ~~it~~ It is signed and acknowledged or sworn to by the grantor in the presence of two or more credible subscribing witnesses or acknowledged or sworn to before and certified by an officer authorized to take acknowledgments or oaths, as applicable: and

(2) The sales price of the conveyed property is

disclosed therein.

(c) [remains the same]

(d) [remains the same]

(e) The provisions of (b) above shall only apply to sales transactions, and shall not be applicable to conveyances of property by gift, devise, or descent.

SECTION 4. It is in the public interest that the Comptroller of Public Accounts assist local appraisal districts in appraising certain properties so that the various taxing units served by such appraisal districts can assess and collect all of the ad valorem tax revenue to which they are entitled.

SUBCHAPTER A: CHAPTER 23, SECTION 23.03 OF THE TEXAS PROPERTY TAX CODE IS HEREBY AMENDED TO READ AS FOLLOWS:

23.03 Compilation of Large Properties and Properties Subject to Limitation on Appraised Value

By January 10 of each ~~[Each]~~ year, the chief appraiser shall compile and send ~~[to the Texas Department of Economic Development]~~ lists of properties in the appraisal district which disclose for the preceding year ~~[a list of properties in the appraisal district that in that tax year:]~~

~~[(1) have a market value of \$100 million or more; or~~

~~(2) are subject to a limitation on appraised value under Chapter 313.]~~

(a) a list to be sent to the Texas Department of Economic Development which includes all properties having an appraised value of \$100 million or more, the amount of each such appraised value, and all properties which are subject to a limitation on appraised value under Chapter 313, and

(b) a list to be sent to the Comptroller of Public Accounts which includes all industrial properties having an appraised value of \$50 million or more and the amount of each such appraised value.

SUBCHAPTER B: CHAPTER 25 OF THE TEXAS PROPERTY TAX CODE IS HEREBY AMENDED TO ADD A NEW SECTION 25.012 WHICH READS AS FOLLOWS:

25.012 Special Appraisals on Industrial Property

(a) By May 1 of each year, the Comptroller of Public Accounts will complete and forward to each chief appraiser an appraisal of all industrial properties within each appraisal

district having an appraised value of \$50 million or more. Such appraisals shall be prepared in accordance with the appraisal methods and techniques set out in Chapter 23 of this Code.

(b) The chief appraiser may adopt any of such appraisals as if they were the appraisals of a private appraisal firm. The chief appraiser shall adopt any of such appraisals that exceed the amount of the prior year's appraisal by ten percent. Such appraisals as may be adopted by the chief appraiser shall become part of the appraisal records of each district.

(c) Upon request, the Comptroller shall make available to the chief appraiser the records and personnel necessary to support such appraisals during any process or proceeding under Chapters 25, 41 or 42 of this Code.

SUBCHAPTER C: CHAPTER 403 OF THE TEXAS GOVERNMENT CODE IS HEREBY AMENDED TO ADD A NEW SECTION 403.3021 AS FOLLOWS:

403.3021 Special Appraisals

(a) The comptroller shall perform the duties and responsibilities set out in Section 23.03 and Section 25.012 of the Property Tax Code.

(b) In performing such duties and responsibilities, the comptroller may contract with a private appraisal firm to perform appraisal services. A contract for private appraisal services is void if the amount of compensation to be paid the private appraisal firm is contingent on the amount of or increase in appraised, assessed, or taxable value of property appraised by the appraisal firm. A contract for private appraisal services is void if it does not provide that copies of the appraisals, together with supporting data, shall be made available to the comptroller as public records.

SECTION 5. Amend Sections 11.13(a) and (b), Chapter 11, Subtitle C, Title 1, Property Tax Code, as follows:

11.13 Residence Homestead

(a) A family or single adult is entitled to an exemption from taxation:

(1) for the county purposes authorized in Article VIII, Section 1-a, of the Texas Constitution of \$3,000 of the assessed value of his residence homestead;

(2) for the county purposes authorized in Article

VIII, Section 1-a, of the Texas Constitution and from taxation by a school district of a portion of the assessed value of his or her residence homestead, provided such family or single adult

(A) is a full year, full time school teacher in a school district in the State of Texas in the school year during which such exemption is sought, such exemption shall be an amount equal to .05 (5%) of \$100,000 of the full assessed value of his or her residence homestead for multiplied by the number of years such individual has been a full year, full time school teacher in any school district in the State of, up to 20 years;

(B) has been a full year, full time school teacher in any school district in the State of Texas for twenty-five (25) years, such exemption shall be an amount equal to \$100,000 of the full assessed value of his or her residence homestead for each year thereafter;

(b) An adult, not entitled to the exemption provided in subsection (a)(2)(A), is entitled to further exemption from taxation by a school district of \$15,000 of the appraised value of the adult's residence homestead, except that \$10,000 of the exemption does not apply to an entity operating under former Chapter 17, 18, 25, 26, 27, or 28, Education Code, as those chapters existed on May 1, 1995, as permitted by Section 11.301, Education Code.

SECTION 6. Early Sunset for the Texas Economic Development Act.

SUBCHAPTER A: SECTION 313.007, TAX CODE, IS AMENDED TO READ AS FOLLOWS:

313.007. EXPIRATION.

Subchapters B, C, and D expire January 1, 2005.

SUBCHAPTER B: EFFECTIVE DATE.

Notwithstanding any language to the contrary, Subchapter A shall take effect immediately if this Act receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, Subchapter A takes effect on \_\_\_\_\_.

#### ARTICLE 4: ELIMINATION OF THE FRANCHISE TAX

SECTION 1. REPEALER. Chapter 171, Subtitle F, Title 2, of the Tax Code, is repealed except for the following:

(a) Chapter 171, Tax Code, is repealed January 1, 2005.

(b) Chapter 171, Tax Code, and Subtitle B, Title 2, Tax Code, shall continue to apply to audits, deficiencies, re-determinations, and refunds of any tax due or collected under Chapter 171 until barred by limitations.

(c) Any corporation that is subject to the franchise tax imposed by Chapter 171, Tax Code, before the date of its repeal shall pay an additional tax equal to 4.5 percent of the corporation's net taxable earned surplus computed on the period beginning on the day after the last day for which the tax imposed on net taxable earned surplus was computed under Section 171.1532, Tax Code, and ending on December 31, 2003. The comptroller by rule shall provide for the payment of tax due for an initial or second period that does not expire before January 1, 2005. A franchise tax return is not required for any initial or second period as described by Chapter 171, Tax Code, that begins on or after January 1, 2005.

(d) The repeal of Chapter 171, Tax Code, does not affect:

(1) the status of a corporation that has had its corporate privileges, certificate of authority, or corporate charter revoked, suit filed against it, or a receiver appointed under Subchapter F, G, or H of that chapter;

(2) the ability of the comptroller, secretary of state, or attorney general to take action against a corporation under Subchapter F, G, or H for actions that took place before the repeal; or

(3) the right of a corporation to contest a forfeiture, revocation, lawsuit, or appointment of a receiver under Subchapter F, G, or H.

#### ARTICLE 5: TENANT'S PROPERTY TAX RELIEF

SECTION 1. Title 1, Tax Code, is amended by adding Chapter 61 to read as follows:

#### CHAPTER 61. PROPERTY TAX RELIEF FOR TENANTS

##### Sec. 61.001. Purpose.

The purpose of this chapter is to ensure that rental tenants receive direct and immediate benefit from reductions in local

school district ad valorem taxes and that every landlord gives a monthly rent credit or rebate, at the landlord's option, to each tenant in this state during the entire term of any lease in effect as of January 1, 2005.

Sec. 61.002. Definitions.

In this chapter:

(a) "Landlord" means the owner, lessor, or sublessor of a dwelling, commercial, or industrial unit, but does not include a manager or agent of the landlord unless the manager or agent purports to be the owner, lessor, or sublessor in a written or oral lease.

(b) "Lease" means a written or oral agreement between a landlord and tenant that establishes or modifies the terms, conditions, rules, or other provisions regarding the use and occupancy of a dwelling, commercial, or industrial unit.

(c) "Multifamily rental dwelling property" means a multiunit residential property with two or more rental dwelling units. The term includes a duplex, apartment building, dormitory, manufactured housing community, retirement center or community, and assisted living center and any other multiunit rental residential property subject to local school district ad valorem taxes.

(d) "Rent" includes the total amount charged by a landlord, or by a person on the landlord's behalf, for the use and occupancy of a dwelling, commercial, or industrial unit. The term does not include a refundable security deposit.

(e) "Rental unit" means one or more rooms or offices rented for use under a single lease to one or more tenants.

(f) "Tenant" means an individual, business, or other entity who is authorized by a lease to occupy a rental unit to the exclusion of others other than cotenants and who is obligated under the lease to pay rent.

Sec. 61.003. Applicability.

(a) This chapter applies only to a rental unit or multifamily rental dwelling property that is subject to ad valorem taxation by a school district.

(b) This chapter does not apply to a temporary residential

tenancy created by a contract of sale under which the buyer is entitled to occupy the property before closing or the seller is entitled to occupy the property after closing for a term of not more than 90 days.

Sec. 61.004. Credit Or Rebate To Tenant Of Landlord's Property Tax Savings.

A landlord shall provide each of the landlord's tenants with a monthly credit or rebate on the tenant's rent to reflect a portion of the landlord's school district ad valorem tax savings for during the entire term of any lease in effect as of January 1, 2005.

Sec. 61.005. Notice By Chief Appraisers.

(a) On or before October 1, 2004, or as soon as practicable after that date, the chief appraiser of each appraisal district shall send to all property owners a notice describing the requirements of this chapter. The notice shall contain language substantially similar to the following:

"Due to the property tax relief law approved by the voters in November 2004, landlords are required to pass along school district ad valorem tax savings to their tenants under all leases in effect as of January 1, 2005. These savings must be provided to tenants by giving a monthly rent credit or rebate that reflects a portion of the property tax savings on school property taxes. Failure to comply with this law could result in severe penalties, including a civil penalty of \$100, treble damages, and attorney's fees. Information on complying with this law is available by contacting the (name, address, and telephone number of appraisal district) or by contacting the Texas Comptroller of Public Accounts by calling 1-800-252-5555."

(b) The notice required under Subsection (a) may be sent to property owners as part of another communication sent by the appraisal district under Section 31.01 and is not required to be sent to property owners as a separate communication.

(c) In November and December 2004, each appraisal district shall place at least one advertisement monthly in a newspaper of general circulation in the county for which the appraisal district is established. The advertisement shall be in 14-point or larger type and contain language substantially similar to the language



prescribed by Subsection (a).

Sec. 61.006. Technical Assistance By Comptroller.

(a) Not later than September 1, 2004, the comptroller shall develop materials in plain language to assist landlords in complying with this chapter. The materials shall be printed in both English and Spanish and copies shall be sent to each appraisal district on or before September 15, 2004. A copy of the materials shall be provided without cost to any property owner on request.

(b) The comptroller shall provide necessary technical assistance to appraisal districts and landlords in complying with this chapter.

Sec. 61.007. Tax Savings Calculations By Landlords.

(a) For each year to which this chapter applies, a landlord shall determine the monthly school district ad valorem tax savings payable to the landlord's tenants as follows:

(1) the monthly rent credit or rebate for each rental unit is equal to 6.25 percent of the difference between the amount of school district ad valorem taxes imposed on the rental unit for the preceding year and the amount of the school district ad valorem taxes that would have been imposed on that rental unit for that year if the rental unit had been taxed at a school district maintenance and operations tax rate of 75 cents plus the school district enrichment tax rate in that tax year per \$100 of taxable value; and

(2) the monthly rent credit or rebate for a rental unit in a multifamily rental dwelling property is equal to 6.25 percent of the difference between the amount of school district ad valorem taxes imposed on the rental unit for the preceding year and the amount of the school district ad valorem taxes that would have been imposed on that rental unit for that year if the rental unit had been taxed at a school district maintenance and operations tax rate of \$1.20 per \$100 of taxable value, multiplied by the square footage in the tenant's rental unit, and divided by the total net rentable square footage of all rental units in the multifamily rental dwelling property.

(b) The amount of the rent credit or rebate under Subsection shall be calculated on a per-rental-unit basis and not on a per-tenant basis.

(c) If the amount of the rent credit or rebate calculated under Subsection (a) is less than zero, the rent credit or rebate is zero.

Sec. 61.008. Date Of Required Credit Or Rebate.

(a) If a landlord gives a monthly credit to a tenant under this chapter, the landlord shall give the credit on the due date for each month's rent.

(b) If a landlord pays a monthly rent rebate to the tenant, the landlord shall pay the rebate not later than the 10th day after the date the tenant pays the entire rent due for the month. A landlord is presumed to have timely paid a rebate if the rebate is placed in the United States mail and postmarked on or before that date.

(c) If the tenant's rent is payable weekly, the amount of the weekly credit or rebate is equal to 1/52 of the credit or rebate for the entire year.

Sec. 61.009. Landlord's Notice To Tenants.

(a) In connection with each lease agreement for a rental unit entered into before January 1, 2005, that has not terminated or expired as of that date, the landlord shall provide a notice to each tenant on or before January 5, 2005, in boldface, 14-point or larger type, that substantially states the following:

"NOTICE OF TAX SAVINGS ON RENT

"Your current monthly rent on (insert unit number or street address) is \$\_\_\_\_ (insert amount of rent).

"Because of the property tax relief law approved by the voters of this state in November 2004, the amount of school district property taxes for your rental unit has been reduced by \_\_\_\_ (insert percentage savings) percent for 2005. The property tax relief law provides that the property owner must pass along tax savings to you and other tenants during the remaining existing term under your current lease agreement.

"Accordingly, you will receive a rent credit (or rebate check) of \$\_\_\_\_ (insert monthly prorated amount) for the current month of January and for each month thereafter until the date your current lease expires. If the amount of taxes imposed on your dwelling unit is not increased or decreased, the cumulative amount

of property tax savings that will be passed on to you during the term of your lease as a result of the 2004 property tax relief legislation is projected to be \$\_\_\_\_\_ (insert cumulative savings for the unit for the term of the lease).

"This means the net rent you will be paying for this month and each subsequent month under your current lease will be \$\_\_\_\_\_ (insert net rent rate).

"If you have any questions about this new law, please contact the \_\_\_\_\_ County Appraisal District at (insert address and main phone number of the appraisal district established for the county in which the rental dwelling unit is located)."

(b) The notice required by Subsection (a) shall be translated and printed in English and Spanish. A notice provided by a landlord under this section must be provided in both languages if the rental unit is located in a county in which the Hispanic population exceeds 25 percent of the total population of that county according to the most recent federal census information available.

#### Sec. 61.010. Credit Or Rebate For Multiple Tenants.

If two or more tenants are on a lease for the same rental dwelling unit, the credit or rebate under this chapter shall be provided jointly to all tenants renting the dwelling.

#### Sec. 61.011. Penalties.

(a) A landlord who fails to comply with this chapter is liable to the affected tenant for a civil penalty of \$100 and treble the amount of any required rent credit or rebate that was not provided to the tenant.

(b) In a suit involving the payment of a rent credit or rebate, the prevailing party is entitled to recover reasonable attorney's fees from the nonprevailing party.

#### Sec. 61.012. Tax Appraisals.

In tax years 2004-2007, a chief appraiser or an appraisal district may not consider a reduction of school district ad valorem taxes attributable to this chapter in any determination of the appraised value of a rental unit, real property containing a rental unit, or a multifamily rental dwelling property.

#### Sec. 61.013. Comptroller Study.

(a) The comptroller shall issue a preliminary report not later than March 1, 2006, if sufficient data is available, and shall issue a final report not later than December 1, 2007, to the governor, the lieutenant governor, and the speaker of the house of representatives on the implementation, administration, and effect of this chapter, including findings as to the following:

(1) the impact of property tax relief on rental rates throughout this state considering competitive market conditions, new construction, operating expenses, and other relevant factors impacting rental rates;

(2) the number of civil actions filed by tenants against landlords to enforce the provisions of this chapter and the type of properties owned by those landlords;

(3) the number and amount of civil penalties levied against landlords for noncompliance with this chapter and the type of properties owned by those landlords;

(4) the administrative costs associated with this chapter incurred by the comptroller, appraisal districts, and landlords; and

(5) any effect of reduced school district ad valorem tax rates on increasing the supply of affordable housing for purchase or rent by a person for use as a dwelling.

(b) In preparing the report, the comptroller shall consider the need to recommend alternative methods for providing school district ad valorem tax relief to persons who rent their homes and business property.

Sec. 61.014. Expiration.

This chapter expires January 1, 2008.

SECTION 2. Chapter 1, Tax Code, is amended by adding Section 1.16 to read as follows:

Sec. 1.16. Expiration.

The expiration of Chapter 61 does not affect the liability of a landlord or other person for any amount arising under Chapter 61 before the expiration, and the law governing that liability remains in effect notwithstanding the expiration for purposes of enforcing or satisfying the liability.

SECTION 3. Chapter 61, Tax Code, as added by this article,

applies only to a tax year that begins on or after January 1, 2005.

SECTION 4. Except as otherwise provided by this Act, this article takes effect January 1, 2005.

ARTICLE 6: IMPOSITION OF A REFORMED FRANCHISE TAX BASED ON  
COMPENSATION AND NET EARNINGS FROM SELF EMPLOYMENT

SECTION 1. Amend Subtitle F, Title 2, Tax Code to read as follows:

SUBTITLE F – REFORMED FRANCHISE TAX

SECTION 2. Add a new chapter, Chapter 172: Reformed Franchise Tax, Subtitle F, Tax Code to provide for the creation of a flat tax on employee compensation and net earnings from self-employment to fund the Texas Great Classroom Program, as follows:

CHAPTER 172. REFORMED FRANCHISE TAX

SUBCHAPTER A: TAX IMPOSED

Sec. 172.001. Tax Imposed

There shall be levied, collected, and paid for each taxable year a tax on employers that shall be based upon their adjusted tax base. The tax imposed by this Chapter may be referred to as the "Reformed Franchise Tax."

Sec. 172.002. Rate of tax

The tax to be assessed, levied, collected and paid upon the adjusted tax base of an employer shall be computed at the rate of 3.60 percent (3.60 %) of the adjusted tax base.

Sec. 172.003. Purpose

A tax on all employers based on the amount of compensation paid to employees and officers for services rendered in the state and on net earnings from self employment for each trade or business conducted by the employer in the state which shall be dedicated to funding the Texas Great Classroom Program pursuant to Chapter 47, Education Code. All monies collected by the comptroller under this Chapter, and all interest and penalties thereon, shall be transferred to the Texas Great Classroom Fund as provided in Section 403.093, Government Fund.

Sec. 172.004. Federal Tax Elections

Elections by employers for federal income tax purposes shall be binding upon such employer for the determination of taxes to be

made pursuant to this Chapter.

Sec. 172.005. Rules

The comptroller may adopt rules to implement and administer this Chapter.

(Sections 172.006 to 172.009 are reserved for expansion)

SUBCHAPTER B: DEFINITIONS

Sec. 172.010. Definitions

(a) Adjusted tax base. The "adjusted tax base" shall include the following:

(1) the compensation paid to employees for services rendered in the state; plus

(2) the amount of the net earnings from self employment for each trade or business conducted by the employer in the state.

(b) Compensation. For purposes of this Subchapter the term "compensation" means remuneration for services performed by an employee for his or her employer, including wages, salaries, fees, bonuses, commissions and the cash value of all remuneration paid in any medium other than cash. Distributions and other payments by an S corporation to a corporate officer must be also be treated as compensation to the extent the amounts are reasonable compensation for services rendered to the corporation.

(c) Employee. For purposes of this Subchapter the term "employee" means an individual, whether resident or nonresident of this State, employed by an employer, including an individual subject to the civil service laws of this state or a political subdivision of this state. The word "employee," as used in this Subchapter, is intended to include officers of corporations and any individual elected to public office in this state or a political subdivision of this state to the full extent allowed by the Texas Constitution.

(d) Employer. For purposes of this Subchapter the term "employer" means a person, state, or any political subdivision thereof, of the United States, or any agency or instrumentality of any one or more of the foregoing, to the full extent allowed by the Texas Constitution, for whom an individual performs or performed any service of whatever nature as an employee, except that if the

person for whom the individual performs or performed the services does not have control of the payment of the wages for such services, the term "employer" means the person having control of the payment of such compensation. The term "employer" also means a partnership, even if no individual performs or performed services for the partnership as an employee, and an individual who has "net earnings from self employment" as that term is defined in Section 172.020(b) of this Chapter;

(e) Person. For purposes of this Subchapter the term "person" means any individual, corporation, limited liability company, partnership, limited partnership, limited liability partnership, company, association (whether incorporated or unincorporated), banking corporation, savings and loan association, trust, estate, sole proprietorship, not-for-profit organization, or governmental entity (including this state and other states, and agencies, political subdivisions, and enterprises of the United States, this state, and other states provided such inclusion shall be only to the full extent permissible pursuant to the Constitution of the United States and of this state).

Sec. 172.011. Federal Income Tax Terms.

A term used in this chapter, and not defined differently, has the same meaning as the term when used in a comparable context in the Internal Revenue Code or other federal law relating to federal income taxes.

Sec. 172.012. Internal Revenue Code.

"Internal Revenue Code" means the Internal Revenue Code of 1986 in effect on January 1, 2004, as amended from time to time.

Sec. 172.013. State.

"State" means any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or a political subdivision of any of those entities.

Sec. 172.014. Tax.

"Tax" includes interest and penalties unless the intention to give it a more limited meaning is indicated by its context.

Sec. 172.015. Taxpayer.

"Taxpayer" means an employer liable for a tax, interest, or penalty under this chapter. Sec. 172.016. Tax Year.

(a) "Tax year" means the calendar year or the fiscal year ending during the calendar year for which the tax base is computed under this chapter.

(b) If a return is made for a fractional part of a year, the term means the period for which the return is made.

(c) Except for the first return required by this chapter, a taxpayer's tax year is the same period as that covered by the taxpayer's federal income tax return.

(Sections 172.017 to 172.019 are reserved for expansion.)

#### SUBCHAPTER C: COMPUTATION OF NET EARNINGS FROM SELF EMPLOYMENT

##### Sec. 172.020. Net Earnings from Self Employment

(a) Partnerships. For purposes of this Subchapter the "net earnings from self employment" of an employer that is a partnership is the aggregate amount of net earnings (loss) from self employment calculated and required to be reported as partners' distributive share items under the Internal Revenue Code of 1986, as amended, such that the Internal Revenue Code is adopted in all aspects necessary to calculate such amount.

(b) Individuals. For purposes of this Subchapter the "net earnings from self employment" of an employer that is an individual:

(1) includes net income (loss) of any farm or non-farm trade or business conducted by the individual in the state; but

(2) excludes an individual partner's distributive share of net earnings from self employment of a partnership that is included in subparagraph (a) of this Section 172.020.

(c) For purposes of determining net earnings from self employment in subparagraphs (a) and (b) of this Section 172.020, a deduction shall be allowed against such income in calculating the adjusted tax base for:

(1) The amount of Section 179 expense, as defined in the Internal Revenue Code up to the amount of net earnings from self employment for the current tax year.

(2) To allow a deduction in the current tax year for



any net earnings from self employment for a prior year that resulted in a loss for such year.

(d) Section 179 expense in excess of the net earnings from self employment for the current year may be carried over to subsequent tax years.

(e) Net earnings from self employment that results in a loss for the current year shall be available to offset net earnings from self employment for three prior tax years and shall also be allowed to carryover to subsequent tax years.

Sec. 172.021. Payment of tax

The total amount of tax imposed shall be paid on the earlier of the date the return is actually filed or the date the return is required by law to be filed determined without regard to any extension of time for filing the return. The full amount of tax disclosed by the return as filed shall constitute an assessment at that time, and shall be recorded as an assessment in the records of the secretary.

(Sections 172.022 to 172.099 are reserved for expansion.)

SUBCHAPTER D: QUARTERLY REPORTING OF TAX ON COMPENSATION, AND DECLARATION OF TAX BY INDIVIDUALS AND PARTNERSHIPS

Sec. 172.101. Returns and payment of tax of Employers Reporting Employee Compensation

(a) Quarterly returns. Except as otherwise provided in this Section, every employer who pays compensation to employees for services rendered in this state shall be required to make a calendar quarterly return to the comptroller on a form prescribed by him or her and shall remit therewith the tax imposed on such compensation as required to be paid under this Subchapter for each calendar quarter, on or before the last day of the month immediately following each calendar quarter.

(b) Declarations. Each return shall specifically state the amount of compensation and include written declarations signed by the taxpayer and preparer (if any) stating: "I declare that I have examined this return and to the best of my knowledge it is true and complete. Declaration of preparer is based on all available information."

(c) Rules. Except as provided elsewhere herein, the returns

and payments of tax are to be prepared and such taxes paid in accordance with the rules and regulations prescribed by the secretary of the Comptroller of Public Accounts.

(1) All funds not timely remitted shall bear interest at the rate of interest applicable per Section 111.060, Tax Code, from the due date for filing until paid.

(2) The comptroller shall prescribe the forms to be used in compliance with the provisions of this Subchapter.

(d) Governmental employers. If the employer is the United States, a state, territory, or political subdivision thereof, or any agency or instrumentality of any one or more of the foregoing, the return of the amount due upon any compensation paid to employees may be made by any officer or employee of the United States, or of such state, territory, or political subdivision, or of such agency or instrumentality, as the case may be, having control of the payment of such wages or appropriately designated for that purpose.

Sec. 172.102. Declarations of estimated tax by Individuals and Partnerships on Net Earnings From Self Employment

(a) Requirement of declaration. Every partnership and individual whose tax liability on net earnings from self employment can reasonably be expected to exceed one thousand dollars for tax years starting on and after January 1, 2005 shall be liable for the filing of a declaration of estimated tax.

(b) Estimated tax. For purposes of this Chapter the term "estimated tax" means the amount which the partnership or individual estimates as the amount of the tax imposed by this Chapter for the taxable year on its net earnings from self employment on its net earnings from self employment.

(c) Contents of declaration. The declaration shall contain such pertinent information as the comptroller may require.

Sec. 172.103. Time for filing declarations and payment of installments of estimated tax by individuals and partnerships

(a) For the purpose of reporting and remitting taxes imposed by this Chapter on net earnings from self employment each partnership or individual whose tax year is the calendar year shall file quarterly declarations of estimated tax on net earnings from self employment and remit the amount of tax due based on such

declaration on or before April 15, June 15, September 15, and December 15. A taxpayer whose tax year is not the calendar year shall file quarterly reports and make estimated payments on or before the due dates that in the taxpayer's fiscal year correspond to the date required by the Internal Revenue Service, or if that date does not apply to such taxpayer, to the calendar year dates provided by this subsection.

(b) The estimated tax payment made with each quarterly declaration of each tax year is for the estimated tax base for the quarter or one-fourth of the estimated annual liability. The second, third, and fourth estimated tax payments in each tax year shall include adjustments, if necessary, to correct underpayments or overpayments from previous quarterly payments in the tax year to a revised estimate of the annual tax liability.

(c) The comptroller may not assess interest for tax that is delinquent if:

(1) the sum of the estimated payments equals at least 90 percent of the liability for the tax year and the amount of each estimated payment reasonably approximates the tax liability incurred during the quarter for which the estimated payment was made; or

(2) the preceding year's tax liability was submitted by the taxpayer in four equal installments the sum of which equals the previous year's tax liability.

(d) A taxpayer shall make each estimated report on a form prescribed by the comptroller and shall include an estimate of the annual tax liability and other information required by the comptroller. The form may be combined with any other tax reporting form prescribed by the comptroller.

(e) Payments made under this section are a credit against the payment required with the annual tax report.

(f) The comptroller may require filing of the reports and payment of the tax for other than quarterly or annual periods if the comptroller considers it necessary to ensure payment of the tax or to provide a more efficient administration of the tax.

(g) A taxpayer who elects under the Internal Revenue Code to file an annual federal income tax return by March 1 in the year

following the taxpayer's tax year and does not make a quarterly estimate or payment, or does not make a quarterly estimate or payment and files a tentative annual return with a tentative payment by January 15 in the year following the taxpayer's tax year and a final return by April 15 in the year following the taxpayer's tax year, has the same option in filing the estimated and annual reports required by this chapter.

Sec. 172.104. Report For First Tax Year.

A taxpayer may elect to compute the tax for the first taxable year, if less than 12 months by determining the amount of the tax as if this chapter were effective on the first day of the taxpayer's annual accounting period and multiply the amount by a fraction, the numerator of which is the number of months in the taxpayer's first taxable year, and the denominator of which is 12.

Sec. 172.105. Failure by individual or partnership to pay installments of estimated tax; penalty

(a) Addition to the tax. In the case of any underpayment of estimated tax by an individual or partnership, required by Sections 172.102 and 172.103, except as provided in Subsection (d), there shall be added to the tax due under this Chapter for the taxable year a penalty of 5 percent per annum upon the amount of the underpayment determined under Subsection (b), for the period of the underpayment determined under Subsection (c)

(b) Amount of underpayment.

(1) For purposes of Subsection (a), the amount of the underpayment shall be the excess of:

(A) The amount of the installment which would be required to be paid if the estimated tax were equal to ninety percent of the tax shown on the return for the taxable year or, if no return was filed, ninety percent of the tax for such year, over

(B) The amount, if any, of the installment paid on or before the last date prescribed for such payment.

(2) For the purposes of determining the amount of underpayment, the amount of the required installment shall be:

(A) Twenty-five percent of the required annual payment.

(B) For purposes of Subparagraph (A), the term

"required annual payment" means the lesser of:

(i) Ninety percent of the tax shown on the return for the taxable year (or, if no return is filed, ninety percent of the tax for such year), or

(ii) One hundred percent of the tax shown on the return of the individual for the preceding taxable year.

(c) Period of underpayment. The period of the underpayment shall run from the date the installment was required to be paid to whichever of the following dates is earlier:

(1) The 15th day of the fourth month following the close of the taxable year;

(2) The date on which any portion of the underpayment is paid but limited to the amount of such payment. For purposes of this paragraph a payment of estimated tax on any installment date shall be considered a payment of any previous underpayment only to the extent such payment exceeds the amount of the installment determined under Subsection (b)(1) for such installment date.

(d) Exception. Notwithstanding the provisions of the preceding Subsections, the penalty imposed with respect to any underpayment of any installment shall not be imposed if no declaration of estimated tax is required to be filed under the provisions of Section 172.102, or if the total amount of all payments of estimated tax made on or before the last date prescribed for the payment of such installment equals or exceeds whichever of the following is the lesser:

(1) The tax shown on the return of the individual or partnership for the preceding taxable year, if a return showing a liability for tax was filed by the individual or partnership for the preceding taxable year and such preceding year was a taxable year of twelve months, or

(2) An amount equal to ninety percent of the tax computed, at the rates applicable to the taxable year, on the basis of the actual taxable income for the months in the taxable year ending before the month in which the installment is required to be paid.

#### Sec. 172.106. Criminal penalties

(e) Any person required under the provisions of this Chapter

to furnish a statement who willfully furnishes a false or fraudulent statement or who willfully fails to furnish a statement in the manner, at the time, and showing the information required under this Subchapter D, or regulations prescribed thereunder, shall, for each such offense, upon conviction thereof, be fined not more than \$1,000, or imprisoned not more than 1 year, or both.

Sec. 172.107. Annual Tax Report.

(a) Each partnership shall file an annual report with the comptroller, in the form and content prescribed by the comptroller, on or before the date the taxpayer's federal income tax return is due, or if that date does not apply to a taxpayer, the last day of the fourth month after the end of the taxpayer's tax year.

(b) Each individual who has net earnings from self employment shall file an annual report with the comptroller, in the form and content prescribed by the comptroller, on or before the date the taxpayer's federal income tax return is due, or if that date does not apply to a taxpayer, the last day of the fourth month after the end of the taxpayer's tax year.

(c) Each partnership and individual required to file an annual report shall pay any final tax liability with the annual report.

(d) When a taxpayer is granted an extension of time to file the taxpayer's federal income tax return for a taxable year, the filing of a copy of the request for the federal extension with a preliminary report and payment of the estimated tax with the comptroller by the due date provided in Subsection (a) automatically extends the due date for the filing of a final report under this chapter for a period equivalent to the federal extension plus 60 days. Interest at the rate that applies to delinquent taxes under Section 111.060 shall be added to the amount of the tax unpaid for the period of the extension.

Sec. 172.108. Filing Of Federal Tax Returns.

(a) A taxpayer required to file a report under this Chapter may be required to furnish a copy of any return or portion of any return that the taxpayer has filed under the Internal Revenue Code.

(b) A taxpayer shall file an amended report with the comptroller showing any alteration in or modification of the

taxpayer's federal income tax return that affects the taxpayer's tax base under this chapter not later than 120 days after the date of the final determination by the Internal Revenue Service.

(c) At the request of the comptroller, a person required by the Internal Revenue Code to file or submit an information return of income paid to others shall, to the extent the information is applicable to residents of this state, at the same time file or submit information required by the comptroller in the form prescribed by the comptroller.

(Sections 172.109-172.500 reserved for expansion)

#### SUBCHAPTER E: ALLOCATION AND APPORTIONMENT OF TAX BASE

The Comptroller shall prescribe rules to provide for the allocation and apportionment of the adjusted tax base based on average of gross receipts plus gross compensation in this State compared to the total of all gross receipts and gross compensation.

#### SUBCHAPTER F: ADMINISTRATION, COLLECTION, AND ENFORCEMENT

The Comptroller shall prescribe rules regarding the administration, collection and enforcement of this Chapter.

#### SUBCHAPTER G: DISPOSITION OF REVENUE

##### Sec. 172.501. Texas Great Classroom Fund.

The revenue from the tax imposed by this Chapter shall be deposited to the credit of the Texas Great Classroom Fund.

SECTION 3. Section 101.003(8), Tax Code, as amended by Section 1.01, Chapter 486, and Section 3.27, Chapter 685, Acts of the 73rd Legislature, Regular Session, 1993, is amended to read as follows:

(8) "Taxpayer" means a person liable for a tax, fee, assessment, or other amount imposed by a statute or under the authority of a statutory function administered by the comptroller. The term includes a person subject to the tax under Chapter 172, Tax Code.

#### SECTION 4. Miscellaneous Provisions.

(a) Chapter 172, Tax Code, as added by this article, applies effective on or after January 1, 2005.

(b) In the first year in which the Reformed Franchise Tax is imposed, the comptroller may by rule extend the deadline for estimated tax payments of the tax under Chapter 172, Tax Code, as

added by this article. Subject to Sections 3 and 4 of this article, this article takes effect when this Act takes effect.

ARTICLE 7: DEDICATION OF REVENUE, COLLECTIONS, TAXES; IMPOSITION  
OF ADDITIONAL TAXES ON CERTAIN SALES AND USES

SECTION 1. Section 205.02(a), Chapter 205, Title 5, Alcoholic Beverage Code, is amended to replace the foundation school fund with the Texas Great Classroom Fund, as follows:

205.02. Disposition of Receipts

< Text of (a) as amended by Acts 1984, 68th Leg., 2nd C.S., Chapter. 28, art. II, part B, s12>

(a) After allocation of funds to defray administrative expenses as provided in the current departmental appropriations act, receipts from the sale of tax stamps and funds derived from taxes on distilled spirits, wine, beer, and ale and malt liquor shall be deposited in the general revenue fund. An amount equal to one-fourth of the net revenue shall be transferred to the [~~foundation school fund~~] Texas Great Classroom Fund, and an amount equal to three-fourths of the net revenue shall be credited to the general revenue fund.

< Text of (a) as amended by Acts 1984, 68th Leg., 2nd C.S., Chapter. 31, art. 2, s 22 >

(a) After allocation of funds to defray administrative expenses as provided in the current departmental appropriations act, receipts from the sale of tax stamps and funds derived from taxes on distilled spirits, wine, beer, and ale and malt liquor shall be deposited in the general revenue fund. An amount equal to 5/24ths of the net revenue shall be transferred to the available school fund, an amount equal to 1/24th of the net revenue shall be transferred to the [~~foundation school fund~~] Texas Great Classroom Fund, and an amount equal to three-fourths of the net revenue shall be credited to the general revenue fund.

SECTION 2. Article 4.12, Subchapter A, Chapter Four, Title 1, Insurance Code, is amended to read as follows:

Art. 4.12. Disposition of Certain Revenue

Receipts from the taxes imposed by Articles 4.10, 4.11, and 4.11B and Sections 11 and 12 of Article 1.14-1 of this code shall be deposited in the general revenue fund. An amount equal to



one-fourth (1/4) of this revenue shall be transferred to the [~~foundation school fund~~] Texas Great Classroom Fund, and an amount equal to three-fourths (3/4) of this revenue shall be credited to the general revenue fund.

SECTION 3. Subtitle E, Title 2, Tax Code is amended to increase the amount of sales and use tax to 6.50% and to dedicate a specific portion of the collections of such taxes to the funding of the Texas Great Classroom Program and credited to the Texas Great Classroom Fund, and to provide relief to specified individuals, as follows:

SUBCHAPTER A: SUBCHAPTER C, CHAPTER 151, TAX CODE IS AMENDED TO INCREASE THE AMOUNT OF SALES AND USE TAX TO 6.50%, AS FOLLOWS:

151.051. Sales Tax Imposed

(a) A tax is imposed on each sale of a taxable item in this state.

(b) The sales tax rate is [~~6 1/4~~] 6.50 percent of the sales price of the taxable item sold.

SUBCHAPTER B: SUBCHAPTER H, CHAPTER 151, TAX CODE, IS AMENDED TO PROVIDE FOR CERTAIN EXEMPTIONS FROM TAXES IMPOSED BY CHAPTER 151 BY ADDING SECTION 151.3145 TO READ AS FOLLOWS:

Sec. 151.3145. Certain Financial Assistance And Food Stamp Recipients.

(a) This section applies to a person who receives financial assistance under Chapter 31, Human Resources Code, or nutritional assistance under Chapter 33, Human Resources Code, through the use of an electronic benefits transfer system.

(b) There is exempted from the taxes imposed by this chapter 40 percent of the value of a taxable item sold, leased, or rented to a person to which this section applies.

(c) The comptroller by rule shall prescribe procedures relating to the exemption provided by this section. The rules must require that a person to whom this section applies present a government-issued identification card bearing the picture of the person to qualify for the exemption.

SUBCHAPTER C: SUBCHAPTER M, CHAPTER 151, TAX CODE, SECTION 151.801(A), IS AMENDED TO READ AS FOLLOWS:

151.801. Disposition of Proceeds

(a) Except for the amounts allocated under Subsections (b) and (c), all proceeds from the collection of the taxes imposed by this chapter shall be deposited to the credit of the general revenue fund. Provided however, the collections of the tax imposed by Section 151.051 and 151.101 shall be allocated as such that:

(1) An amount equal to 2.25 percent (2.25%) of the sales price of each item currently taxable pursuant to Sections 151.051 and 151.101, shall be allocated and dedicated to the Texas Great Classroom Fund;

(2) The remainder of the 6.50 percent (6.50%) of the sales price of each item currently taxable pursuant to Sections 151.051 and 151.101, shall be allocated to general revenue fund

SUBCHAPTER D: SUBCHAPTER B, CHAPTER 152, TAX CODE, SECTION 152.021 IS AMENDED TO INCREASE THE RATE OF TAX TO 7.75%, AS FOLLOWS:

152.021. Retail Sales Tax

(a) A tax is imposed on every retail sale of every motor vehicle sold in this state. Except as provided by this chapter, the tax is an obligation of and shall be paid by the purchaser of the motor vehicle.

(b) The tax rate is [~~6-1/4~~] 7.75 percent of the total consideration.

SUBCHAPTER E: SUBCHAPTER B, CHAPTER 152, TAX CODE, SECTION 152.022 IS AMENDED TO INCREASE THE RATE OF TAX TO 7.75%. AS FOLLOWS:

152.022. Tax on Motor Vehicle Purchased Outside This State

(a) A use tax is imposed on a motor vehicle purchased at retail sale outside this state and used on the public highways of this state by a Texas resident or other person who is domiciled or doing business in this state.

(b) The tax rate is [~~6-1/4~~] 7.75 percent of the total consideration.

SUBCHAPTER F: SUBCHAPTER B, CHAPTER 152, TAX CODE, SECTION 152.026 IS AMENDED TO READ AS FOLLOWS:

152.026. Tax on Gross Rental Receipts

(a) A tax is imposed on the gross rental receipts from the rental of a rented motor vehicle.

(b) The tax rate is [~~10~~] 11 percent of the gross rental receipts from the rental of a rented motor vehicle for 30 days or

less and ~~[6-1/4]~~ 7.75 percent of the gross rental receipts from the rental of a rented motor vehicle for longer than 30 days.

(c) Except for a destroyed motor vehicle or an unrecovered stolen motor vehicle, the total amount of gross rental receipts tax paid by the owner, as defined by Section 152.001(9)(A) of this code, on a motor vehicle registered under Section 152.061 of this code may not be less than an amount equal to the tax that would be imposed by Section 152.021 or 152.022 of this code but for Subsection (d) of this section.

(d) The taxes imposed by Sections 152.021 and 152.022 of this code are not due on a motor vehicle as long as it is registered as a rental vehicle under Section 152.061 of this code.

SUBCHAPTER G: SUBCHAPTER B, CHAPTER 152, TAX CODE SECTION 152.028 IS AMENDED TO READ AS FOLLOWS:

152.028. Use Tax on Motor Vehicle Brought Back Into State

(a) A use tax is imposed on the operator of a motor vehicle that was purchased tax-free under Section 152.092 of this code and that is brought back into this state for use on the public highways of this state. The tax is imposed at the time the motor vehicle is brought back into this state.

(b) The tax rate is ~~[6-1/4]~~ 7.75 percent of the total consideration.

SUBCHAPTER H: SUBCHAPTER G, CHAPTER 152, TAX CODE, SECTION 152.122, IS AMENDED TO READ AS FOLLOWS:

152.122. Allocation of Tax

The comptroller shall deposit the funds received under Section 152.121 of this code as follows:

(1) collections of the taxes imposed by Chapter 152 shall be divided such that the amount equal to tax at the rate of 2.25 percent (2.25%) of total consideration or gross rental receipts on items taxable under this chapter shall be dedicated and credited to the Texas Great Classroom Fund; provided such collections are transferred to the Texas Great Classroom Fund within the time prescribed in Section 403.093, Government Code; ~~[1/4 to the credit of the foundation school fund]~~; and

(2) the remaining funds to the credit of the general revenue fund.

ARTICLE 8: DEDICATION OF REVENUE, COLLECTIONS, TAXES; IMPOSITION  
OF ADDITIONAL TAXES ON SALES OF CIGARETTES, CIGARS AND TOBACCO  
PRODUCTS

SECTION 1. Section 154.021, Subchapter J, Chapter 154 relating to Cigarette tax is amended to increase the rate of tax as follows:

154.021. Imposition and Rate of Tax

(a) A tax is imposed on a person who uses or disposes of cigarettes in this state.

(b) The tax rates are:

(1) \$~~[20.50]~~ 83.00 per thousand on cigarettes weighing three pounds or less per thousand; and

(2) the rate provided by Subdivision (1) plus \$2.10 per thousand on cigarettes weighing more than three pounds per thousand.

SECTION 2. Section 154.603, Subchapter J, Chapter 154 relating to Cigarette tax is amended to read as follows:

154.603. Disposition of Revenue

(a) After the deductions for the purposes provided by Section 154.602 of this code, the revenue remaining shall be divided and distributed as follows:

(1) of the first \$62.50 of tax received per 1,000 cigarettes is allocated and shall be distributed to the Texas Great Classroom Fund;

(2) \$2 of tax received per 1,000 cigarettes for cigarettes weighing three pounds or less per thousand and the first \$4.10 per 1,000 cigarettes of the tax received for cigarettes weighing more than three pounds per thousand is allocated:

(A) 18.75 percent to the [~~foundation school fund~~ Texas Great Classroom Fund; and

(B) 81.25 percent to the general revenue fund.

(b) The revenue remaining after the deductions for the purposes provided by Section 154.602 of this code and allocation under Subsection (a) of this section is allocated to the general revenue fund.

(c),(d) Repealed by Acts 1993, 73rd Leg., Chapter. 679, Sec. 68, eff. September 1, 1993.

SECTION 3. Section 155.021(b), Subchapter B, Chapter 155 relating to Cigars and Tobacco Products Tax is amended to increase the rate of tax as follows:

155.021. Tax Imposed on Cigars

(b) The tax rates are:

(1) 3.44 cents [~~one cent~~] per 10 or fraction of 10 on cigars weighing three pounds or less per thousand;

(2) \$25.80 [~~\$7.50~~] per thousand on cigars that:

(A) weigh more than three pounds per thousand;  
and

(B) sell at factory list price, exclusive of any trade discount, special discount, or deal, for 3.3 cents or less each;

(3) \$37.84 [~~\$11~~] per thousand on cigars that:

(A) weigh more than three pounds per thousand;  
(B) sell at factory list price, exclusive of any trade discount, special discount, or deal, for more than 3.3 cents each; and

(C) contain no substantial amount of nontobacco ingredients; and

(4) \$51.60 [~~\$15~~] per thousand on cigars that:

(A) weigh more than three pounds per thousand;  
(B) sell at factory list price, exclusive of any trade discount, special discount, or deal, for more than 3.3 cents each; and

(C) contain a substantial amount of nontobacco ingredients.

SECTION 4. Section 155.0211(b), Subchapter B, Chapter 155 relating to Cigars and Tobacco Products Tax is amended to increase the rate of tax as follows:

155.0211. Tax Imposed on Tobacco Products Other Than Cigars

(b) The tax rate for tobacco products other than cigars is 40 [~~35.213~~] percent of the manufacturer's list price, exclusive of any trade discount, special discount, or deal.

SECTION 5. Section 155.241, Subchapter H, Chapter 155 relating to Allocation of Tax is amended to redirect the revenue from the general revenue fund to the Texas Great Classroom Fund as

follows

155.241. Allocation of Tax

Revenue collected under this chapter shall be deposited to the credit of the [~~general revenue fund~~] Texas Great Classroom Fund.

ARTICLE 9: REPEAL OF CERTAIN OIL AND UTILITY OCCUPATION TAXES

SECTION 1. REPEALER. Chapter 181, Subtitle G, Tax Code, imposing a Cement Production Tax is repealed in its entirety as of \_\_\_\_\_.

SECTION 2. REPEALER. Chapter 182, Subtitle G, Tax Code, imposing a tax on Gas, Electric, & Water Utility is repealed in its entirety as of \_\_\_\_\_.

SECTION 3. REPEALER. Sections 16.001, 16.002, 16.003, and 16.004, Subchapter A, Chapter 16, Subtitle A, Title 2, Utilities Code, imposing a tax on Public Utility Companies are repealed in their entirety as of \_\_\_\_\_.

SECTION 4. REPEALER. Subchapter E, Chapter 191, Subtitle H, Tax Code, imposing a tax on Oil Well Service is repealed in its entirety as of \_\_\_\_\_.

SECTION 5. Section 26.3574(b), Subchapter I, Chapter 26, Subtitle D, Title 2, Water Code, imposing a fee on the delivery of certain petroleum products is amended to eliminate the fee as follows:

(b) Until further action is taken by the legislature, the fee imposed on the delivery of certain petroleum products pursuant to this Section 26.3574 is eliminated. [~~A fee is imposed on the delivery of a petroleum product on withdrawal from bulk of that product as provided by this subsection. Each operator of a bulk facility on withdrawal from bulk of a petroleum product shall collect from the person who orders the withdrawal a fee in an amount determined as follows:~~

~~(1) \$12.50 for each delivery into a cargo tank having a capacity of less than 2,500 gallons for FY 02 and FY 03; \$10.00 for each delivery into a cargo tank having a capacity of less than 2,500 gallons for FY 04 and FY 05; \$5.00 for each delivery into a cargo tank having a capacity of less than 2,500 gallons for FY 06; and \$2.00 for each delivery into a cargo tank having a capacity of less~~

~~than 2,500 gallons for FY 07,~~

~~(2) \$25.00 for each delivery into a cargo tank having a capacity of 2,500 gallons or more but less than 5,000 gallons for FY 02 and FY 03; \$20.00 for each delivery into a cargo tank having a capacity of 2,500 gallons or more but less than 5,000 gallons for FY 04 and FY 05; \$10.00 for each delivery into a cargo tank having a capacity of 2,500 gallons or more but less than 5,000 gallons for FY 06; and \$4.00 for each delivery into a cargo tank having a capacity of 2,500 gallons or more but less than 5,000 gallons for FY 07;~~

~~(3) \$37.50 for each delivery into a cargo tank having a capacity of 5,000 gallons or more but less than 8,000 gallons for FY 02 and FY 03; \$30.00 for each delivery into a cargo tank having a capacity of 5,000 gallons or more but less than 8,000 gallons for FY 04 and FY 05; \$15.00 for each delivery into a cargo tank having a capacity of 5,000 gallons or more but less than 8,000 gallons for FY 06; and \$6.00 for each delivery into a cargo tank having a capacity of 5,000 gallons or more but less than 8,000 gallons for FY 07;~~

~~(4) \$50.00 for each delivery into a cargo tank having a capacity of 8,000 gallons or more but less than 10,000 gallons for FY 02 and FY 03; \$40.00 for each delivery into a cargo tank having a capacity of 8,000 gallons or more but less than 10,000 gallons for FY 04 and FY 05; \$20.00 for each delivery into a cargo tank having a capacity of 8,000 gallons or more but less than 10,000 gallons for FY 06; and \$8.00 for each delivery into a cargo tank having a capacity of 8,000 gallons or more but less than 10,000 gallons for FY 07; and~~

~~(5) a \$25.00 fee for each increment of 5,000 gallons or any part thereof delivered into a cargo tank having a capacity of 10,000 gallons or more for FY 02 and FY 03; \$20.00 for each increment of 5,000 gallons or any part thereof delivered into a cargo tank having a capacity of 10,000 gallons or more for FY 04 and FY 05; \$10.00 for each increment of 5,000 gallons or any part thereof delivered into a cargo tank having a capacity of 10,000 gallons or more for FY 06; and \$4.00 for each increment of 5,000 gallons or any part thereof delivered into a cargo tank having a capacity of 10,000 gallons or more for FY]~~

SECTION 6. REPEALER. Section 81.111, Subchapter E, Chapter

81, Subtitle A, Title 3, Natural Resources Code, imposing a tax on crude oil produced in this state repealed in its entirety as of \_\_\_\_\_.

ARTICLE 10: DEDICATION OF CERTAIN TAXES TO THE GENERAL REVENUE FUND

SECTION 1. Section 191.145, Subchapter H, Chapter 191 relating to Attorneys is amended to reallocate revenues from the foundation school fund to the general revenue fund as follows:

191.145. Distribution of Tax

The supreme court shall forward tax received under this subchapter to the state for deposit[+]

~~[(1) twenty-five percent of the taxes shall be deposited to the credit of the foundation school fund; and]~~

~~[(2) seventy-five percent of the taxes shall be deposited]~~ to the credit of the general revenue fund.

SECTION 2. Section 2153.058, Subchapter B, Chapter 2153 relating to Coin Operated Machines is amended to reallocate revenues from the foundation school fund to the general revenue fund as follows:

2153.58. Deposit of Revenue.

Except as provided by Section 2153.257, the comptroller shall deposit ~~[one-fourth of]~~ the revenue received under this chapter ~~[in the foundation school fund and three-fourths of the revenue received under this chapter]~~ in the general revenue fund.

ARTICLE 11: DEDICATION OF MOTOR FUEL TAXES TO STATE HIGHWAY FUND

SECTION 1. Section 162.502(b), Subchapter F, Chapter 162 relating to Motor Fuel Taxes is amended to reallocate revenues from the available school fund to the state highway fund as follows.

162.502. Allocation of Unclaimed Refundable Gasoline Taxes

(b) The comptroller shall allocate and deposit these unclaimed refunds as follows:

(1) 25 percent of the revenues based on unclaimed refunds of taxes paid on motor fuel used in motorboats shall be deposited to the credit of the ~~[available school fund]~~ state highway fund; and

(2) the remaining 75 percent of the revenue shall be deposited to the credit of the general revenue fund.



SECTION 2. Section 162.503, Subchapter F, Chapter 162 relating to Motor Fuel Taxes is amended to reallocate revenues from the available school fund to the state highway fund as follows.

162.503. Allocation of Gasoline Tax

On or before the fifth workday after the end of each month, the comptroller, after making all deductions for refund purposes and for the amounts allocated under Sections 162.502 and 162.5025, shall allocate the net remainder of the taxes collected under Subchapter B as follows:

(1) one-fourth of the tax shall be deposited to the credit of the [~~available school fund~~] state highway fund;

(2) one-half of the tax shall be deposited to the credit of the state highway fund for the construction and maintenance of the state road system under existing law; and

(3) from the remaining one-fourth of the tax the comptroller shall:

(A) deposit to the credit of the county and road district highway fund all the remaining tax receipts until a total of \$7,300,000 has been credited to the fund each fiscal year; and

(B) after the amount required to be deposited to the county and road district highway fund has been deposited, deposit to the credit of the state highway fund the remainder of the one-fourth of the tax, the amount to be provided on the basis of allocations made each month of the fiscal year, which sum shall be used by the Texas Department of Transportation for the construction, improvement, and maintenance of farm-to-market roads.

SECTION 3. Section 162.504, Subchapter F, Chapter 162 relating to Motor Fuel Taxes is amended to reallocate revenues from the available school fund to the state highway fund as follows.

162.504. Allocation of Diesel Fuel Tax

On or before the fifth workday after the end of each month, the comptroller, after making deductions for refund purposes, for the administration and enforcement of this chapter, and for the amounts allocated under Section 162.5025, shall [~~allocate~~] deposit the remainder of the taxes collected under Subchapter C [~~as follows:~~]

~~[(1) one-fourth of the taxes shall be deposited to the credit of the available school fund, and]~~

~~[(2) three-fourths of the taxes shall be deposited]~~ to the credit of the state highway fund.

SECTION 4. Section 162.505, Subchapter F, Chapter 162 relating to Motor Fuel Taxes is amended to reallocate revenues from the available school fund to the state highway fund as follows.

162.505. Allocation of Liquefied Gas Tax

On or before the fifth workday after the end of each month, the comptroller, after making deductions for refund purposes and for the administration and enforcement of this chapter, shall ~~[allocate]~~ deposit the remainder of the taxes collected under Subchapter D ~~[as follows:]~~

~~[(1) one-fourth of the taxes shall be deposited to the credit of the available school fund, and]~~

~~[(2) three-fourths of the taxes shall be deposited]~~ to the credit of the state highway fund.

ARTICLE 12: REPEAL OF PRODUCTION TAXES ON OIL , NATURAL GAS AND  
SULPHUR

SECTION 1. REPEALER. Chapter 201, Tax Code, is repealed in its entirety as of Sept. 1, \_\_\_\_\_.

SECTION 2. REPEALER. Chapter 202, Tax Code, is repealed in its entirety as of Sept. 1, \_\_\_\_\_.

SECTION 3. REPEALER. Chapter 203, Tax Code, is repealed in its entirety as of Sept. 1, \_\_\_\_\_.

ARTICLE 13: PROVISIONS FOR THE MAINTENANCE AND DISTRIBUTION OF  
FUNDS IN THE STATE LOTTERY ACCOUNT

SECTION 1. Subsections (b) and (c), Section 466.355, Subchapter H, Chapter 466, Subtitle E, Title 4, Government Code, are amended to read as follows:

466.355. State Lottery Account

(b) Money in the state lottery account may be used only for the following purposes and shall be distributed as follows:

(1) the payment of prizes to the holders of winning tickets;

(2) the payment of costs incurred in the operation and

administration of the lottery, including any fees received by a lottery operator, provided that the costs incurred in a fiscal biennium may not exceed an amount equal to 12 percent of the gross revenue accruing from the sale of tickets in that biennium;

(3) the establishment of a pooled bond fund, lottery prize reserve fund, unclaimed prize fund, and prize payment account; and

(4) the balance, after creation of a reserve sufficient to pay the amounts needed or estimated to be needed under Subdivisions (1) through (3), to be ~~[dedicated and]~~ transferred to the ~~[foundation school fund]~~ general revenue fund, on or before the 15th day of each month.

(c) Each August the comptroller shall:

(1) estimate the amount to be transferred to the ~~[foundation school fund]~~ general revenue fund on or before September 15; and

(2) notwithstanding Subsection (b)(4), transfer the amount estimated in Subdivision (1) to the ~~[foundation school fund]~~ general revenue fund before August installment payments are made under [Section 42.259] Chapter 47, Education Code.

ARTICLE 14: MISCELLANEOUS REVISIONS TO REPLACE THE FOUNDATION  
SCHOOL FUND WITH THE TEXAS GREAT CLASSROOM FUND

SECTION 1. Subsections (6) and (35), Section 7.055(b), Subchapter C, Chapter 7, Subtitle B, Title 2, Education Code, are amended to read as follows:

Section 7.055(b) Commissioner of Education Powers and Duties

(6) The commissioner shall adopt an annual budget for operating the ~~[Foundation School Program]~~ Texas Great Classroom Program as prescribed by Subsection (c).

(35) The commissioner shall perform duties in connection with the ~~[Foundation School]~~ Texas Great Classroom Program as prescribed by Chapter ~~[42]~~ 47.

SECTION 2. Section 7.055(c), Subchapter C, Chapter 7, Subtitle B, Title 2, Education Code, is amended to read as follows:

Section 7.055(c) Commissioner of Education Powers and Duties

(c) The budget the commissioner adopts under Subsection (b) for operating the ~~[Foundation School]~~ Texas Great Classroom Program

must be in accordance with legislative appropriations and provide funds for the administration and operation of the agency and any other necessary expense. The budget must designate any expense of operating the agency or operating a program for which the board has responsibility that is paid from the [~~Foundation School~~] Texas Great Classroom Program. The budget must designate program expenses that may be paid out of the [~~foundation school fund~~] Texas Great Classroom Fund, other state funds, fees, federal funds, or funds earned under interagency contract. Before adopting the budget, the commissioner must submit the budget to the board for review and, after receiving any comments of the board, present the operating budget to the governor and the Legislative Budget Board. The commissioner shall provide appropriate information on proposed budget expenditures to the comptroller to assure that all payments are paid from the appropriate funds in a timely and efficient manner.

SECTION 3. REPEALER. Section 8.123(a), Subchapter D, Chapter 8, Subtitle B, Title 2, Education Code is repealed.

SECTION 4. Amend the following articles of the Texas Civil Statutes to replace the foundation school fund with the Texas Great Classroom Fund: Art. 249a, 3271a, 581-41, 6573a.

SECTION 5. Amend the following sections of the Texas Education Code to replace the foundation school fund with the Texas Great Classroom Fund: Sections 8.122, 8.124, 13.285, 19.005, 19.007, 19.008, 26.65-App., 29.060, 29.062, 29.256, 29.257, 30.002, 30.003, 30.087, 30.102, 39.031, 43.010, 54.213, 56.208, Table 1, Table 2.

SECTION 6. Amend Section 466.156 of the Texas Government Code to replace the foundation school fund with the Texas Great Classroom Fund.

SECTION 7. Amend the following sections of the Texas Occupations Code to replace the foundation school fund with the Texas Great Classroom Fund: Sections 153.053, 201.153, 254.004, 351.153, 501.153, 801.154, 901.406, 1001.206, 1051.205, 1101.153, 2153.058.

SECTION 8. Amend the following sections of the Texas Property Code to replace the foundation school fund with the Texas

Great Classroom Fund: Sections 71.202, 74.602.

SECTION 9. Amend Section 39.901 of the Texas Utilities Code to replace the foundation school fund with the Texas Great Classroom Fund.

SECTION 10. Section 181.202, Subchapter E, Chapter 181, Subtitle G, Title 2, Tax Code, is amended to read as follows:

181.202. Allocation of Tax Revenue

One-fourth of the revenue from the tax imposed by this chapter shall be deposited to the credit of the [~~foundation school fund~~] Texas Great Classroom Fund and three-fourths to the general revenue fund.

SECTION 11. Section 191.122, Subchapter G, Chapter 191, Subtitle H, Title 2, Tax Code is amended to read as follows:

191.122. Allocation of Tax

One-fourth of the revenue collected under this chapter shall be deposited to the credit of the [~~foundation school fund~~] Texas Great Classroom Fund and three-fourths to the credit of the general revenue fund.

SECTION 12. Section 191.145, Subchapter H, Chapter 191, Subtitle H, Title 2, Tax Code, is amended to read as follows:

191.145. Distribution of Tax

The supreme court shall forward tax received under this subchapter to the state for deposit:

(1) twenty-five percent of the taxes shall be deposited to the credit of the [~~foundation school fund~~] Texas Great Classroom Fund; and

(2) seventy-five percent of the taxes shall be deposited to the credit of the general revenue fund.

ARTICLE 15: AMENDMENTS TO CONFORM THE FOUNDATION SCHOOL PROGRAM TO  
THE TEXAS GREAT CLASSROOM PROGRAM

SECTION 1. Amend the following sections of the Texas Education Code to implement the Texas Great Classroom Program: 7.102, 8.121, 11.201, 11.351, 21.402, 21.410, 21.411, 25.037, 25.089, 28.006, 28.0211, 29.087, 34.009, 37.0061, 37.011.

ARTICLE 16: AMENDMENTS TO CONFORM THE AVAILABLE SCHOOL FUND FOR THE  
IMPLEMENTATION OF THE TEXAS GREAT CLASSROOM PROGRAM

SECTION 1. Amendments to require that the Available School Fund be distributed to the Texas Great Classroom Fund as necessary to fund the Texas Great Classroom Program.

SECTION 2. Amend the following sections of the Texas Agriculture Code to conform the Available School Fund for the implementation of the Texas Great Classroom Program: Section 148.042.

SECTION 3. Amend the following articles of the Texas Civil Statutes to conform the Available School Fund for the implementation of the Texas Great Classroom Program: Sections 2685a, 2685b, 2685b-1, 2687d, 2688h, 2700a, 2700d-4, 2700d-11, 2700d-17, 2700d-18, 2700d-22, 2700d-23, 2700d-28, 2700d-32, 2700d-35, 2700d-37.

SECTION 4. Amend the following sections of the Texas Education Code to conform the Available School Fund for the implementation of the Texas Great Classroom Program: Sections 7.102, 11.351, 17.09-App., 17.72-App., 17.83-App., 19.124-App., 25.001, 25.037, 25.040, 29.153, 29.203, 29.901, 30.003, 30.004, 30.025, 30.056, 30.101, 30.102, 31.021, 37.0061, 43.001, 43.002, 43.003, 43.0031, 43.0032, 43.0033, 43.0034, 43.004, 43.005, 43.007, 43.009, 43.010, 43.011, 43.012, 43.013, 43.014, 43.015, 43.016, 43.017, 43.018, 43.019, 45.004, 45.105, 45.106, Table 1, Table 2.

SECTION 5. Amend Section 403.035 of the Texas Government Code to conform the Available School Fund for the implementation of the Texas Great Classroom Program.

SECTION 6. Amend section 533.001 of the Texas Health & Safety Code to conform the Available School Fund for the implementation of the Texas Great Classroom Program.

SECTION 7. Amend the following sections of the Texas Local Government Code to conform the Available School Fund for the implementation of the Texas Great Classroom Program: Sections 71.035, 115.001, 153.001.

SECTION 8. Amend the following sections of the Texas Tax Code to conform the Available School Fund for the implementation of the Texas Great Classroom Program: Sections 101.009, and 154.601.

ARTICLE 17: EFFECTIVE DATE

SECTION 1. This Act takes effect \_\_\_\_\_, 2005.