

1-1 By: Pitts, McCall (Senate Sponsor - Bivins) H.B. No. 3459
1-2 (In the Senate - Received from the House May 12, 2003;
1-3 May 13, 2003, read first time and referred to Committee on Finance;
1-4 May 24, 2003, reported adversely, with favorable Committee
1-5 Substitute by the following vote: Yeas 9, Nays 2; May 24, 2003,
1-6 sent to printer.)

1-7 COMMITTEE SUBSTITUTE FOR H.B. No. 3459 By: Bivins

1-8 A BILL TO BE ENTITLED
1-9 AN ACT

1-10 relating to fiscal matters involving certain governmental
1-11 educational entities, including public school finance, program
1-12 compliance monitoring by the Texas Education Agency, amounts
1-13 withheld from compensatory education allotments, the public school
1-14 technology allotment, the composition of and accounting for the
1-15 permanent school fund and the available school fund, health
1-16 insurance coverage provided by certain educational entities, and
1-17 the uses of the telecommunications infrastructure fund.

1-18 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

1-19 SECTION 1. The following provisions of the Education Code
1-20 are repealed:

1-21 (1) Chapters 41, 42, and 46; and

1-22 (2) Section 45.002.

1-23 SECTION 2. Section 1 of this Act takes effect September 1,
1-24 2004, but only if, before that date:

1-25 (1) the legislature has enacted a school finance
1-26 system to replace the system established by Chapters 41, 42, 45, and
1-27 46, Education Code;

1-28 (2) the Act enacting a school finance system in
1-29 compliance with Subdivision (1) of this section affirmatively
1-30 states that the system is a comprehensive school finance system for
1-31 the entire state; and

1-32 (3) the school finance system enacted in compliance
1-33 with Subdivision (1) of this section has become law.

1-34 SECTION 3. Subchapter B, Chapter 7, Education Code, is
1-35 amended by adding Section 7.027 to read as follows:

1-36 Sec. 7.027. LIMITATION ON COMPLIANCE MONITORING. (a)
1-37 Except as provided by Section 29.001(5), 29.010(a), 39.074, or
1-38 39.075, the agency may monitor compliance with requirements
1-39 applicable to a process or program provided by a school district,
1-40 campus, program, or school granted charters under Chapter 12,
1-41 including the process described by Subchapter F, Chapter 11, or a
1-42 program described by Subchapter A, B, C, D, E, F, H, or I, Chapter
1-43 29, Subchapter A, Chapter 37, or Section 38.003, and the use of
1-44 funds provided for such a program under Subchapter C, Chapter 42,
1-45 only as necessary to ensure:

1-46 (1) compliance with federal law and regulations;

1-47 (2) financial accountability, including compliance
1-48 with grant requirements; and

1-49 (3) data integrity for purposes of:

1-50 (A) the Public Education Information Management
1-51 System (PEIMS); and

1-52 (B) accountability under Chapter 39.

1-53 (b) The board of trustees of a school district or the
1-54 governing body of an open-enrollment charter school has primary
1-55 responsibility for ensuring that the district or school complies
1-56 with all applicable requirements of state educational programs.

1-57 SECTION 4. Section 21.253, Education Code, is amended to
1-58 read as follows:

1-59 Sec. 21.253. REQUEST FOR HEARING. (a) A teacher must file
1-60 a written request for a hearing under this subchapter with the
1-61 commissioner not later than the 15th day after the date the teacher
1-62 receives written notice of the proposed action. The teacher must
1-63 provide the district with a copy of the request and must provide the

2-1 commissioner with a copy of the notice.

2-2 (b) The parties may agree in writing to extend by not more
 2-3 than 10 days the deadline for requesting a hearing.

2-4 SECTION 5. Sections 21.254(c), (d), and (e), Education
 2-5 Code, are amended to read as follows:

2-6 (c) If a hearing examiner is not selected by the parties to a
 2-7 pending case under Subsection (e), the [The] commissioner shall
 2-8 assign a hearing examiner to the [a pending] case not earlier than
 2-9 the sixth business day and not later than the 10th business day
 2-10 after the date on which the commissioner receives the request for a
 2-11 hearing. When a hearing examiner has been assigned to a case, the
 2-12 commissioner shall immediately notify the parties.

2-13 (d) The parties may agree to reject a hearing examiner for
 2-14 any reason and either [Either] party is entitled to reject the
 2-15 assigned hearing examiner for cause. A rejection must be in writing
 2-16 and filed with the commissioner not later than the third day after
 2-17 the date of notification of the hearing examiner's assignment. If
 2-18 the parties agree to reject the hearing examiner or if the
 2-19 commissioner determines that one [the] party has good cause to
 2-20 reject the hearing examiner, the commissioner shall assign another
 2-21 hearing examiner as provided by Subsection (b). If neither party
 2-22 makes a timely rejection, the assignment is final.

2-23 (e) After the teacher receives the notice of the proposed
 2-24 action, the parties by agreement may select a hearing examiner from
 2-25 the list maintained by the commissioner under Subsection (a) or a
 2-26 person who is not certified to serve as a hearing examiner. A
 2-27 person who is not a certified hearing examiner may be selected only
 2-28 if the person is [under this subsection must be] licensed to
 2-29 practice law in this state. If the parties agree on a hearing
 2-30 examiner, the parties shall, before the date the commissioner is
 2-31 permitted to assign a hearing examiner, notify the commissioner in
 2-32 writing of the agreement, including [before the teacher files a
 2-33 request for hearing under Section 21.253, the request shall
 2-34 include] the name of the hearing examiner selected. [If the parties
 2-35 agree on a hearing examiner after the teacher files the request for
 2-36 hearing, the teacher shall promptly notify the commissioner in
 2-37 writing of the name of the hearing examiner.]

2-38 SECTION 6. Sections 21.257(a) and (c), Education Code, are
 2-39 amended to read as follows:

2-40 (a) Not later than the 60th [45th] day after the date on
 2-41 which the commissioner receives a teacher's written request for a
 2-42 hearing, the hearing examiner shall complete the hearing and make a
 2-43 written recommendation that:

2-44 (1) includes proposed findings of fact and conclusions
 2-45 of law; and

2-46 (2) may include a proposal for granting relief.

2-47 (c) The parties may agree in writing to extend by not more
 2-48 than 45 days [waive] the right to a recommendation by the date
 2-49 prescribed by Subsection (a). A hearing under this section may not
 2-50 be held on a Saturday, Sunday, or a state or federal holiday, unless
 2-51 all parties agree.

2-52 SECTION 7. Subchapter G, Chapter 21, Education Code, is
 2-53 amended by adding Section 21.3041 to read as follows:

2-54 Sec. 21.3041. REHEARING BY COMMISSIONER. (a) Not later
 2-55 than the 20th day after the date the party or the party's
 2-56 representative receives notice of the commissioner's decision
 2-57 under Section 21.304, the party may file a request for rehearing.

2-58 (b) A request for rehearing is not required for a party to
 2-59 appeal the commissioner's decision under Section 21.307.

2-60 (c) A request for rehearing is denied by operation of law if
 2-61 the commissioner does not issue an order before the 45th day after
 2-62 the date the party or the party's representative receives notice of
 2-63 the commissioner's decision.

2-64 SECTION 8. Section 21.307(b), Education Code, is amended to
 2-65 read as follows:

2-66 (b) An appeal under this section must be perfected not later
 2-67 than the 30th day after:

2-68 (1) the date the party or the party's representative
 2-69 receives [received] notice of the commissioner's decision or the

3-1 date on which the decision of the board of trustees is [~~was~~]
3-2 affirmed by operation of law if the commissioner fails [~~failed~~] to
3-3 issue a decision within the required period; or

3-4 (2) if a request for rehearing is filed under Section
3-5 21.3041, the date on which the request is denied by order of the
3-6 commissioner or by operation of law under Section 21.3041(c). [A
3-7 motion for rehearing is not required for the party to appeal.]

3-8 SECTION 9. Subchapter I, Chapter 21, Education Code, is
3-9 amended by adding Section 21.413 to read as follows:

3-10 Sec. 21.413. CLASSROOM SUPPLY REIMBURSEMENT PROGRAM. (a)
3-11 The commissioner shall establish a reimbursement program under
3-12 which the commissioner provides funds to a school district for the
3-13 purpose of reimbursing classroom teachers in the district who
3-14 expend personal funds on classroom supplies. A school district
3-15 must match any funds provided to the district under the
3-16 reimbursement program with local funds to be used for the same
3-17 purpose.

3-18 (b) The commissioner shall adopt rules for the local
3-19 allocation of funds provided to a school district under the
3-20 reimbursement program. A school district shall allow each
3-21 classroom teacher in the district who is reimbursed under the
3-22 reimbursement program to use the funds in the teacher's discretion,
3-23 except that the funds must be used for the benefit of the district's
3-24 students. A school district may not use funds received under the
3-25 reimbursement program to replace local funds used by the district
3-26 for the same purpose.

3-27 (c) The commissioner shall identify state and federal funds
3-28 available for use under the reimbursement program, including funds
3-29 subject to the Education Flexibility Partnership Act of 1999 (20
3-30 U.S.C. Section 5891a et seq.), and its subsequent amendments, as
3-31 well as consolidated administrative funds.

3-32 (d) The commissioner shall establish the reimbursement
3-33 program for implementation beginning not later than the 2005-2006
3-34 school year. The commissioner may implement the reimbursement
3-35 program only if funds are specifically appropriated by the
3-36 legislature for the program or if the commissioner identifies
3-37 available funds, other than general revenue funds, that may be used
3-38 for the program.

3-39 SECTION 10. Subchapter A, Chapter 29, Education Code, is
3-40 amended by adding Section 29.0161 to read as follows:

3-41 Sec. 29.0161. CONTRACT WITH STATE OFFICE OF ADMINISTRATIVE
3-42 HEARINGS FOR SPECIAL EDUCATION DUE PROCESS HEARINGS. (a) Not later
3-43 than December 1, 2003, the agency and the State Office of
3-44 Administrative Hearings shall jointly determine whether it would be
3-45 cost-effective for the agency to enter an interagency contract with
3-46 the office under which the office would conduct all or part of the
3-47 agency's special education due process hearings under 20 U.S.C.
3-48 Section 1415 and its subsequent amendments.

3-49 (b) If, as provided by Subsection (a), the agency and the
3-50 State Office of Administrative Hearings jointly determine it would
3-51 be cost-effective to transfer all or a portion of the agency's
3-52 special education due process hearings to the office, the agency
3-53 and the office shall enter into an interagency contract to transfer
3-54 the hearings accordingly.

3-55 SECTION 11. Sections 29.062(a) and (e), Education Code, are
3-56 amended to read as follows:

3-57 (a) The legislature recognizes that compliance with this
3-58 subchapter is an imperative public necessity. Therefore, in
3-59 accordance with the policy of the state, the agency shall evaluate
3-60 the effectiveness of programs under this subchapter based on the
3-61 academic excellence indicators adopted under Section 39.051(a),
3-62 including the results of assessment instruments. The agency may
3-63 combine evaluations under this section with federal accountability
3-64 measures concerning students of limited English proficiency
3-65 [~~monitor compliance with state rules by inspecting each school~~
3-66 ~~district and open-enrollment charter school on-site at least every~~
3-67 ~~three years].~~

3-68 (e) If a school district or open-enrollment charter school
3-69 fails to satisfy appropriate standards adopted by the commissioner

4-1 for purposes of Subsection (a) [~~or refuses to comply after proper~~
4-2 ~~notification]~~, the agency shall apply sanctions, which may include
4-3 the removal of accreditation, loss of foundation school funds, or
4-4 both.

4-5 SECTION 12. Section 31.021(b), Education Code, is amended
4-6 to read as follows:

4-7 (b) The State Board of Education shall annually set aside
4-8 out of the available school fund of the state an amount sufficient
4-9 for the board, school districts, and open-enrollment charter
4-10 schools to purchase and distribute the necessary textbooks for the
4-11 use of the students of this state for the following school year.
4-12 The board shall determine the amount of the available school fund to
4-13 set aside for the state textbook fund based on:

4-14 (1) a report by the commissioner issued on July 1 or,
4-15 if that date is a Saturday or Sunday, on the following Monday,
4-16 stating the amount of unobligated money in the fund;

4-17 (2) [~~a requirement to provide an allotment to be~~
4-18 ~~distributed to each district equal to \$30 per student in average~~
4-19 ~~daily attendance, or a greater amount for any year provided by~~
4-20 ~~appropriation, to be used only to:~~

4-21 [~~(A) provide for the purchase by school districts~~
4-22 ~~of electronic textbooks or technological equipment that~~
4-23 ~~contributes to student learning; and~~

4-24 [~~(B) pay for training educational personnel~~
4-25 ~~directly involved in student learning in the appropriate use of~~
4-26 ~~electronic textbooks and for providing for access to technological~~
4-27 ~~equipment for instructional use;~~

4-28 [~~3~~] the commissioner's estimate, based on textbooks
4-29 selected under Section 31.101 and on attendance reports submitted
4-30 under Section 31.103 by school districts and open-enrollment
4-31 charter schools, of the amount of funds, in addition to funds
4-32 reported under Subdivision (1), that will be necessary for purchase
4-33 and distribution of textbooks for the following school year; and

4-34 (3) [~~4~~] any amount the board determines should be
4-35 set aside for emergency purposes caused by unexpected increases in
4-36 attendance.

4-37 SECTION 13. Section 31.103(b), Education Code, is amended
4-38 to read as follows:

4-39 (b) A requisition for textbooks for the following school
4-40 year shall be based on the maximum attendance reports under
4-41 Subsection (a), plus an additional 10 percent, except as otherwise
4-42 provided. A school district or open-enrollment charter school
4-43 shall make a requisition for a textbook on the conforming or
4-44 nonconforming list through the commissioner to the state depository
4-45 designated by the publisher or as provided by State Board of
4-46 Education rule, as applicable, not later than June 1 of each year.
4-47 The designated state depository or, if the publisher or
4-48 manufacturer does not have a designated textbook depository in this
4-49 state under Section 31.151(a)(6)(B), the publisher or manufacturer
4-50 shall fill a requisition approved by the agency at any other time in
4-51 the case of an emergency. As made necessary by available funds, the
4-52 commissioner shall reduce the additional percentage of attendance
4-53 for which a district or school may requisition textbooks. The
4-54 commissioner may, on application of a district or school that is
4-55 experiencing high enrollment growth, increase the additional
4-56 percentage of attendance for which the district or school may
4-57 requisition textbooks.

4-58 SECTION 14. Subchapter A, Chapter 32, Education Code, is
4-59 amended by adding Section 32.005 to read as follows:

4-60 Sec. 32.005. TECHNOLOGY ALLOTMENT. (a) Each school
4-61 district is entitled to an allotment of \$30 for each student in
4-62 average daily attendance or a different amount for any year
4-63 provided by appropriation.

4-64 (b) An allotment under this section may be used only to:

4-65 (1) provide for the purchase by school districts of
4-66 electronic textbooks or technological equipment that contributes
4-67 to student learning; and

4-68 (2) pay for training educational personnel directly
4-69 involved in student learning in the appropriate use of electronic

5-1 textbooks and for providing for access to technological equipment
 5-2 for instructional use.

5-3 (c) The allotment under this section may be paid from:
 5-4 (1) the telecommunications infrastructure fund under
 5-5 Subchapter C, Chapter 57, Utilities Code;
 5-6 (2) the available school fund; or
 5-7 (3) any other fund that may be used for that purpose
 5-8 and that is identified in the General Appropriations Act as the
 5-9 source of payment of the allotment.

5-10 SECTION 15. Section 32.033(a), Education Code, is amended
 5-11 to read as follows:

5-12 (a) The agency, in coordination with institutions of higher
 5-13 education and other public or private entities, may ~~[shall]~~
 5-14 maintain and expand, as needed, the telecommunications
 5-15 capabilities of school districts and regional education service
 5-16 centers. The agency shall design and implement a
 5-17 telecommunications system for distance learning throughout the
 5-18 state.

5-19 SECTION 16. Section 39.023(e), Education Code, is amended
 5-20 to read as follows:

5-21 (e) Under rules adopted by the State Board of Education,
 5-22 every other year, the agency shall release the questions and answer
 5-23 keys to each assessment instrument administered under Subsection
 5-24 (a), (b), (c), (d), or (l) after the last time the instrument is
 5-25 administered for that ~~[a]~~ school year. To ensure a valid bank of
 5-26 questions for use each year, the agency is not required to release a
 5-27 question that is being field-tested and was not used to compute the
 5-28 student's score on the instrument. The agency shall also release,
 5-29 under board rule, each question that is no longer being
 5-30 field-tested and that was not used to compute a student's score.

5-31 SECTION 17. Section 39.051(f), Education Code, is amended
 5-32 to read as follows:

5-33 (f) ~~The [Beginning with the 2002-2003 school year, the]~~
 5-34 ~~indicator under Subsection (b)(1) must include the results of~~
 5-35 ~~assessment instruments required under Section 39.023(b). [Those~~
 5-36 ~~results may not be aggregated by grade level or subject area.]~~

5-37 SECTION 18. Sections 39.055(a) and (e), Education Code, are
 5-38 amended to read as follows:

5-39 (a) The commissioner shall develop a process for auditing
 5-40 school district dropout records electronically. The commissioner
 5-41 shall also develop a system and standards for review of the audit or
 5-42 use systems already available at the agency. The system must be
 5-43 designed to identify districts that are at high risk of having
 5-44 inaccurate dropout records and that, as a result, require on-site
 5-45 monitoring of dropout records. If the electronic audit of a
 5-46 district's dropout records indicates that a district is not at high
 5-47 risk of having inaccurate dropout records, the district may not be
 5-48 subject to on-site monitoring under this subsection. If the
 5-49 risk-based system indicates that a district is at high risk of
 5-50 having inaccurate dropout records, the district is entitled to an
 5-51 opportunity to respond to the commissioner's determination before
 5-52 on-site monitoring may be conducted. The district must respond not
 5-53 later than the 30th day after the date the commissioner notifies the
 5-54 district of the commissioner's determination. If the district's
 5-55 response does not change the commissioner's determination that the
 5-56 district is at high risk of having inaccurate dropout records or if
 5-57 the district does not respond in a timely manner, the commissioner
 5-58 shall order agency staff to conduct on-site monitoring of the
 5-59 [board of trustees of each school district shall have the]
 5-60 district's dropout records [audited annually at district expense by
 5-61 a public accountant or certified public accountant who:

5-62 [(1) is certified or registered, as appropriate, and
 5-63 licensed under Chapter 901, Occupations Code,

5-64 [(2) has successfully completed training provided by
 5-65 the agency in auditing school dropout records, and

5-66 [(3) is not an employee of the district].

5-67 (e) ~~[The agency shall review each report of an audit of~~
 5-68 ~~dropout records.]~~ The commissioner shall notify the board of
 5-69 trustees of a school district of any objection the commissioner has

6-1 to the district's dropout data [~~report~~], any violation of sound
 6-2 accounting practices or of a law or rule revealed by the data
 6-3 [~~report~~], or any recommendation by the commissioner concerning the
 6-4 data [~~report~~]. If the data reflect [~~report reflects~~] that a penal
 6-5 law has been violated, the commissioner shall notify the county
 6-6 attorney, district attorney, or criminal district attorney, as
 6-7 appropriate, and the attorney general. The commissioner is
 6-8 entitled to access to all district records the commissioner
 6-9 considers necessary or appropriate for the review, analysis, or
 6-10 approval of district dropout data [~~a report~~].

6-11 SECTION 19. Section 42.152, Education Code, is amended by
 6-12 amending Subsections (c), (q), and (r) and adding Subsections
 6-13 (q-1)-(q-4) and (u) to read as follows:

6-14 (c) Funds allocated under this section shall be used [~~only~~]
 6-15 to fund supplemental programs and services designed to eliminate
 6-16 any disparity in performance on assessment instruments
 6-17 administered under Subchapter B, Chapter 39, or disparity in the
 6-18 rates of high school completion between students at risk of
 6-19 dropping out of school, as defined by Section 29.081, and all other
 6-20 students. Specifically, the funds, other than an indirect cost
 6-21 allotment established under State Board of Education rule, which
 6-22 may not exceed 15 percent, may be used [~~only~~] to meet the costs of
 6-23 providing a compensatory, intensive, or accelerated instruction
 6-24 program under Section 29.081 or an alternative education program
 6-25 established under Section 37.008 or to support a program eligible
 6-26 under Title I of the Elementary and Secondary Education Act of 1965,
 6-27 as provided by Pub. L. No. 103-382 and its subsequent amendments,
 6-28 and by federal regulations implementing that Act, at a campus at
 6-29 which at least 40 [~~50~~] percent of the students are educationally
 6-30 disadvantaged. In meeting the costs of providing a compensatory,
 6-31 intensive, or accelerated instruction program under Section
 6-32 29.081, a district's compensatory education allotment shall [~~may~~]
 6-33 be used [~~only~~] for costs supplementary to the regular education
 6-34 program, such as costs for program and student evaluation,
 6-35 instructional materials and equipment and other supplies required
 6-36 for quality instruction, supplemental staff expenses, salary for
 6-37 teachers of at-risk students, smaller class size, and
 6-38 individualized instruction. A home-rule school district or an
 6-39 open-enrollment charter school must use funds allocated under
 6-40 Subsection (a) for a purpose authorized in this subsection but is
 6-41 not otherwise subject to Subchapter C, Chapter 29. Notwithstanding
 6-42 any other provisions of this section:

6-43 (1) to ensure that a sufficient amount of the funds
 6-44 allotted under this section are available to supplement
 6-45 instructional programs and services, no more than 18 percent of the
 6-46 funds allotted under this section may be used to fund disciplinary
 6-47 alternative education programs established under Section 37.008;
 6-48 [~~and~~]

6-49 (2) the commissioner may waive the limitations of
 6-50 Subdivision (1) upon an annual petition, by a district's board and a
 6-51 district's site-based decision making committee, presenting the
 6-52 reason for the need to spend supplemental compensatory education
 6-53 funds on disciplinary alternative education programs under Section
 6-54 37.008, provided that:

6-55 (A) the [~~The~~] district [~~shall~~] in its petition
 6-56 reports [~~report~~] the number of students in each grade level, by
 6-57 demographic subgroup, not making satisfactory progress under the
 6-58 state's assessment system; and

6-59 (B) the [~~The~~] commissioner makes the [~~will make~~
 6-60 ~~this~~] waiver request information available annually to the public
 6-61 on the agency's website; and

6-62 (3) for purposes of this subsection, a program
 6-63 specifically designed to serve students at risk of dropping out of
 6-64 school, as defined by Section 29.081, is considered to be a program
 6-65 supplemental to the regular education program, and a district may
 6-66 use its compensatory education allotment for such a program.

6-67 (q) The State Board of Education, with the assistance of the
 6-68 state auditor and the comptroller, shall develop and implement by
 6-69 rule [~~a~~] reporting and auditing systems [~~system~~] for district and

7-1 campus expenditures of compensatory education funds to ensure that
 7-2 compensatory education funds, other than the indirect cost
 7-3 allotment, are spent only to supplement the regular education
 7-4 program as required by Subsection (c). The reporting requirements
 7-5 shall be managed electronically to minimize local administrative
 7-6 costs. A district shall submit the report required by this
 7-7 subsection not later than the 150th day after the last day
 7-8 permissible for resubmission of information required under Section
 7-9 42.006.

7-10 (q-1) The commissioner shall develop a system to identify
 7-11 school districts that are at high risk of having used compensatory
 7-12 education funds other than in compliance with Subsection (c) or of
 7-13 having inadequately reported compensatory education expenditures.
 7-14 If a review of the report submitted under Subsection (q), using the
 7-15 risk-based system, indicates that a district is not at high risk of
 7-16 having misused compensatory education funds or of having
 7-17 inadequately reported compensatory education expenditures, the
 7-18 district may not be required to perform a local audit of
 7-19 compensatory education expenditures and is not subject to on-site
 7-20 monitoring under this section.

7-21 (q-2) If a review of the report submitted under Subsection
 7-22 (q), using the risk-based system, indicates that a district is at
 7-23 high risk of having misused compensatory education funds, the
 7-24 commissioner shall notify the district of that determination. The
 7-25 district must respond to the commissioner not later than the 30th
 7-26 day after the date the commissioner notifies the district of the
 7-27 commissioner's determination. If the district's response does not
 7-28 change the commissioner's determination that the district is at
 7-29 high risk of having misused compensatory education funds or if the
 7-30 district does not respond in a timely manner, the commissioner
 7-31 shall:

7-32 (1) require the district to conduct a local audit of
 7-33 compensatory education expenditures for the current or preceding
 7-34 school year;

7-35 (2) order agency staff to conduct on-site monitoring
 7-36 of the district's compensatory education expenditures; or

7-37 (3) both require a local audit and order on-site
 7-38 monitoring.

7-39 (q-3) If a review of the report submitted under Subsection
 7-40 (q), using the risk-based system, indicates that a district is at
 7-41 high risk of having inadequately reported compensatory education
 7-42 expenditures, the commissioner may require agency staff to assist
 7-43 the district in following the proper reporting methods or amending
 7-44 a district or campus improvement plan under Subchapter F, Chapter
 7-45 11. If the district does not take appropriate corrective action
 7-46 before the 45th day after the date the agency staff notifies the
 7-47 district of the action the district is expected to take, the
 7-48 commissioner may:

7-49 (1) require the district to conduct a local audit of
 7-50 the district's compensatory education expenditures; or

7-51 (2) order agency staff to conduct on-site monitoring
 7-52 of the district's compensatory education expenditures.

7-53 (q-4) The commissioner, in the year following a local [an]
 7-54 audit of compensatory education expenditures, shall withhold from a
 7-55 district's foundation school fund payment an amount equal to the
 7-56 amount of compensatory education funds the agency determines were
 7-57 not used in compliance with Subsection (c). The commissioner shall
 7-58 release to a district funds withheld under this subsection when the
 7-59 district provides to the commissioner a detailed plan to spend
 7-60 those funds in compliance with Subsection (c).

7-61 (r) The commissioner shall grant a one-year exemption from
 7-62 the requirements of Subsections (q)-(q-4) [Subsection (q)] to a
 7-63 school district in which the group of students who have failed to
 7-64 perform satisfactorily in the preceding school year on an
 7-65 assessment instrument required under Section 39.023(a), (c), or (l)
 7-66 subsequently performs on those assessment instruments at a level
 7-67 that meets or exceeds a level prescribed by commissioner rule. Each
 7-68 year the commissioner, based on the most recent information
 7-69 available, shall determine if a school district is entitled to an

8-1 exemption for the following school year and notify the district of
8-2 that determination.

8-3 (u) Notwithstanding the allotments and reductions otherwise
8-4 required or permitted by this section or Section 39.051(a), the
8-5 legislature may in the General Appropriations Act reduce the total
8-6 amount of funding for the compensatory education allotment. After
8-7 deducting the amount of a reduction made as provided by this
8-8 subsection from the total amount computed for the allotment under
8-9 Subsection (a), the commissioner shall:

8-10 (1) reduce each district's tier one allotments in the
8-11 same manner described for a reduction in allotments under Section
8-12 42.253; and

8-13 (2) allocate funds to each district accordingly.

8-14 SECTION 20. Section 42.154(a), Education Code, is amended
8-15 to read as follows:

8-16 (a) For each full-time equivalent student in average daily
8-17 attendance in an approved career and technology education program
8-18 in grades nine through 12 or in career and technology education
8-19 programs for students with disabilities in grades seven through 12,
8-20 a district is entitled to an annual allotment equal to the adjusted
8-21 basic allotment multiplied by a weight of 1.35 [~~1.37~~].

8-22 SECTION 21. Section 42.253(b), Education Code, is amended
8-23 to read as follows:

8-24 (b) Except as provided by this subsection, the commissioner
8-25 shall base the determinations under Subsection (a) on the estimates
8-26 provided to the legislature under Section 42.254, or, if the
8-27 General Appropriations Act provides estimates for that purpose, on
8-28 the estimates provided under that Act, for each school district for
8-29 each school year. The commissioner shall reduce the entitlement of
8-30 each district that has a final taxable value of property for the
8-31 second year of a state fiscal biennium that is higher than the
8-32 estimate under Section 42.254 or the General Appropriations Act, as
8-33 applicable. A reduction under this subsection may not reduce the
8-34 district's entitlement below the amount to which it is entitled at
8-35 its actual taxable value of property. [~~The sum of the reductions~~
8-36 ~~under this subsection may not be greater than the amount necessary~~
8-37 ~~to fully fund the entitlement of each district.~~]

8-38 SECTION 22. Sections 42.259(c), (d), and (f), Education
8-39 Code, are amended to read as follows:

8-40 (c) Payments from the foundation school fund to each
8-41 category 2 school district shall be made as follows:

8-42 (1) 22 percent of the yearly entitlement of the
8-43 district shall be paid in an installment to be made on or before the
8-44 25th day of September of a fiscal year;

8-45 (2) 18 percent of the yearly entitlement of the
8-46 district shall be paid in an installment to be made on or before the
8-47 25th day of October;

8-48 (3) 9.5 percent of the yearly entitlement of the
8-49 district shall be paid in an installment to be made on or before the
8-50 25th day of November;

8-51 (4) 7.5 percent of the yearly entitlement of the
8-52 district shall be paid in an installment to be made on or before the
8-53 25th day of April;

8-54 (5) five percent of the yearly entitlement of the
8-55 district shall be paid in an installment to be made on or before the
8-56 25th day of May;

8-57 (6) 10 percent of the yearly entitlement of the
8-58 district shall be paid in an installment to be made on or before the
8-59 25th day of June;

8-60 (7) 13 percent of the yearly entitlement of the
8-61 district shall be paid in an installment to be made on or before the
8-62 25th day of July; and

8-63 (8) 15 percent of the yearly entitlement of the
8-64 district shall be paid in an installment to be made after the fifth
8-65 day of September and not later than the 10th day of September of the
8-66 calendar year following the calendar year of the payment made under
8-67 Subdivision (1) [on or before the 25th day of August].

8-68 (d) Payments from the foundation school fund to each
8-69 category 3 school district shall be made as follows:

9-1 (1) 45 percent of the yearly entitlement of the
9-2 district shall be paid in an installment to be made on or before the
9-3 25th day of September of a fiscal year;

9-4 (2) 35 percent of the yearly entitlement of the
9-5 district shall be paid in an installment to be made on or before the
9-6 25th day of October; and

9-7 (3) 20 percent of the yearly entitlement of the
9-8 district shall be paid in an installment to be made after the fifth
9-9 day of September and not later than the 10th day of September of the
9-10 calendar year following the calendar year of the payment made under
9-11 Subdivision (1) [on or before the 25th day of August].

9-12 (f) Except as provided by Subsection (c)(8) or (d)(3), any
9-13 [Any] previously unpaid additional funds from prior years owed to a
9-14 district shall be paid to the district together with the September
9-15 payment of the current year entitlement.

9-16 SECTION 23. Section 43.001(b), Education Code, is amended
9-17 to read as follows:

9-18 (b) The available school fund, which shall be apportioned
9-19 annually to each county according to its scholastic population,
9-20 consists of:

9-21 (1) the interest and dividends arising from any
9-22 securities or funds belonging to the permanent school fund, as
9-23 determined in accordance with the accrual basis of accounting;

9-24 (2) all interest derivable from the proceeds of the
9-25 sale of land set apart for the permanent school fund;

9-26 (3) all money derived from the lease of land belonging
9-27 to the permanent school fund;

9-28 (4) one-fourth of all revenue derived from all state
9-29 occupation taxes, exclusive of delinquencies and cost of
9-30 collection;

9-31 (5) one-fourth of revenue derived from state gasoline
9-32 and special fuels excise taxes as provided by law; and

9-33 (6) all other appropriations to the available school
9-34 fund made by the legislature for public school purposes.

9-35 SECTION 24. Sections 43.001(a) and (b), Education Code, are
9-36 amended to read as follows:

9-37 (a) Except as provided by Subsection (b), the [The]
9-38 permanent school fund, which is a perpetual endowment for the
9-39 public schools of this state, consists of:

9-40 (1) all land appropriated for the public schools by
9-41 the constitution and laws of this state;

9-42 (2) all of the unappropriated public domain remaining
9-43 in this state, including all land recovered by the state by suit or
9-44 otherwise except pine forest land as defined by Section 88.111;

9-45 (3) all proceeds from the authorized sale of permanent
9-46 school fund land;

9-47 (4) all proceeds from the lawful sale of any other
9-48 properties belonging to the permanent school fund;

9-49 (5) all investments authorized by Section 43.003 of
9-50 properties belonging to the permanent school fund; and

9-51 (6) all income from the mineral development of
9-52 permanent school fund land, including income from mineral
9-53 development of riverbeds and other submerged land.

9-54 (b) The available school fund, which shall be apportioned
9-55 annually to each county according to its scholastic population,
9-56 consists of:

9-57 (1) the distributions to the fund from the permanent
9-58 school fund as provided by Section 5(a), Article VII, Texas
9-59 Constitution [interest and dividends arising from any securities or
9-60 funds belonging to the permanent school fund];

9-61 (2) [all interest derivable from the proceeds of the
9-62 sale of land set apart for the permanent school fund;

9-63 [(3) all money derived from the lease of land
9-64 belonging to the permanent school fund;

9-65 [(4)] one-fourth of all revenue derived from all state
9-66 occupation taxes, exclusive of delinquencies and cost of
9-67 collection;

9-68 (3) [(5)] one-fourth of revenue derived from state
9-69 gasoline and special fuels excise taxes as provided by law; and

10-1 (4) [~~6~~] all other appropriations to the available
10-2 school fund made by the legislature for public school purposes.

10-3 SECTION 25. Section 43.002, Education Code, is amended to
10-4 read as follows:

10-5 Sec. 43.002. TRANSFERS FROM PERMANENT SCHOOL FUND AND
10-6 GENERAL REVENUE FUND TO AVAILABLE SCHOOL FUND. (a) On the first
10-7 working day of each month in a state fiscal year, the comptroller
10-8 shall transfer from the permanent school fund to the available
10-9 school fund an amount equal to one-twelfth of the annual
10-10 distribution from the permanent school fund to the available school
10-11 fund as provided by Section 5(a), Article VII, Texas Constitution,
10-12 for the fiscal year.

10-13 (a-1) Notwithstanding Subsection (a), for the fiscal year
10-14 beginning September 1, 2003, the comptroller shall transfer from
10-15 the permanent school fund to the available school fund:

10-16 (1) on January 2, 2004, an amount equal to
10-17 five-twelfths of the annual distribution from the permanent school
10-18 fund to the available school fund for that fiscal year as provided
10-19 by Section 5(g), Article VII, Texas Constitution; and

10-20 (2) on the first working day of each month after
10-21 January 2004, an amount equal to one-twelfth of the annual
10-22 distribution from the permanent school fund to the available school
10-23 fund for that fiscal year as provided by Section 5(g), Article VII,
10-24 Texas Constitution.

10-25 (a-2) Subsection (a-1) and this subsection expire September
10-26 1, 2004.

10-27 (b) Of the amounts available for transfer from the general
10-28 revenue fund to the available school fund for the months of January
10-29 and February of each fiscal year, no more than the amount necessary
10-30 to enable the comptroller to distribute from the available school
10-31 fund an amount equal to 9-1/2 percent of the estimated annual
10-32 available school fund apportionment to category 1 school districts,
10-33 as defined by Section 42.259, and 3-1/2 percent of the estimated
10-34 annual available school fund apportionment to category 2 school
10-35 districts, as defined by Section 42.259, may be transferred from
10-36 the general revenue fund to the available school fund. Any
10-37 remaining amount that would otherwise be available for transfer for
10-38 the months of January and February shall be transferred from the
10-39 general revenue fund to the available school fund in equal amounts
10-40 in June and in August of the same fiscal year.

10-41 SECTION 26. Chapter 43, Education Code, is amended by
10-42 adding Section 43.020 to read as follows:

10-43 Sec. 43.020. TREATMENT OF ACCRUED INCOME. All interest and
10-44 dividends accruing from the investments of the permanent school
10-45 fund shall be deposited to the credit of the available school fund
10-46 in accordance with the accrual basis of accounting. Funds
10-47 recognized under this section are considered part of the available
10-48 school fund and may be appropriated as provided by Section 5,
10-49 Article VII, Texas Constitution.

10-50 SECTION 27. Section 46.033, Education Code, is amended to
10-51 read as follows:

10-52 Sec. 46.033. ELIGIBLE BONDS. Bonds, including bonds issued
10-53 under Section 45.006, are eligible to be paid with state and local
10-54 funds under this subchapter if:

10-55 (1) the district made payments on the bonds during the
10-56 2002-2003 [~~2000-2001~~] school year or taxes levied to pay the
10-57 principal of and interest on the bonds were included in the
10-58 district's audited debt service collections for that school year;
10-59 and

10-60 (2) the district does not receive state assistance
10-61 under Subchapter A for payment of the principal and interest on the
10-62 bonds.

10-63 SECTION 28. Section 46.034, Education Code, is amended by
10-64 amending Subsection (c) and adding Subsections (d) and (e) to read
10-65 as follows:

10-66 (c) If the amount required to pay the principal of and
10-67 interest on eligible bonds in a school year is less than the amount
10-68 of payments made by the district on the bonds during the 2002-2003
10-69 [~~2000-2001~~] school year or the district's audited debt service

11-1 collections for that school year, the district may not receive aid
11-2 in excess of the amount that, when added to the district's local
11-3 revenue for the school year, equals the amount required to pay the
11-4 principal of and interest on the bonds.

11-5 (d) Notwithstanding any other provision of this chapter, if
11-6 the appropriation to support newly eligible bonds for the 2003-2004
11-7 school year and the 2004-2005 school year is not sufficient to
11-8 provide the state aid that school districts are entitled to under
11-9 Section 46.032, the commissioner is directed to reduce the \$35
11-10 guaranteed level of state and local support per student per cent of
11-11 tax effort for newly eligible debt only to the level necessary to
11-12 fund the sum of the allotments within the appropriated amount. The
11-13 guaranteed level for eligible debt through the 2000-2001 school
11-14 year is not affected by this adjustment. The commissioner shall
11-15 make this determination as soon as practicable, prior to the
11-16 beginning of the school year. The decision of the commissioner is
11-17 final and may not be appealed.

11-18 (e) Subsection (d) and this subsection expire September 1,
11-19 2005.

11-20 SECTION 29. Section 403.093, Government Code, is amended by
11-21 amending Subsection (c) and adding Subsections (c-1) and (c-2) to
11-22 read as follows:

11-23 (c) Each month other than June, July, and August, the
11-24 comptroller shall transfer from the general revenue fund to the
11-25 state contribution account of the teacher retirement system trust
11-26 fund the equal monthly payment provided by Section 825.404. If the
11-27 appropriation provided by the legislature is different from the
11-28 amount of state contributions required, the comptroller, after the
11-29 end of the fiscal year, shall make adjustments in the teacher
11-30 retirement fund and the general revenue fund so that the total
11-31 transfers during the year equal the total amount of the state
11-32 contribution required.

11-33 (c-1) The comptroller may not transfer an amount under
11-34 Section 825.404 to the state contribution account of the teacher
11-35 retirement system trust fund during the months of June, July, and
11-36 August. After September 1 and before September 6, the comptroller
11-37 shall transfer the amount certified by the Teacher Retirement
11-38 System of Texas under Subsection (c-2).

11-39 (c-2) Not later than September 1, the Teacher Retirement
11-40 System of Texas shall compute and certify to the comptroller an
11-41 amount that is the sum of the amount of the state's required
11-42 contribution for the previous fiscal year that is attributable to
11-43 the preceding three months, plus an amount determined by computing
11-44 the rate of yield the contribution would have earned if the
11-45 contribution had been transferred to the state contribution account
11-46 of the teacher retirement system trust fund in equal monthly
11-47 installments in each of the preceding three months.

11-48 SECTION 30. Section 815.403, Government Code, is amended by
11-49 amending Subsection (e) and adding Subsections (g) and (h) to read
11-50 as follows:

11-51 (e) All money allocated and appropriated by the state to the
11-52 retirement system for benefits provided by the retirement system,
11-53 except money for the payment of lump-sum death benefits and for the
11-54 payment of benefits from the law enforcement and custodial officer
11-55 supplemental retirement fund, shall be paid, based on the annual
11-56 estimate of the retirement system, in monthly installments to the
11-57 state accumulation fund except as provided by Subsection (g). The
11-58 money required for state contributions and membership fees shall be
11-59 from respective funds appropriated to pay the compensation of the
11-60 member for whose benefit the contribution or fee is paid. If the
11-61 total of the estimated required payments is not equal to the total
11-62 of the actual payments required for a fiscal year, the retirement
11-63 system shall certify to the state comptroller of public accounts at
11-64 the end of that year the amount required for necessary adjustments,
11-65 and the comptroller shall make the required adjustments.

11-66 (g) The comptroller may not transfer an amount under
11-67 Subsection (e) to the state accumulation fund during the months of
11-68 June, July, and August. After September 1 and before September 6,
11-69 the comptroller shall transfer the amount certified by the

12-1 retirement system under Subsection (h).

12-2 (h) Not later than September 1, the retirement system shall
 12-3 compute and certify to the comptroller an amount that is the sum of
 12-4 the amount of the state's required contribution for the previous
 12-5 fiscal year that is attributable to the preceding three months,
 12-6 plus an amount determined by computing the rate of yield the
 12-7 contribution would have earned if the contribution had been
 12-8 transferred to the state accumulation fund in equal monthly
 12-9 installments in each of the preceding three months.

12-10 SECTION 31. Section 825.404(e), Government Code, is amended
 12-11 to read as follows:

12-12 (e) All money appropriated by the state to the retirement
 12-13 system shall be paid to the state contribution account in equal
 12-14 monthly installments as provided by Section 403.093(c), Government
 12-15 Code, except:

12-16 (1) money appropriated under Subsection (d), which
 12-17 remains in the general revenue fund until expenses are approved
 12-18 under Chapter 2103; and

12-19 (2) money paid to the state contribution account as
 12-20 provided by Section 403.093.

12-21 SECTION 32. Section 1575.002, Insurance Code, as effective
 12-22 June 1, 2003, is amended to conform to Section 3.03, Chapter 1187,
 12-23 Acts of the 77th Legislature, Regular Session, 2001, and to conform
 12-24 more closely to the source law from which the section was derived,
 12-25 and further amended to read as follows:

12-26 Sec. 1575.002. GENERAL DEFINITIONS. In this chapter:

12-27 (1) "Active employee" means a contributing member of
 12-28 the Teacher Retirement System of Texas [~~an employee as defined by~~
 12-29 ~~Section 821.001, Government Code,~~] who:

12-30 (A) is employed by a public school [~~a member of~~
 12-31 ~~the system~~]; and

12-32 (B) is not entitled to coverage under a plan
 12-33 provided under Chapter 1551 or 1601.

12-34 (2) [~~"Board of trustees" means the board of trustees~~
 12-35 ~~of the Teacher Retirement System of Texas.~~

12-36 [~~(3)~~] "Carrier" means an insurance company or hospital
 12-37 service corporation authorized by the department under this code or
 12-38 another insurance law of this state to provide any of the insurance
 12-39 coverages, benefits, or services provided by this chapter.

12-40 (3) [~~(4)~~] "Fund" means the retired [~~Texas public~~]
 12-41 school employees group insurance fund.

12-42 (4) [~~(5)~~] "Group program" means the Texas Public
 12-43 School Employees Group Insurance Program authorized by this
 12-44 chapter.

12-45 (5) [~~(6)~~] "Health benefit plan" means a group
 12-46 insurance policy, contract, or certificate, medical or hospital
 12-47 service agreement, membership or subscription contract, salary
 12-48 continuation plan, or similar group arrangement to provide health
 12-49 care services or to pay or reimburse expenses of health care
 12-50 services.

12-51 (6) "Public school" means:

12-52 (A) a school district;

12-53 (B) another educational district whose employees
 12-54 are members of the Teacher Retirement System of Texas;

12-55 (C) a regional education service center
 12-56 established under Chapter 8, Education Code; or

12-57 (D) an open-enrollment charter school
 12-58 established under Subchapter D, Chapter 12, Education Code.

12-59 (7) "Trustee" [~~"System"~~] means the Teacher Retirement
 12-60 System of Texas.

12-61 SECTION 33. Section 1575.004, Insurance Code, as effective
 12-62 June 1, 2003, is amended to read as follows:

12-63 Sec. 1575.004. DEFINITION OF RETIREE. In this chapter,
 12-64 "retiree" means:

12-65 (1) an individual not eligible for coverage under a
 12-66 plan provided under Chapter 1551 or 1601 who:

12-67 (A) is at least 65 years of age and has taken a
 12-68 service retirement under the Teacher Retirement System of Texas
 12-69 [~~system~~] with at least 10 years of service credit in the system for

13-1 actual service in public schools in this state; or
 13-2 (B) has taken a service retirement under the
 13-3 Teacher Retirement System of Texas and who has at least 10 years of
 13-4 service credit for actual public service in the public schools in
 13-5 this state, and the sum of the individual's age and amount of
 13-6 service credit earned for service in the public schools of this
 13-7 state equals or exceeds the number 80 ~~and~~
 13-8 ~~[(B) is not eligible for coverage under a plan~~
 13-9 ~~provided under Chapter 1551 or 1601]; or~~

13-10 (2) an individual who:

13-11 (A) has taken a disability retirement under the
 13-12 Teacher Retirement System of Texas ~~[system]~~; and

13-13 (B) is entitled to receive monthly benefits from
 13-14 the Teacher Retirement System of Texas ~~[system]~~.

13-15 SECTION 34. (a) Section 1575.153, Insurance Code, as
 13-16 effective June 1, 2003, is amended to conform to Section 3.10,
 13-17 Chapter 1187, Acts of the 77th Legislature, Regular Session, 2001,
 13-18 and further amended to read as follows:

13-19 Sec. 1575.153. ~~[AUTOMATIC] BASIC COVERAGE.~~ A retiree ~~[or~~
 13-20 ~~active employee of a participating school district]~~ who applies for
 13-21 coverage during an enrollment period may not be denied coverage in a
 13-22 basic plan provided under this chapter unless the trustee ~~[board of~~
 13-23 ~~trustees]~~ finds under Subchapter K that the retiree ~~[individual]~~
 13-24 defrauded or attempted to defraud the group program.

13-25 (b) Section 3.10, Chapter 1187, Acts of the 77th
 13-26 Legislature, Regular Session, 2001, is repealed.

13-27 SECTION 35. Subchapter D, Chapter 1575, Insurance Code, as
 13-28 effective June 1, 2003, is amended by adding Sections
 13-29 1575.161-1575.163 to read as follows:

13-30 Sec. 1575.161. OPEN ENROLLMENT; ADDITIONAL ENROLLMENT
 13-31 PERIODS. (a) A retiree eligible for coverage under the group
 13-32 program may select any coverage provided under this chapter for
 13-33 which the person is otherwise eligible:

13-34 (1) on the date that the person retires; and

13-35 (2) during any open enrollment periods for retirees
 13-36 set by the trustee by rule.

13-37 (b) In addition to the enrollment periods authorized under
 13-38 Subsection (a), a retiree who:

13-39 (1) is enrolled in the group program as of August 31,
 13-40 2004, and who is 65 years of age or older on that date may select
 13-41 coverage as described by Subsections (c) and (d) on September 1,
 13-42 2004; or

13-43 (2) enrolls in the group program on or after
 13-44 September 1, 2004, and who is 65 years of age or older on or after
 13-45 that date may select coverage as described in Subsections (c) and
 13-46 (d) on the date that the retiree is 65 years of age.

13-47 (c) If a retiree described by Subsection (b) is not covered
 13-48 by the Medicare program, the retiree may enroll in the next-higher
 13-49 coverage tier under the group program and may add dependent
 13-50 coverage in that same coverage tier.

13-51 (d) If a retiree described by Subsection (b) is covered by
 13-52 the Medicare program, the retiree may enroll in any coverage tier
 13-53 under the group program and may add dependent coverage in that same
 13-54 coverage tier.

13-55 (e) This section does not affect the right of a retiree
 13-56 enrolled in a coverage tier under the group program to select a
 13-57 lower level of coverage at any time.

13-58 Sec. 1575.162. SPECIAL ENROLLMENTS. This chapter does not
 13-59 limit the ability of an individual to enroll in the group program if
 13-60 the individual:

13-61 (1) experiences a special enrollment event as provided
 13-62 by the Health Insurance Portability and Accountability Act of 1996
 13-63 (Pub. L. No. 104-191, 110 Stat. 1936 (1996)), as amended; and

13-64 (2) is otherwise eligible to enroll in the group
 13-65 program.

13-66 Sec. 1575.163. LIMITATIONS. The Teacher Retirement System
 13-67 of Texas, as trustee, may not contract for or provide a health
 13-68 benefit plan that excludes from participation in the network a
 13-69 general hospital that:

14-1 (1) is located in a county, all or part of which is
 14-2 located within the geographical service area of the health coverage
 14-3 plan, in which at least two, but not more than four, general
 14-4 hospitals are located; and

14-5 (2) agrees to provide medical and health care services
 14-6 under the plan subject to the same terms and conditions as other
 14-7 hospital providers under the plan.

14-8 SECTION 36. Section 1575.201, Insurance Code, as effective
 14-9 June 1, 2003, is amended to read as follows:

14-10 Sec. 1575.201. ADDITIONAL STATE CONTRIBUTIONS; CERTAIN
 14-11 CONTRIBUTIONS. (a) The state through the trustee [~~system~~] shall
 14-12 contribute from money in the fund:

14-13 (1) the total cost of the basic plan covering each
 14-14 participating retiree; and

14-15 (2) for each participating dependent, surviving
 14-16 spouse, and surviving dependent child, the amount prescribed by the
 14-17 General Appropriations Act to cover part of the cost of the basic
 14-18 plan covering the dependent, surviving spouse, and surviving
 14-19 dependent child.

14-20 (b) The trustee shall collect the amount of premium required
 14-21 for basic coverage under the group program that exceeds the amount
 14-22 contributed by the state for those individuals described by
 14-23 Subsection (a)(2).

14-24 SECTION 37. Section 1575.203(a), Insurance Code, as
 14-25 effective June 1, 2003, is amended to read as follows:

14-26 (a) Each state fiscal year, each active employee shall, as a
 14-27 condition of employment, contribute to the fund an amount equal to
 14-28 0.5 [0.25] percent of the employee's salary.

14-29 SECTION 38. Section 1575.204, Insurance Code, as effective
 14-30 June 1, 2003, is amended to read as follows:

14-31 Sec. 1575.204. PUBLIC SCHOOL CONTRIBUTION [~~RATIO OF STATE~~
 14-32 ~~AND ACTIVE EMPLOYEE CONTRIBUTIONS~~]. Each state fiscal year, each
 14-33 public school shall contribute to the fund the amount prescribed by
 14-34 the General Appropriations Act, which may not be less than 0.25
 14-35 percent or greater than 0.75 percent of the salary of each active
 14-36 employee of the public school. The public school shall make the
 14-37 contributions on a monthly basis and as otherwise prescribed by the
 14-38 trustee [If the amount of state and active employee contributions
 14-39 to the fund is raised by the legislature above the percentages
 14-40 provided by Sections 1575.202 and 1575.203 to provide adequate
 14-41 funding for the group program, the ratio between the state's
 14-42 contribution and the active employees' contributions must be
 14-43 maintained at two to one].

14-44 SECTION 39. Subchapter E, Chapter 1575, Insurance Code, as
 14-45 effective June 1, 2003, is amended by adding Sections 1575.211 and
 14-46 1575.212 to read as follows:

14-47 Sec. 1575.211. COST SHARING. (a) The total costs for the
 14-48 operation of the group program shall be shared among the state, the
 14-49 public schools, the active employees, and the retirees in the
 14-50 manner prescribed by the General Appropriations Act.

14-51 (b) In determining the allocation of total costs under this
 14-52 section, the state shall pay not more than 55 percent of the total
 14-53 costs, retirees shall pay at least 30 percent of the total costs,
 14-54 and the balance shall be paid by active employees and public
 14-55 schools.

14-56 Sec. 1575.212. PAYMENT BY RETIREES; RANGES. (a) The
 14-57 trustee by rule shall establish ranges for payment of the share of
 14-58 total costs allocated under Section 1575.211 to retirees, with
 14-59 different levels for:

14-60 (1) retirees who are not eligible to participate in
 14-61 Part A of the Medicare program;

14-62 (2) retirees who are eligible for participation but
 14-63 are not participating in Part A of the Medicare program; and

14-64 (3) retirees who are eligible for participation in the
 14-65 Medicare program and are participating in Part A of the Medicare
 14-66 program.

14-67 (b) In establishing ranges for payment of the share of total
 14-68 costs allocated under Section 1575.211 to retirees, the trustee may
 14-69 consider the years of service credit accrued by a retiree and may

15-1 reward those retirees with more years of service credit.

15-2 SECTION 40. Subchapter E, Chapter 3, Insurance Code, is
15-3 amended by adding Article 3.50-7A to read as follows:

15-4 Art. 3.50-7A. LIMITATIONS APPLICABLE TO TEXAS SCHOOL
15-5 EMPLOYEES UNIFORM GROUP COVERAGE PROGRAM. (a) This article
15-6 applies only to the uniform group coverage program established
15-7 under Article 3.50-7 of this code. A term used in this article has
15-8 the meaning assigned by Section 2, Article 3.50-7, of this code.

15-9 (b) The Teacher Retirement System of Texas, as trustee, may
15-10 not contract for or provide a health coverage plan that excludes
15-11 from participation in the network a general hospital that:

15-12 (1) is located in a county, all or part of which is
15-13 located within the geographical service area of the health coverage
15-14 plan, in which at least two, but not more than four, general
15-15 hospitals are located; and

15-16 (2) agrees to provide medical and health care services
15-17 under the plan subject to the same terms and conditions as other
15-18 hospital providers under the plan.

15-19 SECTION 41. Section 2, Article 3.50-8, Insurance Code, is
15-20 amended by amending Subsection (a) and adding Subsections (e), (f),
15-21 and (g) to read as follows:

15-22 (a) Each year, the trustee shall deliver to each school
15-23 district, including a school district that is ineligible for state
15-24 aid under Chapter 42, Education Code, each other educational
15-25 district that is a member of the Teacher Retirement System of Texas,
15-26 each participating charter school, and each regional education
15-27 service center state funds in an amount, as determined by the
15-28 trustee, equal to:

15-29 (1) the product of the number of full-time active
15-30 employees employed by the district, school, or service center,
15-31 other than in the capacity of professional staff, multiplied by
15-32 \$500 [~~\$1,000~~] or a greater amount as provided by the General
15-33 Appropriations Act for purposes of this article; and

15-34 (2) the product of the number of part-time active
15-35 employees employed by the district, school, or service center,
15-36 other than in the capacity of professional staff, multiplied by
15-37 \$250 or a greater amount as provided by the General Appropriations
15-38 Act for purposes of this article.

15-39 (e) A member of the professional staff of a district,
15-40 charter school, or service center described by Subsection (a) of
15-41 this section is not eligible to receive state funds under
15-42 Subsection (a) of this section.

15-43 (f) For purposes of this section, a member of the
15-44 professional staff of a district, charter school, or service center
15-45 described by Subsection (a) of this section has the meaning defined
15-46 by rule by the trustee.

15-47 (g) An employee is not eligible to receive a state
15-48 contribution under this article until the 90th day after the date
15-49 the employee is employed by an entity described by Section 1(2)(A)
15-50 of this article.

15-51 SECTION 42. Section 31.301(e), Natural Resources Code, is
15-52 amended to read as follows:

15-53 (e) Before approving the trade, the appropriate board shall
15-54 make a finding that no loss to the permanent [~~available~~] school fund
15-55 or the available university fund will occur as a result of the
15-56 trade.

15-57 SECTION 43. Sections 33.016, 51.069, and 51.300, Natural
15-58 Resources Code, are amended to read as follows:

15-59 Sec. 33.016. DISPOSITION OF OTHER FUNDS. Money received by
15-60 the board for the grant of any interest not under Section [~~33.014~~
15-61 ~~or~~] 33.015 of this code shall be deposited in the State Treasury to
15-62 the credit of the permanent [~~available~~] school fund.

15-63 Sec. 51.069. DISPOSITION OF PAYMENTS ON PUBLIC SCHOOL LAND.
15-64 [~~(a)~~] Payments on public school land received by the commissioner,
15-65 including payments received as interest on the purchase of public
15-66 school land, shall be transmitted to the comptroller to be credited
15-67 to the [~~proper fund~~.

15-68 [~~(b) The comptroller shall credit payments received on the~~
15-69 ~~purchase price of public school land to the] permanent school fund~~

16-1 [~~and payments received as interest on the purchase of public school~~
16-2 ~~land to the available school fund~~].

16-3 Sec. 51.300. DISPOSITION OF INCOME. Income received by the
16-4 commissioner under this subchapter from public school land shall be
16-5 credited to the permanent [~~available~~] school fund, and income
16-6 received from university land shall be credited to the available
16-7 university fund. Other income received by the commissioner on
16-8 other land under this subchapter shall be credited to the General
16-9 Revenue Fund.

16-10 SECTION 44. Section 51.401(b), Natural Resources Code, is
16-11 amended to read as follows:

16-12 (b) The special fund account must be an interest-bearing
16-13 account, and the interest received on the account shall be
16-14 deposited in the State Treasury to the credit of the permanent
16-15 [~~available~~] school fund.

16-16 SECTION 45. Section 52.137(b), Natural Resources Code, is
16-17 amended to read as follows:

16-18 (b) The commissioner, upon receipt of such payment made
16-19 under protest as authorized by this section, shall send to the
16-20 comptroller the payment and a written statement that the payment
16-21 was made under protest. Immediately upon receipt, the comptroller
16-22 shall:

16-23 (1) place the payment in state depositories bearing
16-24 interest in the same manner that other funds are required to be
16-25 placed in state depositories at interest;

16-26 (2) allocate the interest earned on these funds;

16-27 (3) credit the amount allocated to an account
16-28 established for this purpose until the status of the protest is
16-29 finally determined; and

16-30 (4) upon final determination that some or all of the
16-31 protested funds belong to the state, deposit the principal and the
16-32 allocated interest to the [~~proper funds as provided by law. All~~
16-33 ~~protest payments finally determined to belong to the~~] permanent
16-34 school fund [~~shall be deposited to that fund upon such~~
16-35 ~~determination, and interest earned and allocated on those funds~~
16-36 ~~shall be deposited to the available school fund~~].

16-37 SECTION 46. Section 52.297(d), Natural Resources Code, is
16-38 amended to read as follows:

16-39 (d) The special fund account must be an interest-bearing
16-40 account, and the interest received on the account shall be
16-41 deposited in the State Treasury to the credit of the permanent
16-42 [~~available~~] school fund.

16-43 SECTION 47. Section 53.155(d), Natural Resources Code, is
16-44 amended to read as follows:

16-45 (d) The special fund account must be an interest-bearing
16-46 account, and the interest received on the account shall be
16-47 deposited in the State Treasury to the credit of the permanent
16-48 [~~available~~] school fund.

16-49 SECTION 48. Section 57.046, Utilities Code, is amended by
16-50 amending Subsection (a) and adding Subsection (c) to read as
16-51 follows:

16-52 (a) The board shall use money in the public schools account
16-53 to:

16-54 (1) to the extent directed in the General
16-55 Appropriations Act, fund the technology allotment under Section
16-56 32.005, Education Code; and

16-57 (2) award grants and loans in accordance with this
16-58 subchapter to fund:

16-59 (A) [~~(1)~~] equipment for public schools,
16-60 including computers, printers, computer labs, and video equipment;
16-61 and

16-62 (B) [~~(2)~~] intracampus and intercampus wiring to
16-63 enable those public schools to use the equipment.

16-64 (c) Section 57.047(d) does not apply to the use of money in
16-65 the public schools account for the purpose specified by Subsection
16-66 (a)(1).

16-67 SECTION 49. Sections 57.048(c) and (d), Utilities Code, are
16-68 amended to read as follows:

16-69 (c) The total amount deposited to the credit of the fund,

17-1 excluding interest and loan repayments, may not exceed \$1.75 [~~\$1.5~~]
 17-2 billion. Not later than August 31 of each year, the comptroller
 17-3 shall determine the total amount, excluding interest and loan
 17-4 repayments, that has been deposited to the credit of the fund during
 17-5 that fiscal year and the preceding fiscal years. If the comptroller
 17-6 determines that a total of \$1.5 [~~\$1.2~~] billion or more, excluding
 17-7 interest and loan repayments, has been deposited to the credit of
 17-8 the fund, the comptroller shall impose the assessment during the
 17-9 next fiscal year at a rate that the comptroller estimates is
 17-10 sufficient to produce the amount necessary to result in the deposit
 17-11 in the fund of a total of not more than \$1.75 [~~\$1.5~~] billion,
 17-12 excluding interest and loan repayments.

17-13 (d) The comptroller may not collect the assessment during a
 17-14 fiscal year if the comptroller determines after the yearly review
 17-15 that the total amount deposited to the credit of the fund during
 17-16 that fiscal year and the preceding fiscal years is \$1.74 [~~\$1.49~~]
 17-17 billion or more, excluding interest and loan repayments, and it is
 17-18 not possible to impose the assessment during the next fiscal year at
 17-19 a practical rate without collecting more than a total of \$1.75
 17-20 [~~\$1.5~~] billion, excluding interest and loan repayments.

17-21 SECTION 50. Section 5, Chapter 314, Acts of the 56th
 17-22 Legislature, Regular Session, 1959 (Article 5337-2, Vernon's Texas
 17-23 Civil Statutes), is amended to read as follows:

17-24 Sec. 5. All income received by the Land Commissioner under
 17-25 this Act from Public School Lands shall be credited to the Permanent
 17-26 [~~Available~~] School Fund.

17-27 SECTION 51. (a) The following laws are repealed:

17-28 (1) Sections 39.055(b), (c), and (d) and 53.47(k),
 17-29 Education Code;

17-30 (2) Section 823.401(h), Government Code; and

17-31 (3) Section 1575.154, Insurance Code, as effective
 17-32 June 1, 2003.

17-33 (b) Section 43.008, Education Code, is repealed.

17-34 SECTION 52. Effective September 1, 2003, the comptroller of
 17-35 public accounts shall transfer \$42 million from the Texas school
 17-36 employees uniform group coverage trust fund established under
 17-37 Section 8, Article 3.50-7, Insurance Code, to the retired school
 17-38 employees group insurance fund described by Subchapter G, Chapter
 17-39 1575, Insurance Code, as effective June 1, 2003, to compensate the
 17-40 retired school employees group insurance fund for money transferred
 17-41 from that fund under Section 4.01, Chapter 1187, Acts of the 77th
 17-42 Legislature, Regular Session, 2001.

17-43 SECTION 53. Subchapter F, Chapter 21, Education Code, as
 17-44 amended by this Act, applies only to a hearing before a hearing
 17-45 examiner under that subchapter for which a teacher makes a written
 17-46 request on or after September 1, 2003. A hearing under Subchapter
 17-47 F, Chapter 21, Education Code, for which a teacher made a written
 17-48 request before September 1, 2003, is governed by the law in effect
 17-49 on the date the teacher requests the hearing, and the former law is
 17-50 continued in effect for that purpose.

17-51 SECTION 54. (a) The repeal by Section 1 of this Act of
 17-52 Section 45.002, Education Code, does not impair any obligation
 17-53 created by the issuance or execution of any lawful agreement or
 17-54 evidence of indebtedness before September 1, 2004, that matures
 17-55 after that date and that is payable from the levy and collection of
 17-56 a maintenance tax under that section or another law, and an
 17-57 independent school district may, on and after September 1, 2004,
 17-58 levy, assess, and collect a maintenance tax, at a rate not greater
 17-59 than the rate required to pay such obligations but only for so long
 17-60 as those obligations remain outstanding and unpaid.

17-61 (b) Notwithstanding the repeal by Section 1 of this Act of
 17-62 Chapters 41, 42, and 46, Education Code, and Section 45.002,
 17-63 Education Code, a school district that, before September 1, 2004,
 17-64 issues bonds, notes, or other evidences of indebtedness under
 17-65 Chapter 45, Education Code, or other applicable law or enters into a
 17-66 lease-purchase agreement under Subchapter A, Chapter 271, Local
 17-67 Government Code, may continue, before, on, and after September 1,
 17-68 2004, to receive state assistance with respect to such payments to
 17-69 the same extent the district would have been entitled to receive the

18-1 assistance under Chapter 42 or 46, Education Code, as those
18-2 chapters existed before repeal by this Act, and the former law is
18-3 continued in effect for that purpose. The commissioner of
18-4 education may adopt rules to implement this subsection.

18-5 (c) The repeal by Section 1 of this Act of Chapters 41, 42,
18-6 and 46, Education Code, and Section 45.002, Education Code, does
18-7 not limit, modify, or eliminate the authority of a school district
18-8 to:

18-9 (1) issue or execute bonds, public securities, or
18-10 other obligations under Chapter 45, Education Code, or other law,
18-11 either before, on, or after September 1, 2004; or

18-12 (2) levy, assess, and collect, before, on, or after
18-13 September 1, 2004, ad valorem taxes at the full rate and in the full
18-14 amount authorized by Section 45.002, Education Code, and necessary
18-15 to pay the bonds, public securities, or other obligations when due
18-16 and payable.

18-17 (d) Before September 1, 2004, the commissioner of education
18-18 may not refuse to grant assistance to a school district under
18-19 Chapter 42 or 46, Education Code, in connection with public
18-20 securities, lease-purchase agreements, credit agreements, or other
18-21 obligations, including those described by Subchapter A, Chapter
18-22 271, Local Government Code, on the basis that the district's
18-23 authority to levy a maintenance tax is repealed effective September
18-24 1, 2004.

18-25 SECTION 55. The commissioner of education shall adopt rules
18-26 and establish the classroom supply reimbursement program as
18-27 required by Section 21.413, Education Code, as added by this Act,
18-28 not later than August 1, 2005.

18-29 SECTION 56. Notwithstanding Section 39.182, Education
18-30 Code:

18-31 (1) the Texas Education Agency is not required to
18-32 prepare and deliver a report under that section before December 1,
18-33 2003, that covers the 2002-2003 school year; and

18-34 (2) as determined by the commissioner of education,
18-35 the report required to be delivered not later than December 1, 2004,
18-36 by the Texas Education Agency under that section may include
18-37 information from the 2002-2003 school year.

18-38 SECTION 57. Section 42.152(c), Education Code, as amended
18-39 by this Act, applies to the use of compensatory education funds
18-40 allotted under Chapter 42, Education Code, for any school year,
18-41 including a school year before September 1, 2003.

18-42 SECTION 58. The change in law made by this Act to Section 2,
18-43 Article 3.50-8, Insurance Code, applies to a monthly installment to
18-44 be paid on or after September 1, 2003.

18-45 SECTION 59. Notwithstanding Article 3.50-8, Insurance
18-46 Code, the state shall pay the state contribution for active
18-47 employee health coverage or supplemental compensation authorized
18-48 under Section 2, Article 3.50-8, Insurance Code, for the last month
18-49 of state fiscal year 2005 not earlier than the first day of the
18-50 first month of state fiscal year 2006.

18-51 SECTION 60. (a) Except as otherwise provided by this Act,
18-52 this Act takes effect September 1, 2003.

18-53 (b) Sections 12, 14, 23, 26, 48, and 49 of this Act take
18-54 effect immediately if this Act receives a vote of two-thirds of all
18-55 the members elected to each house, as provided by Section 39,
18-56 Article III, Texas Constitution. If this Act does not receive the
18-57 vote necessary for immediate effect, Sections 12, 14, 23, 26, 48,
18-58 and 49 of this Act take effect September 1, 2003.

18-59 (c) Sections 24, 25, 42, 43, 44, 45, 46, 47, 50, and 51(b) of
18-60 this Act take effect January 1, 2004, but only if the constitutional
18-61 amendment proposed by S.J.R. No. 13, 78th Legislature, Regular
18-62 Session, 2003, is approved by the voters. If the proposed
18-63 constitutional amendment is not approved by the voters, Sections
18-64 24, 25, 42, 43, 44, 45, 46, 47, 50, and 51(b) of this Act have no
18-65 effect.

18-66 * * * * *