

1-1 By: Shapiro, et al. S.B. No. 2
1-2 (In the Senate - Filed April 30, 2003; May 1, 2003, read
1-3 first time and referred to Committee of the Whole; May 2, 2003,
1-4 reported adversely, with favorable Committee Substitute by the
1-5 following vote: Yeas 30, Nays 0; May 2, 2003, sent to printer.)

1-6 COMMITTEE SUBSTITUTE FOR S.B. No. 2 By: Shapiro

1-7 A BILL TO BE ENTITLED
1-8 AN ACT

1-9 relating to public school finance, a state ad valorem tax, state
1-10 general sales and use taxes, state taxes on the sale or use of a
1-11 motor vehicle, and property tax relief for residential tenants.

1-12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

1-13 ARTICLE 1. PUBLIC SCHOOL FINANCE

1-14 SECTION 1.01. Chapter 4, Education Code, is amended by
1-15 adding Section 4.003 to read as follows:

1-16 Sec. 4.003. PRESERVATION OF LOCAL CONTROL OF PUBLIC
1-17 EDUCATION. (a) It is the policy of the state to encourage and
1-18 support the control and governance of school districts by the
1-19 citizens of this state through the boards of trustees in each school
1-20 district. The board of trustees as a body corporate has the
1-21 exclusive power and duty to govern and oversee the management of the
1-22 public schools of the district. All powers and duties not
1-23 specifically delegated by general law to another governmental
1-24 entity are reserved to the trustees, and no other governmental
1-25 entity may substitute its judgment for the lawful exercise of those
1-26 powers and duties by the trustees.

1-27 (b) After September 1, 2004, a state law, rule, or other
1-28 requirement may not be imposed on the school districts of this state
1-29 unless the commissioner of education certifies that sufficient
1-30 funds will be distributed to districts to pay the full cost of
1-31 complying with the proposed law, rule, or other requirement.

1-32 SECTION 1.02. Subtitle I, Title 2, Education Code, is
1-33 amended by adding Chapters 41 and 42 to read as follows:

1-34 CHAPTER 41. TEXAS EDUCATION EXCELLENCE PROGRAM

1-35 SUBCHAPTER A. GENERAL PROVISIONS

1-36 Sec. 41.001. STATE POLICY. (a) It is the policy of this
1-37 state that the provision of public education is a state
1-38 responsibility and that a thorough and efficient system must be
1-39 provided and substantially financed through state revenue sources
1-40 so that each student enrolled in the public school system has access
1-41 to programs and services that are appropriate to the student's
1-42 educational needs and are substantially equal to those available to
1-43 any similar student, notwithstanding varying local economic
1-44 factors.

1-45 (b) The public school finance system of this state must
1-46 adhere to a standard of neutrality that provides for substantially
1-47 equal access to similar revenue per student after acknowledging all
1-48 legitimate student and district cost differences.

1-49 Sec. 41.002. PURPOSE OF TEXAS EDUCATION EXCELLENCE PROGRAM.

1-50 (a) The purpose of the Texas Education Excellence Program set
1-51 forth in this chapter is to guarantee that each school district in
1-52 the state has:

1-53 (1) adequate resources to provide each eligible
1-54 student an instructional program and facilities suitable to the
1-55 student's educational needs; and

1-56 (2) access to a substantially equalized program of
1-57 financing an enriched program.

1-58 (b) The Texas Education Excellence Program consists of:

1-59 (1) a basic program, as provided by this chapter, that
1-60 provides for sufficient financing for all school districts to
1-61 provide a basic program of education that is rated recognized or
1-62 higher under Subchapter D, Chapter 39, and meets other applicable
1-63 legal standards; and

2-1 (2) an enrichment program, as provided by Chapter 42,
 2-2 to guarantee substantially equal access to funds to provide an
 2-3 enriched program.

2-4 Sec. 41.003. STUDENT ELIGIBILITY. (a) A student is
 2-5 entitled to the benefits of the Texas Education Excellence Program
 2-6 if the student is five years of age or older and under 21 years of
 2-7 age on September 1 of the school year and has not graduated from
 2-8 high school.

2-9 (b) A student to whom Subsection (a) does not apply is
 2-10 entitled to the benefits of the Texas Education Excellence Program
 2-11 if the student is enrolled in a prekindergarten class under Section
 2-12 29.153.

2-13 (c) A child may be enrolled in the first grade if the child
 2-14 is at least six years of age at the beginning of the district's
 2-15 school year or has been enrolled in the first grade or has completed
 2-16 kindergarten in the public schools in another state before
 2-17 transferring to a public school in this state.

2-18 (d) Notwithstanding Subsection (a), a student younger than
 2-19 five years of age is entitled to the benefits of the Texas Education
 2-20 Excellence Program if:

2-21 (1) the student performs satisfactorily on the
 2-22 assessment instrument administered under Section 39.023(a) to
 2-23 students in the third grade; and

2-24 (2) the district has adopted a policy for admitting
 2-25 students younger than five years of age.

2-26 Sec. 41.004. ADMINISTRATION OF PROGRAM. The commissioner,
 2-27 in accordance with rules adopted by the State Board of Education,
 2-28 shall administer the Texas Education Excellence Program.

2-29 Sec. 41.005. AVERAGE DAILY ATTENDANCE. (a) In this
 2-30 chapter, average daily attendance is the quotient of the sum of
 2-31 attendance for each day of the minimum number of days of instruction
 2-32 as described under Section 25.081(a) divided by the minimum number
 2-33 of days of instruction.

2-34 (b) A school district that experiences a decline of two
 2-35 percent or more in average daily attendance shall be funded on the
 2-36 basis of:

2-37 (1) the actual average daily attendance of the
 2-38 preceding school year, if the decline is the result of the closing
 2-39 or reduction in personnel of a military base; or

2-40 (2) subject to Subsection (e), an average daily
 2-41 attendance not to exceed 98 percent of the actual average daily
 2-42 attendance of the preceding school year, if the decline is not the
 2-43 result of the closing or reduction in personnel of a military base.

2-44 (c) The commissioner shall adjust the average daily
 2-45 attendance of a school district that has a significant percentage
 2-46 of students who are migratory children as defined by 20 U.S.C.
 2-47 Section 6399 and its subsequent amendments.

2-48 (d) The commissioner may adjust the average daily
 2-49 attendance of a school district in which a disaster, flood, extreme
 2-50 weather condition, fuel curtailment, or other calamity has a
 2-51 significant effect on the district's attendance.

2-52 (e) For each school year, the commissioner shall adjust the
 2-53 average daily attendance of school districts that are entitled to
 2-54 funding on the basis of an adjusted average daily attendance under
 2-55 Subsection (b)(2) so that:

2-56 (1) all districts are funded on the basis of the same
 2-57 percentage of the preceding year's actual average daily attendance;
 2-58 and

2-59 (2) the total cost to the state does not exceed the
 2-60 amount specifically appropriated for that year for purposes of
 2-61 Subsection (b)(2).

2-62 (f) An open-enrollment charter school is not entitled to
 2-63 funding based on an adjustment under Subsection (b)(2).

2-64 Sec. 41.006. STUDENT COUNT. For purposes of this chapter,
 2-65 the student count is the number of students in average daily
 2-66 attendance, the number of full-time equivalent students, or the
 2-67 number of students enrolled, as appropriate, in a regular education
 2-68 program or an educational program described by Chapter 29.

2-69 Sec. 41.007. PUBLIC EDUCATION INFORMATION MANAGEMENT

3-1 SYSTEM (PEIMS). (a) Each school district shall participate in the
 3-2 Public Education Information Management System (PEIMS) and shall
 3-3 provide through that system information required for the
 3-4 administration of this chapter and of other appropriate provisions
 3-5 of this code.

3-6 (b) Each school district shall use a uniform accounting
 3-7 system adopted by the commissioner for the data required to be
 3-8 reported for the Public Education Information Management System
 3-9 (PEIMS).

3-10 (c) Annually, the commissioner shall review the Public
 3-11 Education Information Management System (PEIMS) and shall repeal or
 3-12 amend rules that require school districts to provide information
 3-13 through the system that is not necessary. In reviewing and revising
 3-14 the Public Education Information Management System (PEIMS), the
 3-15 commissioner shall develop rules to ensure that the system:

3-16 (1) provides useful, accurate, and timely information
 3-17 on student demographics and academic performance, personnel, and
 3-18 school district finances;

3-19 (2) contains only the data necessary for the
 3-20 legislature and the agency to perform their legally authorized
 3-21 functions in overseeing the public education system; and

3-22 (3) does not contain any information related to
 3-23 instructional methods, except as required by federal law.

3-24 Sec. 41.008. FUNDING ELEMENTS. (a) The Legislative Budget
 3-25 Board shall adopt rules, subject to appropriate notice and
 3-26 opportunity for public comment, for the computation for each year
 3-27 of a biennium of the funding elements, in accordance with
 3-28 Subsection (c), necessary to achieve the state policy under Section
 3-29 41.001.

3-30 (b) Before each regular session of the legislature, the
 3-31 board shall report the funding elements to the commissioner and the
 3-32 legislature.

3-33 (c) The funding elements must include:

3-34 (1) an amount for the purposes of Section 41.051 that
 3-35 represents the cost per weighted student of an education program
 3-36 that is rated recognized or higher under Section 39.072 and meets
 3-37 all other mandates of law and regulation;

3-38 (2) adjustments designed to reflect the variation in
 3-39 known resource costs and costs of education beyond the control of
 3-40 school districts;

3-41 (3) appropriate program cost differentials and other
 3-42 funding elements for programs authorized under Chapter 29, with the
 3-43 program funding level expressed as weights applied to the student
 3-44 count for the appropriate year;

3-45 (4) the maximum guaranteed level of qualified state
 3-46 and local funds per student for the purposes of the enrichment
 3-47 program under Chapter 42; and

3-48 (5) the amount to be appropriated for the school
 3-49 facilities assistance programs under Chapter 46.

3-50 (d) The board shall conduct a study on the funding elements
 3-51 each biennium. The study must include a determination of the
 3-52 projected cost to the state in the next state fiscal biennium of
 3-53 ensuring the ability of each school district to maintain existing
 3-54 programs without increasing enrichment tax rates.

3-55 [Sections 41.009-41.050 reserved for expansion]

3-56 SUBCHAPTER B. BASIC PROGRAM

3-57 Sec. 41.051. GUARANTEED AMOUNT. Each school district is
 3-58 guaranteed a specified amount per weighted student in state funds.
 3-59 The amount of state support is determined by the formula:

$$3-60 \quad GA = SA \times WADA$$

3-61 where:

3-62 "GA" is the guaranteed amount of state funds to be allocated
 3-63 to the district;

3-64 "SA" is the student allotment, which is \$4,300 or a greater
 3-65 amount for any year provided by appropriation; and

3-66 "WADA" is the number of students in weighted average daily
 3-67 attendance, which is the sum of the school district's student count
 3-68 for each educational program for which a program weight is provided
 3-69 by Section 41.052.

4-1 Sec. 41.052. PROGRAM WEIGHTS. (a) In this section:

4-2 (1) "Career and technology education program" means a
 4-3 program under Subchapter F, Chapter 29.

4-4 (2) "Full-time equivalent student" means 30 hours of
 4-5 contact a week between a student and program personnel.

4-6 (3) "Special education program" means a program under
 4-7 Subchapter A, Chapter 29.

4-8 (b) The program weights are:

4-9 (1) 1.0 for a student in average daily attendance, not
 4-10 including time the student spends each day in a special education
 4-11 program in an instructional arrangement other than mainstream or in
 4-12 a career and technology education program;

4-13 (2) 1.1 for a student in a special education program in
 4-14 a mainstream instructional arrangement;

4-15 (3) 5.0 for a full-time equivalent student in a
 4-16 special education program in a homebound instructional
 4-17 arrangement;

4-18 (4) 3.0 for a full-time equivalent student in a
 4-19 special education program in a hospital class instructional
 4-20 arrangement;

4-21 (5) 5.0 for a full-time equivalent student in a
 4-22 special education program in a speech therapy instructional
 4-23 arrangement;

4-24 (6) 3.0 for a full-time equivalent student in a
 4-25 special education program in a resource room instructional
 4-26 arrangement;

4-27 (7) 3.0 for a full-time equivalent student in a
 4-28 special education program in a self-contained, mild and moderate,
 4-29 regular campus instructional arrangement;

4-30 (8) 3.0 for a full-time equivalent student in a
 4-31 special education program in a self-contained, severe, regular
 4-32 campus instructional arrangement;

4-33 (9) 2.7 for a full-time equivalent student in a
 4-34 special education program in an off-home-campus instructional
 4-35 arrangement;

4-36 (10) 1.7 for a full-time equivalent student in a
 4-37 special education program in a nonpublic day school;

4-38 (11) 2.3 for a full-time equivalent student in a
 4-39 special education program vocational adjustment class;

4-40 (12) 4.0 for a student in a special education program
 4-41 who resides in a residential care and treatment facility, other
 4-42 than a state school, whose parent or guardian does not reside in the
 4-43 district and who receives educational services from a local school
 4-44 district;

4-45 (13) 2.8 for a student in a special education program
 4-46 who resides in a state school;

4-47 (14) 0.2 for a student who is educationally
 4-48 disadvantaged or who is a student who does not have a disability and
 4-49 resides in a residential placement facility in a district in which
 4-50 the student's parent or guardian does not reside;

4-51 (15) 2.41 for a full-time equivalent student who is in
 4-52 a remedial and support program under Section 29.081 because the
 4-53 student is pregnant;

4-54 (16) 0.1 for a student who is in a bilingual education
 4-55 or special language program under Subchapter B, Chapter 29;

4-56 (17) 1.37 for a full-time equivalent student in an
 4-57 approved career and technology education program in grades nine
 4-58 through 12 or in a career and technology program for students with
 4-59 disabilities in grades seven through 12;

4-60 (18) 0.12 for a student in a program for gifted and
 4-61 talented students that the district certifies to the commissioner
 4-62 as complying with Subchapter D, Chapter 29; and

4-63 (19) except as provided by Subsection (c), 0.1 for a
 4-64 student in average daily attendance who is using a public education
 4-65 grant under Subchapter G, Chapter 29, to attend school in a district
 4-66 other than the district in which the student resides.

4-67 (c) The total number of weights under Subsection (b)(19) to
 4-68 which a district is entitled may not exceed the number by which the
 4-69 number of students using public education grants to attend school

5-1 in the district exceeds the number of students who reside in the
 5-2 district and use public education grants to attend school in
 5-3 another district.

5-4 Sec. 41.053. COST OF EDUCATION ADJUSTMENT. (a) The
 5-5 guaranteed amount ("GA") under Section 41.051 for each district is
 5-6 adjusted to reflect the geographic variation in known resource
 5-7 costs and costs of education due to factors beyond the control of
 5-8 the school district.

5-9 (a-1) For the 2004-2005 school year, the cost of education
 5-10 adjustment is the cost of education index adjustment adopted by the
 5-11 foundation school fund budget committee and contained in Chapter
 5-12 203, Title 19, Texas Administrative Code, as that chapter existed
 5-13 on March 26, 1997.

5-14 (b) The Legislative Budget Board shall conduct a study each
 5-15 biennium and shall recompute the cost of education index and adopt
 5-16 adjustments as the board determines are necessary to ensure that
 5-17 the cost of education index reflects current variations in known
 5-18 resource costs and costs of education due to factors beyond the
 5-19 control of a school district. The board's determination is final
 5-20 and may not be appealed.

5-21 (c) From funds appropriated for the purpose, the
 5-22 Legislative Budget Board may contract with one or more public or
 5-23 private entities for studies to assist with the board's
 5-24 recomputation and adjustments. Subject to appropriate notice and
 5-25 opportunity for public comment, the board may adopt rules necessary
 5-26 to implement this section.

5-27 (c-1) For the 2005-2006 and 2006-2007 school years, the cost
 5-28 of education index is the average of the cost of education index as
 5-29 provided by Subsection (a-1) and the initial recomputation and
 5-30 adjustment of the cost of education index adopted by the
 5-31 Legislative Budget Board in accordance with Subsection (b).

5-32 (d) The cost of education index is the average of the two
 5-33 most recent recomputations and adjustments adopted by the
 5-34 Legislative Budget Board under Subsection (b).

5-35 (e) Subsection (d) applies beginning with the 2007-2008
 5-36 school year. Subsections (a-1) and (c-1) and this subsection
 5-37 expire September 1, 2007.

5-38 Sec. 41.054. SMALL AND MID-SIZED DISTRICT ADJUSTMENT.
 5-39 (a) The guaranteed amount ("GA") under Section 41.051 for certain
 5-40 small and mid-sized districts, as adjusted under Section 41.053, is
 5-41 adjusted in accordance with this section. In this section:

5-42 (1) "ADA" is the number of students in average daily
 5-43 attendance for which the district is entitled to funding under
 5-44 Section 41.051;

5-45 (2) "AGA" is the adjusted guaranteed amount as
 5-46 determined under Section 41.053; and

5-47 (3) "SAGA" is the district's size-adjusted guaranteed
 5-48 amount.

5-49 (b) The guaranteed amount ("GA") under Section 41.051 of a
 5-50 school district that contains at least 300 square miles and has not
 5-51 more than 1,600 students in average daily attendance is adjusted by
 5-52 applying the formula:

$$5-53 \quad \text{SAGA} = (1 + ((1,600 - \text{ADA}) \times 0.0004)) \times \text{AGA}$$

5-54 (c) The guaranteed amount ("GA") under Section 41.051 of a
 5-55 school district that contains less than 300 square miles and has not
 5-56 more than 1,600 students in average daily attendance is adjusted by
 5-57 applying the formula:

$$5-58 \quad \text{SAGA} = (1 + ((1,600 - \text{ADA}) \times 0.00025)) \times \text{AGA}$$

5-59 (d) The guaranteed amount ("GA") under Section 41.051 of a
 5-60 school district that offers a kindergarten through grade 12 program
 5-61 and has less than 5,000 students in average daily attendance is
 5-62 adjusted by applying the formula, of the following formulas, that
 5-63 results in the greatest guaranteed amount:

5-64 (1) the formula in Subsection (b) or (c) for which the
 5-65 district is eligible; or

$$5-66 \quad \text{SAGA} = (1 + ((5,000 - \text{ADA}) \times 0.000025)) \times \text{AGA}.$$

5-67 Sec. 41.055. SPARSITY ADJUSTMENT. Notwithstanding
 5-68 Sections 41.051, 41.053, and 41.054:

5-69 (1) a school district that has fewer than 130 students

6-1 in average daily attendance is entitled to an adjusted guaranteed
 6-2 amount on the basis of 130 students in average daily attendance if
 6-3 the district offers a kindergarten through grade 12 program and has
 6-4 preceding or current year's average daily attendance of at least 90
 6-5 students or is 30 miles or more by bus route from the nearest high
 6-6 school district;

6-7 (2) a school district that offers a kindergarten
 6-8 through grade 8 program and whose preceding or current year's
 6-9 average daily attendance was or is at least 50 students or that is
 6-10 30 miles or more by bus route from the nearest high school district
 6-11 is entitled to an adjusted guaranteed amount on the basis of 75
 6-12 students in average daily attendance; and

6-13 (3) a school district that offers a kindergarten
 6-14 through grade 6 program and whose preceding or current year's
 6-15 average daily attendance was or is at least 40 students or that is
 6-16 30 miles or more by bus route from the nearest high school district
 6-17 is entitled to an adjusted guaranteed amount on the basis of 60
 6-18 students in average daily attendance.

6-19 [Sections 41.056-41.100 reserved for expansion]

6-20 SUBCHAPTER C. TRANSPORTATION ALLOTMENT

6-21 Sec. 41.101. TRANSPORTATION ALLOTMENT. Each district or
 6-22 county operating a transportation system is entitled to allotments
 6-23 for transportation costs as provided by this subchapter.

6-24 Sec. 41.102. DEFINITIONS. In this subchapter:

6-25 (1) "Eligible special education student" means a
 6-26 student who is eligible for special education services under
 6-27 Section 29.003 and who would be unable to attend classes without
 6-28 special transportation services.

6-29 (2) "Linear density" means the average number of
 6-30 regular eligible students transported daily, divided by the
 6-31 approved daily route miles traveled by the respective
 6-32 transportation system.

6-33 (3) "Regular eligible student" means a student who
 6-34 resides two or more miles from the student's campus of regular
 6-35 attendance, measured along the shortest route that may be traveled
 6-36 on public roads, and who is not classified as a student eligible for
 6-37 special education services.

6-38 Sec. 41.103. REGULAR TRANSPORTATION ALLOTMENT. (a) Each
 6-39 school district or county operating a regular transportation system
 6-40 is entitled to an allotment based on the daily cost per regular
 6-41 eligible student of operating and maintaining the regular
 6-42 transportation system and the linear density of that system.

6-43 (b) In determining the cost, the commissioner shall give
 6-44 consideration to factors affecting the actual cost of providing
 6-45 these transportation services in each school district or county.
 6-46 The commissioner shall compute the average actual cost and shall
 6-47 report that cost to the Legislative Budget Board for consideration
 6-48 by the legislature in the General Appropriations Act.

6-49 (c) The allotment per mile of approved route may not exceed
 6-50 the amount set by appropriation.

6-51 Sec. 41.104. HAZARDOUS CONDITIONS TRANSPORTATION
 6-52 ALLOTMENT. (a) A school district or county may apply for and on
 6-53 approval of the commissioner receive an additional amount of up to
 6-54 10 percent of its regular transportation allotment to be used for
 6-55 the transportation of children who live within two miles of the
 6-56 school they attend and who would be subject to hazardous traffic
 6-57 conditions if they walked to school.

6-58 (b) Each board of trustees shall provide to the commissioner
 6-59 the definition of hazardous conditions applicable to that district
 6-60 and shall identify the specific hazardous areas for which the
 6-61 allotment is requested. A hazardous condition exists where no
 6-62 walkway is provided and children must walk along or cross a freeway
 6-63 or expressway, an underpass, an overpass or a bridge, an
 6-64 uncontrolled major traffic artery, an industrial or commercial
 6-65 area, or another comparable condition.

6-66 Sec. 41.105. PRIVATE OR COMMERCIAL TRANSPORTATION
 6-67 ALLOTMENT. (a) The commissioner may grant an amount set by
 6-68 appropriation for private or commercial transportation for
 6-69 eligible students from isolated areas. The need for this type of

7-1 transportation grant shall be determined on an individual basis,
 7-2 and the amount granted may not exceed the actual cost.

7-3 (b) The grants may be made only in extreme hardship cases. A
 7-4 grant may not be made if the students live within two miles of an
 7-5 approved school bus route.

7-6 Sec. 41.106. TRANSPORTATION OF CAREER AND TECHNOLOGY
 7-7 EDUCATION STUDENTS. The cost of transporting career and technology
 7-8 education students from one campus to another inside a school
 7-9 district or from a sending district to another secondary public
 7-10 school for a career and technology program or an area career and
 7-11 technology school or to an approved postsecondary institution under
 7-12 a contract for instruction approved by the agency shall be
 7-13 reimbursed based on the number of actual miles traveled times the
 7-14 district's official extracurricular travel per mile rate as set by
 7-15 the board of trustees and approved by the agency.

7-16 Sec. 41.107. TRANSPORTATION OF SPECIAL EDUCATION STUDENTS.
 7-17 (a) A school district or county that provides special
 7-18 transportation services for eligible special education students is
 7-19 entitled to a state allotment paid on a previous year's
 7-20 cost-per-mile basis. The maximum rate per mile allowable shall be
 7-21 set by appropriation based on data gathered from the first year of
 7-22 each preceding biennium.

7-23 (b) A school district may use a portion of its support
 7-24 allocation to pay transportation costs, if necessary. The
 7-25 commissioner may grant an amount set by appropriation for private
 7-26 transportation to reimburse parents or their agents for
 7-27 transporting eligible special education students. The mileage
 7-28 allowed shall be computed along the shortest public road from the
 7-29 student's home to school and back, morning and afternoon. The need
 7-30 for this type of transportation shall be determined on an
 7-31 individual basis and shall be approved only in extreme hardship
 7-32 cases.

7-33 Sec. 41.108. DETERMINATION OF TRANSPORTATION ALLOTMENTS OF
 7-34 DISTRICT BELONGING TO COUNTY TRANSPORTATION SYSTEM. If a school
 7-35 district belongs to a county transportation system, the district's
 7-36 transportation allotment is determined on the basis of the number
 7-37 of approved daily route miles in the district multiplied by the
 7-38 allotment per mile to which the county transportation system is
 7-39 entitled.

7-40 Sec. 41.109. TRANSPORTATION ALLOTMENT FOR TEXAS SCHOOL FOR
 7-41 THE DEAF. The Texas School for the Deaf is entitled to an allotment
 7-42 under this subchapter. The commissioner shall determine the
 7-43 appropriate allotment.

7-44 Sec. 41.110. TRANSPORTATION TO CHILD-CARE FACILITIES.
 7-45 Notwithstanding any other provision of this subchapter, the
 7-46 commissioner may not reduce the allotment to which a school
 7-47 district or county is entitled under this subchapter because, as
 7-48 authorized by Section 34.007, the district or county provides
 7-49 transportation for an eligible student to and from a child-care
 7-50 facility, as defined by Section 42.002, Human Resources Code,
 7-51 instead of the student's residence, if the transportation is
 7-52 provided within the approved routes of the district or county for
 7-53 the school the student attends.

7-54 Sec. 41.111. USE OF TRANSPORTATION ALLOTMENTS. Funds
 7-55 allotted under this subchapter must be used in providing
 7-56 transportation services.

7-57 [Sections 41.112-41.150 reserved for expansion]

7-58 SUBCHAPTER D. NEW INSTRUCTIONAL FACILITY ALLOTMENT

7-59 Sec. 41.151. NEW INSTRUCTIONAL FACILITY ALLOTMENT. A
 7-60 school district is entitled to an additional allotment as provided
 7-61 by this subchapter for operational expenses associated with opening
 7-62 a new instructional facility.

7-63 Sec. 41.152. DEFINITION. In this subchapter,
 7-64 "instructional facility" has the meaning assigned by Section
 7-65 46.001.

7-66 Sec. 41.153. ALLOTMENT FOR FIRST YEAR OF OPERATION. For the
 7-67 first school year in which students attend a new instructional
 7-68 facility, a school district is entitled to an allotment of \$250 for
 7-69 each student in average daily attendance at the facility.

Sec. 41.154. ALLOTMENT FOR SECOND YEAR OF OPERATION.

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

(b) 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.

Sec. 41.155. LIMITATION ON ALLOTMENTS. (a) The amount appropriated for allotments under this subchapter may not exceed \$25 million in a school year.

(b) If the total amount of allotments to which school districts are entitled under this subchapter for a school year exceeds the amount appropriated for allotments under this subchapter, the commissioner shall reduce each district's allotment under this subchapter proportionately.

Sec. 41.156. RULES. The commissioner may adopt rules necessary to implement this subchapter.

[Subchapters E-H reserved for expansion]

SUBCHAPTER I. FINANCING THE SYSTEM

Sec. 41.401. FINANCING; GENERAL RULE. (a) The sum of the guaranteed amounts under Subchapter B, the transportation allotments under Subchapter C, and the new instructional facility allotments under Subchapter D constitute the total cost of the Texas Education Excellence Program.

(b) The program shall be financed by:

(1) revenue generated by the state ad valorem tax under Section 1-e, Article VIII, Texas Constitution;

(2) state available school funds distributed in accordance with law; and

(3) state funds appropriated for the purposes of public school education and allocated to each district in an amount sufficient to finance the cost of each district's Texas Education Excellence Program not covered by other funds specified by this subsection.

Sec. 41.402. DISTRIBUTION OF TEXAS EDUCATION FUND.

(a) For each school year the commissioner shall determine:

(1) the amount of money to which a school district is entitled under Subchapters B, C, and D;

(2) the amount of money to which a school district is entitled under Chapter 42; and

(3) the amount of each district's enrichment program local revenue under Section 42.002.

(b) Except as provided by this subsection, the commissioner shall base the determinations under Subsection (a) on the estimates provided to the legislature under Section 41.403, or, if the General Appropriations Act provides estimates for that purpose, on the estimates provided under that Act, for each school district for each school year. The commissioner shall reduce the entitlement under Chapter 42 of each district that has a final taxable value of property for the second year of a state fiscal biennium that is higher than the estimate under Section 41.403 or the General Appropriations Act, as applicable. A reduction under this subsection may not reduce the district's entitlement below the amount to which it is entitled at its actual taxable value of property. The sum of the reductions under this subsection may not be greater than the amount necessary to fully fund the entitlement of each district.

(c) Each school district is entitled to state aid in an amount equal to the difference for that district between the sum of Subsections (a)(1) and (2) and the amount determined under Subsection (a)(3).

(d) Except as provided by Section 42.005, the commissioner shall approve warrants to each school district equaling the amount of its entitlement. The total amount of the warrants approved under this section may not exceed the total amount appropriated for Texas

9-1 Education Excellence Program purposes for that fiscal year.

9-2 (e) If a school district demonstrates to the satisfaction of
 9-3 the commissioner that the estimate of the district's enrichment tax
 9-4 rate, student enrollment, or taxable value of property used in
 9-5 determining the amount of state funds to which the district is
 9-6 entitled is so inaccurate as to result in undue financial hardship
 9-7 to the district, the commissioner may adjust funding to that
 9-8 district in that school year to the extent that funds are available
 9-9 for that year.

9-10 (f) If the total amount appropriated for a year for the
 9-11 basic program under the Texas Education Excellence Program is less
 9-12 than the amount of money to which school districts are entitled for
 9-13 that year, the commissioner shall reduce the total amount of basic
 9-14 program funds allocated to each district proportionately. The
 9-15 following fiscal year, a district's entitlement under this section
 9-16 is increased by an amount equal to the reduction made under this
 9-17 subsection.

9-18 (g) Payments from the Texas education fund to each school
 9-19 district shall be made as follows:

9-20 (1) 15 percent of the yearly entitlement of the
 9-21 district shall be paid in an installment to be made on or before the
 9-22 25th day of September of a fiscal year;

9-23 (2) 80 percent of the yearly entitlement of the
 9-24 district shall be paid in eight equal installments to be made on or
 9-25 before the 25th day of October, November, December, January, March,
 9-26 May, June, and July; and

9-27 (3) five percent of the yearly entitlement of the
 9-28 district shall be paid in an installment to be made on or before the
 9-29 25th day of February.

9-30 (h) Not later than March 1 of each year, the commissioner
 9-31 shall determine the actual amount of state funds to which each
 9-32 school district is entitled under this chapter and Chapter 42 for
 9-33 the current school year and shall compare that amount with the
 9-34 amount of the warrants issued to each district for that year. If
 9-35 the amount of the warrants differs from the amount to which a
 9-36 district is entitled because of variations in the district's
 9-37 enrichment tax rate, student enrollment, or taxable value of
 9-38 property, the commissioner shall adjust the district's entitlement
 9-39 for the next fiscal year accordingly.

9-40 Sec. 41.403. ESTIMATES REQUIRED. (a) Not later than
 9-41 October 1 of each even-numbered year:

9-42 (1) the agency shall submit to the legislature an
 9-43 estimate of the enrichment tax rate and student enrollment of each
 9-44 school district for the following biennium; and

9-45 (2) the comptroller shall submit to the legislature an
 9-46 estimate of the total taxable value of all property in the state as
 9-47 determined under Subchapter M, Chapter 403, Government Code, for
 9-48 the following biennium.

9-49 (b) The agency and the comptroller shall update the
 9-50 information provided to the legislature under Subsection (a) not
 9-51 later than March 1 of each odd-numbered year.

9-52 Sec. 41.404. MINIMUM PER-STUDENT AID.

9-53 (a) Notwithstanding any other provision of this subtitle, a school
 9-54 district is entitled to an amount of state aid per student in
 9-55 weighted average daily attendance that is equal to the amount of
 9-56 state and local funds for maintenance and operations per student in
 9-57 weighted average daily attendance the district received under
 9-58 former Chapters 41 and 42 and Chapter 45 or under another law
 9-59 authorizing a school district to impose a tax for maintenance and
 9-60 operations for the 2003-2004 school year, or a greater amount
 9-61 provided for any year by appropriation. For purposes of this
 9-62 subsection, the amount of state and local funds for maintenance and
 9-63 operations per student in weighted average daily attendance a
 9-64 district received for the 2003-2004 school year does not include
 9-65 any amounts the district paid for:

9-66 (1) the purchase of attendance credits under former
 9-67 Subchapter D, Chapter 41; or

9-68 (2) the education of nonresident students under former
 9-69 Subchapter E, Chapter 41.

10-1 (b) Each year, the commissioner shall determine for each
 10-2 school district whether the amount of state aid to which the
 10-3 district is entitled under Section 41.402(c) is less than the
 10-4 amount specified under Subsection (a) and shall provide additional
 10-5 state aid in an amount equal to the difference, if any.

10-6 (c) Additional state aid under this section shall be funded
 10-7 from general revenue and designated in a separate line item in the
 10-8 General Appropriations Act.

10-9 (d) A determination by the commissioner under this section
 10-10 is final and may not be appealed.

10-11 (e) The commissioner may adopt rules to implement this
 10-12 section.

10-13 Sec. 41.405. FALSIFICATION OF RECORDS; REPORT. When, in
 10-14 the opinion of the agency's director of school audits, audits or
 10-15 reviews of accounting, enrollment, or other records of a school
 10-16 district reveal deliberate falsification of the records, or
 10-17 violation of the provisions of this chapter, through which the
 10-18 district's share of state funds allocated under this chapter would
 10-19 be or has been illegally increased, the director shall promptly and
 10-20 fully report the fact to the State Board of Education, the state
 10-21 auditor, and the appropriate county attorney, district attorney, or
 10-22 criminal district attorney.

10-23 Sec. 41.406. RECOVERY OF OVERALLOCATED FUNDS. (a) If a
 10-24 school district has received an overallocation of state funds, the
 10-25 agency shall, by withholding from subsequent allocations of state
 10-26 funds or by requesting and obtaining a refund, recover from the
 10-27 district an amount equal to the overallocation.

10-28 (b) If a district fails to comply with a request for a refund
 10-29 under Subsection (a), the agency shall certify to the comptroller
 10-30 that the amount constitutes a debt for purposes of Section 403.055,
 10-31 Government Code. The agency shall provide to the comptroller the
 10-32 amount of the overallocation and any other information required by
 10-33 the comptroller. The comptroller may certify the amount of the debt
 10-34 to the attorney general for collection.

10-35 (c) Any amounts recovered under this section shall be
 10-36 deposited in the Texas education fund.

10-37 [Sections 41.407-41.450 reserved for expansion]

10-38 SUBCHAPTER J. LIMITATIONS ON PROGRAM ALLOTMENTS

10-39 Sec. 41.451. SPECIAL EDUCATION PROGRAMS. (a) For funding
 10-40 purposes, the number of contact hours credited per day for each
 10-41 special education student in the off-home-campus instructional
 10-42 arrangement may not exceed the contact hours credited per day for
 10-43 the multidistrict class instructional arrangement in the 1992-1993
 10-44 school year.

10-45 (b) For funding purposes, the contact hours credited per day
 10-46 for each special education student in the resource room;
 10-47 self-contained, mild and moderate, regular campus; and
 10-48 self-contained, severe, regular campus instructional arrangements
 10-49 may not exceed the average of the statewide total contact hours
 10-50 credited per day for those three instructional arrangements in the
 10-51 1992-1993 school year.

10-52 (c) The State Board of Education by rule shall prescribe the
 10-53 qualifications a special education instructional arrangement must
 10-54 meet in order to be funded as a particular instructional
 10-55 arrangement under this chapter. In prescribing the qualifications
 10-56 that a mainstream instructional arrangement must meet, the board
 10-57 shall require that students with disabilities and their teachers
 10-58 receive the direct, indirect, and support services that are
 10-59 necessary to enrich the regular classroom and enable student
 10-60 success.

10-61 (d) The State Board of Education shall adopt rules and
 10-62 procedures governing contracts for residential placement of
 10-63 special education students. The legislature shall provide by
 10-64 appropriation for the state's share of the costs of those
 10-65 placements.

10-66 (e) Funds allocated under this chapter for special
 10-67 education programs, other than an indirect cost allotment
 10-68 established under State Board of Education rule, must be used in the
 10-69 special education program under Subchapter A, Chapter 29.

11-1 (f) The agency shall encourage the placement of students in
 11-2 special education programs, including students in residential
 11-3 instructional arrangements, in the least restrictive environment
 11-4 appropriate for students' educational needs.

11-5 (g) A school district that maintains for two successive
 11-6 years a ratio of full-time equivalent special education students
 11-7 placed in partially or totally self-contained classrooms to the
 11-8 number of full-time equivalent students placed in resource room or
 11-9 mainstream instructional arrangements that is 25 percent higher
 11-10 than the statewide average ratio shall be reviewed by the agency to
 11-11 determine the appropriateness of student placement. The
 11-12 commissioner may reduce the guaranteed amount the district receives
 11-13 to the level to which the district would be entitled if the
 11-14 district's ratio was not more than 25 percent higher than the
 11-15 statewide average ratio.

11-16 (h) A school district that provides an extended year program
 11-17 required by federal law for special education students who may
 11-18 regress is entitled to receive funds in an amount equal to 75
 11-19 percent, or a lesser percentage determined by the commissioner, of
 11-20 the guaranteed amount for each full-time equivalent student in
 11-21 average daily attendance, multiplied by the amount designated for
 11-22 the student's instructional arrangement under Section 41.052(b),
 11-23 for each day the program is provided divided by the number of days
 11-24 in the minimum school year. The total amount of state funding for
 11-25 extended year services under this section may not exceed \$10
 11-26 million per year. A school district may use funds received under
 11-27 this subsection only in providing an extended year program.

11-28 (i) From the total amount of funds appropriated for special
 11-29 education under this chapter, the commissioner shall withhold an
 11-30 amount specified in the General Appropriations Act and distribute
 11-31 that amount to school districts for programs under Section 29.014.
 11-32 The program established under that section is required only in
 11-33 school districts in which the program is financed by funds
 11-34 distributed under this subsection and any other funds available for
 11-35 the program. After deducting the amount withheld under this
 11-36 subsection from the total amount appropriated for special
 11-37 education, the commissioner shall reduce each district's
 11-38 allocation proportionately.

11-39 Sec. 41.452. BILINGUAL EDUCATION AND SPECIAL LANGUAGE
 11-40 PROGRAMS. (a) Funds allocated under this chapter for bilingual
 11-41 education or special language programs, other than an indirect cost
 11-42 allotment established under State Board of Education rule, must be
 11-43 used in providing bilingual education or special language programs
 11-44 under Subchapter B, Chapter 29, and must be accounted for under
 11-45 existing agency reporting and auditing procedures.

11-46 (b) A district's bilingual education or special language
 11-47 allocation may be used only for program and student evaluation,
 11-48 instructional materials and equipment, staff development,
 11-49 supplemental staff expenses, salary supplements for teachers, and
 11-50 other supplies required for quality instruction and smaller class
 11-51 size.

11-52 Sec. 41.453. COMPENSATORY EDUCATION PROGRAMS. (a) For
 11-53 purposes of Section 41.052(b)(14), the number of educationally
 11-54 disadvantaged students is determined:

11-55 (1) by averaging the best six months' enrollment in the
 11-56 national school lunch program of free or reduced-price lunches for
 11-57 the preceding school year; or

11-58 (2) in the manner provided by commissioner rule, if no
 11-59 campus in the district participated in the national school lunch
 11-60 program of free or reduced-price lunches during the preceding
 11-61 school year.

11-62 (b) Funds allocated under Sections 41.052(b)(14) and (15)
 11-63 may be used only to fund supplemental programs and services
 11-64 designed to eliminate any disparity in performance on assessment
 11-65 instruments administered under Subchapter B, Chapter 39, or
 11-66 disparity in the rates of high school completion between students
 11-67 at risk of dropping out of school, as defined by Section 29.081, and
 11-68 all other students. Specifically, the funds, other than an
 11-69 indirect cost allotment established under State Board of Education

12-1 rule, which may not exceed 15 percent, may be used only to meet the
 12-2 costs of providing a compensatory, intensive, or accelerated
 12-3 instruction program under Section 29.081 or an alternative
 12-4 education program established under Section 37.008 or to support a
 12-5 program eligible under Title I of the Elementary and Secondary
 12-6 Education Act of 1965, as provided by Pub. L. No. 103-382 and its
 12-7 subsequent amendments, and by federal regulations implementing
 12-8 that Act, at a campus at which at least 50 percent of the students
 12-9 are educationally disadvantaged. In meeting the costs of providing
 12-10 a compensatory, intensive, or accelerated instruction program
 12-11 under Section 29.081, funds allocated under Sections 41.052(b)(14)
 12-12 and (15) may be used only for costs supplementary to the regular
 12-13 education program, such as costs for program and student
 12-14 evaluation, instructional materials and equipment and other
 12-15 supplies required for quality instruction, supplemental staff
 12-16 expenses, salary for teachers of at-risk students, smaller class
 12-17 size, and individualized instruction. A home-rule school district
 12-18 or an open-enrollment charter school must use funds allocated under
 12-19 Sections 41.052(b)(14) and (15) for a purpose authorized by this
 12-20 subsection, but is not otherwise subject to Subchapter C, Chapter
 12-21 29. Notwithstanding any other provisions of this section:

12-22 (1) to ensure that a sufficient amount of the funds
 12-23 allocated under Sections 41.052(b)(14) and (15) is available to
 12-24 supplement instructional programs and services, not more than 18
 12-25 percent of the funds allocated under those sections may be used to
 12-26 fund disciplinary alternative education programs established under
 12-27 Section 37.008; and

12-28 (2) the commissioner may waive the limitations of
 12-29 Subdivision (1) on an annual petition, by a district's board and a
 12-30 district's site-based decision-making committee, presenting the
 12-31 reason for the need to spend supplemental compensatory education
 12-32 funds on disciplinary alternative education programs under Section
 12-33 37.008.

12-34 (c) In a petition under Subsection (b)(2), a district shall
 12-35 report the number of students in each grade level, by demographic
 12-36 subgroup, not making satisfactory progress under the state's
 12-37 assessment system. The commissioner shall make this waiver request
 12-38 information available annually to the public on the agency's
 12-39 website.

12-40 (d) The agency shall evaluate the effectiveness of
 12-41 accelerated instruction and support programs provided under
 12-42 Section 29.081 for students at risk of dropping out of school.

12-43 (e) From the total amount of funds appropriated for
 12-44 allocations under Sections 41.052(b)(14) and (15), the
 12-45 commissioner may, each fiscal year:

12-46 (1) withhold an amount determined by the commissioner
 12-47 as appropriate to finance intensive accelerated instruction
 12-48 programs and study guides provided under Sections 39.024(b) and
 12-49 (c); and

12-50 (2) withhold an amount not exceeding \$1 million each
 12-51 fiscal year and distribute the funds to school districts that incur
 12-52 unanticipated expenditures resulting from a significant increase
 12-53 in the enrollment of students who do not have disabilities and who
 12-54 reside in residential placement facilities.

12-55 (f) From the total amount of funds appropriated for
 12-56 allocations under Sections 41.052(b)(14) and (15), the
 12-57 commissioner shall, each fiscal year:

12-58 (1) withhold an amount to be determined by the
 12-59 commissioner, but not less than \$10 million, and distribute that
 12-60 amount for programs under Section 29.085, giving preference to a
 12-61 school district that received funds for a program under that
 12-62 section for the preceding school year;

12-63 (2) withhold the amount of \$7.5 million, or a greater
 12-64 amount as determined in the General Appropriations Act, and
 12-65 distribute that amount for programs under Subchapter A, Chapter 33,
 12-66 giving preference to a school district that received funds for a
 12-67 program under that subchapter for the preceding school year;

12-68 (3) withhold the amount of \$2.5 million for transfer
 12-69 to the investment capital fund under Section 7.024; and

13-1 (4) withhold an amount sufficient to finance extended
 13-2 year programs under Section 29.082, not to exceed five percent of
 13-3 the amounts allocated under Sections 41.052(b)(14) and (15), giving
 13-4 preference to extended year programs in districts with high
 13-5 concentrations of educationally disadvantaged students.

13-6 (g) After deducting the amounts withheld under Subsections
 13-7 (e) and (f) from the total amount appropriated for the allocations
 13-8 under Sections 41.051(b)(14) and (15), the commissioner shall
 13-9 reduce each district's guaranteed amount proportionately.

13-10 (h) The State Board of Education, with the assistance of the
 13-11 state auditor and the comptroller, shall develop and implement by
 13-12 rule a reporting and auditing system for district and campus
 13-13 expenditures of funds allocated under Sections 41.051(b)(14) and
 13-14 (15) to ensure that those funds, other than the indirect cost
 13-15 allotment, are spent only to supplement the regular program. The
 13-16 commissioner, in the year following an audit of compensatory
 13-17 education expenditures, shall withhold from a district's Texas
 13-18 education fund payment an amount equal to the amount of funds
 13-19 allocated under Sections 41.051(b)(14) and (15) the agency
 13-20 determines were not used in compliance with Subsection (b). The
 13-21 commissioner shall release to a district funds withheld under this
 13-22 subsection when the district provides to the commissioner a
 13-23 detailed plan to use those funds in compliance with Subsection (b).

13-24 (i) The commissioner shall grant a one-year exemption from
 13-25 the requirements of Subsection (h) to a school district in which the
 13-26 group of students who failed to perform satisfactorily in the
 13-27 preceding school year on an assessment instrument required under
 13-28 Section 39.023(a), (c), or (l) subsequently performs on those
 13-29 assessment instruments at a level that meets or exceeds a level
 13-30 prescribed by commissioner rule. Each year the commissioner, based
 13-31 on the most recent information available, shall determine if a
 13-32 school district is entitled to an exemption for the following
 13-33 school year and notify the district of that determination.

13-34 Sec. 41.454. PROGRAMS FOR GIFTED AND TALENTED STUDENTS.

13-35 (a) Funds allocated under this chapter for programs for gifted and
 13-36 talented students, other than the amount that represents the
 13-37 program's share of general administrative costs, must be used in
 13-38 providing programs for gifted and talented students under
 13-39 Subchapter D, Chapter 29, including programs sanctioned by
 13-40 International Baccalaureate and Advanced Placement, or in
 13-41 developing programs for gifted and talented students. Each
 13-42 district must account for the expenditure of state funds as
 13-43 provided by State Board of Education rule. If by the end of the 12th
 13-44 month after receiving an allocation for developing a program a
 13-45 district has failed to implement a program, the district must
 13-46 refund the amount of the allocation to the agency within 30 days.

13-47 (b) Not more than five percent of a district's students in
 13-48 average daily attendance are eligible for funding under this
 13-49 chapter for attendance in a program for gifted and talented
 13-50 students.

13-51 (c) After each district has received allocated funds for
 13-52 programs for gifted and talented students, the State Board of
 13-53 Education may use up to \$500,000 of the funds allocated under
 13-54 Section 41.052(b)(18) for programs such as MATHCOUNTS, Future
 13-55 Problem Solving, Odyssey of the Mind, and Academic Decathlon, as
 13-56 long as those funds are used to train personnel and provide program
 13-57 services. To be eligible for funding under this subsection, a
 13-58 program must be determined by the State Board of Education to
 13-59 provide services that are effective and consistent with the state
 13-60 plan for gifted and talented education.

13-61 Sec. 41.455. CAREER AND TECHNOLOGY EDUCATION PROGRAMS.

13-62 (a) Funds allocated under this chapter for career and technology
 13-63 education, other than an indirect cost allotment established under
 13-64 State Board of Education rule, must be used in providing career and
 13-65 technology education programs in grades 9 through 12 or career and
 13-66 technology education programs for students with disabilities in
 13-67 grades 9 through 12 under Sections 29.182, 29.183, and 29.184.

13-68 (b) Out of the total amount appropriated for allocations for
 13-69 career and technology education under Section 41.052(b)(17), the

14-1 commissioner may withhold an amount specified in the General
 14-2 Appropriations Act, which may not exceed one percent of the total
 14-3 amount appropriated, to support regional career and technology
 14-4 education planning. After deducting the amount withheld under this
 14-5 subsection from the total amount appropriated for allocations for
 14-6 career and technology education under Section 41.052(b)(17), the
 14-7 commissioner shall reduce each district's allocations under that
 14-8 section proportionately.

14-9 (c) The commissioner shall conduct a cost-benefit
 14-10 comparison between career and technology education programs and
 14-11 mathematics and science programs.

14-12 CHAPTER 42. ENRICHMENT PROGRAM

14-13 Sec. 42.001. PURPOSE. The purpose of the enrichment
 14-14 program component of the Texas Education Excellence Program is to
 14-15 provide each school district with the opportunity to supplement the
 14-16 basic program at a level of its own choice.

14-17 Sec. 42.002. ALLOTMENT. (a) In this section, "wealth per
 14-18 student" means a school district's taxable value of property, as
 14-19 determined, except as provided by Subsection (c), under Subchapter
 14-20 M, Chapter 403, Government Code, divided by the number of students
 14-21 in average daily attendance in the district.

14-22 (b) Each school district is guaranteed a specified amount
 14-23 per student in state and local funds for each cent of enrichment tax
 14-24 effort up to the maximum level specified in this chapter. The
 14-25 amount of state support is determined by the formula:

$$14-26 \text{ EGYA} = (\text{EGL} \times \text{WADA} \times \text{DETR} \times 100) - \text{LR}$$

14-27 where:

14-28 "EGYA" is the guaranteed yield amount of state enrichment
 14-29 funds to be allocated to the district;

14-30 "EGL" is the dollar amount guaranteed level of state and
 14-31 local enrichment funds per student per cent of tax effort, which is
 14-32 the amount of district enrichment tax revenue per cent of tax effort
 14-33 available to a school district at the 90th percentile in wealth per
 14-34 student, as determined by the commissioner;

14-35 "WADA" is the number of students in weighted average daily
 14-36 attendance, as determined under Section 41.051;

14-37 "DETR" is the district enrichment tax rate of the school
 14-38 district, which is determined by dividing the total amount of
 14-39 enrichment taxes collected by the school district for the
 14-40 applicable school year by the district's taxable value of property
 14-41 for the current year as determined, except as provided by
 14-42 Subsection (c), under Subchapter M, Chapter 403, Government Code,
 14-43 divided by 100; and

14-44 "LR" is the local revenue, which is determined by multiplying
 14-45 "DETR" by the quotient of the district's taxable value of property
 14-46 for the current year as determined, except as provided by
 14-47 Subsection (c), under Subchapter M, Chapter 403, Government Code,
 14-48 divided by 100.

14-49 (c) For purposes of this section, a school district's
 14-50 taxable value of property is not reduced by the total dollar amount
 14-51 of any residence homestead tax exemptions granted under Section
 14-52 11.13(n), Tax Code.

14-53 Sec. 42.003. DISTRICT ENRICHMENT TAX. (a) Subject to
 14-54 Section 42.004, the board of trustees of a school district may
 14-55 impose an annual ad valorem tax for the enrichment of the public
 14-56 schools in the district.

14-57 (b) The district enrichment tax rate may not exceed \$0.10
 14-58 for each \$100 of taxable value of property.

14-59 (c) An exemption adopted by the board of trustees of a
 14-60 school district under Section 11.13(n), Tax Code, does not apply to
 14-61 a tax imposed under this section.

14-62 (d) Notwithstanding Subsection (b), for the 2005-2006
 14-63 school year, the district enrichment tax rate may not exceed \$0.05
 14-64 for each \$100 of taxable value of property. This subsection expires
 14-65 August 31, 2006.

14-66 Sec. 42.004. ENRICHMENT TAX ELECTION. (a) A school
 14-67 district may not impose an enrichment tax under Section 42.003
 14-68 unless authorized by a majority of the qualified voters of the
 14-69 district voting at an election held for that purpose.

15-1 (b) A proposition submitted to authorize the imposition of
 15-2 an enrichment tax must include the question of whether the board of
 15-3 trustees may impose annual ad valorem taxes for the further
 15-4 enrichment of public schools, at a rate not to exceed the rate
 15-5 stated in the proposition.

15-6 Sec. 42.005. DISTRIBUTION OF ENRICHMENT PROGRAM FUNDS.

15-7 (a) As provided by Section 41.402, for each school year, the
 15-8 commissioner shall:

15-9 (1) determine the guaranteed yield amount of state
 15-10 enrichment program funds to which a school district is entitled
 15-11 under Section 42.002; and

15-12 (2) approve and transmit warrants to school districts.

15-13 (b) If the total amount of state enrichment funds allocated
 15-14 to districts under this chapter for a fiscal year exceeds the amount
 15-15 appropriated for that year, the commissioner shall reduce the total
 15-16 amount of state enrichment funds allocated to each district
 15-17 proportionately. The following fiscal year, a district's
 15-18 entitlement under this chapter is increased by an amount equal to
 15-19 the reduction made under this subsection.

15-20 Sec. 42.006. USE OF ALLOTMENT. State enrichment funds
 15-21 allocated under this chapter may be used for any legal purpose,
 15-22 including capital outlay and debt service.

15-23 Sec. 42.007. COMPUTATION OF ENRICHMENT AID FOR DISTRICT ON
 15-24 MILITARY RESERVATION OR AT STATE SCHOOL. State enrichment funds
 15-25 allocated under this chapter for a school district located on a
 15-26 federal military installation or at Moody State School are computed
 15-27 using the average district enrichment tax rate and property value
 15-28 per student of school districts in the county, as determined by the
 15-29 commissioner.

15-30 SECTION 1.03. Section 29.085, Education Code, is amended by
 15-31 adding Subsections (e) and (f) to read as follows:

15-32 (e) The program established under this section is required
 15-33 only in school districts in which the program is financed by funds
 15-34 distributed under Section 41.453(f)(1) and any other funds
 15-35 available for the program.

15-36 (f) The commissioner shall coordinate the funds withheld
 15-37 under Section 41.453(f)(1) and any other funds available for the
 15-38 program and shall distribute those funds. To receive funds for the
 15-39 program, a school district must apply to the commissioner. The
 15-40 commissioner shall give a preference to the districts that apply
 15-41 that have the highest concentration of students who are pregnant or
 15-42 who are parents.

15-43 SECTION 1.04. Section 33.002, Education Code, is amended by
 15-44 adding Subsections (d) and (e) to read as follows:

15-45 (d) This section applies only to a school district that
 15-46 receives funds distributed under Section 41.453(f)(2) or any other
 15-47 funds available.

15-48 (e) The commissioner shall coordinate the funds withheld
 15-49 under Section 41.453(f)(2) and any other funds available for the
 15-50 program and shall distribute those funds. To receive funds for the
 15-51 program, a school district must apply to the commissioner. The
 15-52 commissioner shall give a preference to the districts that apply
 15-53 that have the highest concentration of at-risk students.

15-54 SECTION 1.05. Sections 39.052(b) and (c), Education Code,
 15-55 are amended to read as follows:

15-56 (b) The report card shall include the following information
 15-57 [where applicable]:

15-58 (1) ~~where applicable,~~ the academic excellence
 15-59 indicators adopted under Sections 39.051(b)(1) through (9);

15-60 (2) average class size by grade level and subject;
 15-61 [and]

15-62 (3) the administrative and instructional costs per
 15-63 student, computed in a manner consistent with Section 44.0071; and

15-64 (4) the district's instructional expenditures ratio
 15-65 and instructional employees ratio computed under Section 44.0071,
 15-66 and the statewide average of those ratios, as determined by the
 15-67 commissioner.

15-68 (c) The commissioner shall adopt rules ~~[for]~~ requiring
 15-69 dissemination of the information required under Subsection (b)(4)

16-1 and appropriate class size and student performance portions of
 16-2 campus report cards annually to the parent, guardian, conservator,
 16-3 or other person having lawful control of each student at the campus.
 16-4 On written request, the school district shall provide a copy of a
 16-5 campus report card to any other party.

16-6 SECTION 1.06. Section 39.182(a), Education Code, is amended
 16-7 to read as follows:

16-8 (a) Not later than December 1 of each year, the agency shall
 16-9 prepare and deliver to the governor, the lieutenant governor, the
 16-10 speaker of the house of representatives, each member of the
 16-11 legislature, the Legislative Budget Board, and the clerks of the
 16-12 standing committees of the senate and house of representatives with
 16-13 primary jurisdiction over the public school system a comprehensive
 16-14 report covering the preceding school year and containing:

16-15 (1) an evaluation of the achievements of the state
 16-16 educational program in relation to the statutory goals for the
 16-17 public education system under Section 4.002;

16-18 (2) an evaluation of the status of education in the
 16-19 state as reflected by the academic excellence indicators adopted
 16-20 under Section 39.051;

16-21 (3) a summary compilation of overall student
 16-22 performance on academic skills assessment instruments required by
 16-23 Section 39.023 with the number and percentage of students exempted
 16-24 from the administration of those instruments and the basis of the
 16-25 exemptions, aggregated by grade level, subject area, campus, and
 16-26 district, with appropriate interpretations and analysis, and
 16-27 disaggregated by race, ethnicity, gender, and socioeconomic
 16-28 status;

16-29 (4) a summary compilation of overall performance of
 16-30 students placed in an alternative education program established
 16-31 under Section 37.008 on academic skills assessment instruments
 16-32 required by Section 39.023 with the number of those students
 16-33 exempted from the administration of those instruments and the basis
 16-34 of the exemptions, aggregated by district, grade level, and subject
 16-35 area, with appropriate interpretations and analysis, and
 16-36 disaggregated by race, ethnicity, gender, and socioeconomic
 16-37 status;

16-38 (5) a summary compilation of overall performance of
 16-39 students at risk of dropping out of school, as defined by Section
 16-40 29.081(d), on academic skills assessment instruments required by
 16-41 Section 39.023 with the number of those students exempted from the
 16-42 administration of those instruments and the basis of the
 16-43 exemptions, aggregated by district, grade level, and subject area,
 16-44 with appropriate interpretations and analysis, and disaggregated
 16-45 by race, ethnicity, gender, and socioeconomic status;

16-46 (6) an evaluation of the correlation between student
 16-47 grades and student performance on academic skills assessment
 16-48 instruments required by Section 39.023;

16-49 (7) a statement of the dropout rate of students in
 16-50 grade levels 7 through 12, expressed in the aggregate and by grade
 16-51 level, and a statement of the completion rates of students for grade
 16-52 levels 9 through 12;

16-53 (8) a statement of:

16-54 (A) the completion rate of students who enter
 16-55 grade level 9 and graduate not more than four years later;

16-56 (B) the completion rate of students who enter
 16-57 grade level 9 and graduate, including students who require more
 16-58 than four years to graduate;

16-59 (C) the completion rate of students who enter
 16-60 grade level 9 and not more than four years later receive a high
 16-61 school equivalency certificate;

16-62 (D) the completion rate of students who enter
 16-63 grade level 9 and receive a high school equivalency certificate,
 16-64 including students who require more than four years to receive a
 16-65 certificate; and

16-66 (E) the number and percentage of all students who
 16-67 have not been accounted for under Paragraph (A), (B), (C), or (D);

16-68 (9) a statement of the projected cross-sectional and
 16-69 longitudinal dropout rates for grade levels 9 through 12 for the

17-1 next five years, assuming no state action is taken to reduce the
17-2 dropout rate;

17-3 (10) a description of a systematic, measurable plan
17-4 for reducing the projected cross-sectional and longitudinal
17-5 dropout rates to five percent or less for the 1997-1998 school year;

17-6 (11) a summary of the information required by Section
17-7 29.083 regarding grade level retention of students and information
17-8 concerning:

17-9 (A) the number and percentage of students
17-10 retained; and

17-11 (B) the performance of retained students on
17-12 assessment instruments required under Section 39.023(a);

17-13 (12) information, aggregated by district type and
17-14 disaggregated by race, ethnicity, gender, and socioeconomic
17-15 status, on:

17-16 (A) the number of students placed in an
17-17 alternative education program established under Section 37.008;

17-18 (B) the average length of a student's placement
17-19 in an alternative education program established under Section
17-20 37.008;

17-21 (C) the academic performance of students on
17-22 assessment instruments required under Section 39.023(a) during the
17-23 year preceding and during the year following placement in an
17-24 alternative education program; and

17-25 (D) the dropout rates of students who have been
17-26 placed in an alternative education program established under
17-27 Section 37.008;

17-28 (13) a list of each school district or campus that does
17-29 not satisfy performance standards, with an explanation of the
17-30 actions taken by the commissioner to improve student performance in
17-31 the district or campus and an evaluation of the results of those
17-32 actions;

17-33 (14) an evaluation of the status of the curriculum
17-34 taught in public schools, with recommendations for legislative
17-35 changes necessary to improve or modify the curriculum required by
17-36 Section 28.002;

17-37 (15) a description of all funds received by and each
17-38 activity and expenditure of the agency;

17-39 (16) a summary and analysis of the instructional
17-40 expenditures ratios and instructional employees ratios
17-41 [compliance] of school districts computed [with administrative
17-42 cost ratios set by the commissioner] under Section 44.0071 [42.201,
17-43 including any improvements and cost savings achieved by school
17-44 districts];

17-45 (17) a summary of the effect of deregulation,
17-46 including exemptions and waivers granted under Section 7.056 or
17-47 39.112;

17-48 (18) a statement of the total number and length of
17-49 reports that school districts and school district employees must
17-50 submit to the agency, identifying which reports are required by
17-51 federal statute or rule, state statute, or agency rule, and a
17-52 summary of the agency's efforts to reduce overall reporting
17-53 requirements;

17-54 (19) a list of each school district that is not in
17-55 compliance with state special education requirements, including:

17-56 (A) the period for which the district has not
17-57 been in compliance;

17-58 (B) the manner in which the agency considered the
17-59 district's failure to comply in determining the district's
17-60 accreditation status; and

17-61 (C) an explanation of the actions taken by the
17-62 commissioner to ensure compliance and an evaluation of the results
17-63 of those actions;

17-64 (20) a comparison of the performance of
17-65 open-enrollment charter schools and school districts on the
17-66 academic excellence indicators specified in Section 39.051(b) and
17-67 accountability measures adopted under Section 39.051(g), with a
17-68 separately aggregated comparison of the performance of
17-69 open-enrollment charter schools predominantly serving students at

18-1 risk of dropping out of school, as defined by Section 29.081(d),
 18-2 with the performance of school districts; and

18-3 (21) any additional information considered important
 18-4 by the commissioner or the State Board of Education.

18-5 SECTION 1.07. Section 43.001(b), Education Code, is amended
 18-6 to read as follows:

18-7 (b) The available school fund~~[, which shall be apportioned~~
 18-8 ~~annually to each county according to its scholastic population,]~~
 18-9 consists of:

18-10 (1) the interest and dividends arising from any
 18-11 securities or funds belonging to the permanent school fund;

18-12 (2) all interest derivable from the proceeds of the
 18-13 sale of land set apart for the permanent school fund;

18-14 (3) all money derived from the lease of land belonging
 18-15 to the permanent school fund;

18-16 (4) one-fourth of all revenue derived from all state
 18-17 occupation taxes, exclusive of delinquencies and cost of
 18-18 collection;

18-19 (5) one-fourth of revenue derived from state gasoline
 18-20 and special fuels excise taxes as provided by law; and

18-21 (6) all other appropriations to the available school
 18-22 fund made by the legislature for public school purposes.

18-23 SECTION 1.08. Subchapter A, Chapter 44, Education Code, is
 18-24 amended by adding Section 44.0071 to read as follows:

18-25 Sec. 44.0071. COMPUTATION OF INSTRUCTIONAL EXPENDITURES
 18-26 RATIO AND INSTRUCTIONAL EMPLOYEES RATIO. (a) Each fiscal year, a
 18-27 school district shall compute and report to the commissioner:

18-28 (1) the percentage of the district's total
 18-29 expenditures for the preceding fiscal year that were used to fund
 18-30 direct instructional activities; and

18-31 (2) the percentage of the district's full-time
 18-32 equivalent employees during the preceding fiscal year whose job
 18-33 function was to directly provide classroom instruction to students,
 18-34 determined by dividing the number of hours spent by employees in
 18-35 providing direct classroom instruction by the total number of hours
 18-36 worked by all district employees.

18-37 (b) At least annually a school district shall provide
 18-38 educators employed by the district with a list of district
 18-39 employees determined by the district for purposes of this section
 18-40 to be engaged in directly providing classroom instruction to
 18-41 students. The list must include the percentage of time spent by
 18-42 each employee in directly providing classroom instruction to
 18-43 students.

18-44 (c) For purposes of this section, the computation of a
 18-45 district's expenditures used to fund direct instructional
 18-46 activities shall include the salary, including any associated
 18-47 employment taxes, and value of any benefits provided to any
 18-48 district employee who directly provided classroom instruction to
 18-49 students, but only in proportion to the percentage of time spent by
 18-50 the employee in directly providing classroom instruction to
 18-51 students.

18-52 (d) The commissioner shall adopt rules as necessary to
 18-53 implement this section.

18-54 SECTION 1.09. Section 45.003(a), Education Code, is amended
 18-55 to read as follows:

18-56 (a) Bonds described by Section 45.001 may not be issued and
 18-57 taxes described by that section [~~Section 45.001 or 45.002~~] may not
 18-58 be levied unless authorized by a majority of the qualified voters of
 18-59 the district~~[,] voting at an election held for that purpose[, at the~~
 18-60 ~~expense of the district, in accordance with the Election Code,~~
 18-61 ~~except as provided by this section. Each election must be called by~~
 18-62 ~~resolution or order of the governing board or commissioners court.~~
 18-63 ~~The resolution or order must state the date of the election, the~~
 18-64 ~~proposition or propositions to be submitted and voted on, the~~
 18-65 ~~polling place or places, and any other matters considered necessary~~
 18-66 ~~or advisable by the governing board or commissioners court].~~

18-67 SECTION 1.10. Section 43.015, Education Code, is amended by
 18-68 adding Subsection (c-1) to read as follows:

18-69 (c-1) On the 10th day of each month and on the last day of

19-1 the fiscal year, the comptroller shall transfer from the available
 19-2 school fund to the Texas education fund all amounts in the available
 19-3 school fund that the State Board of Education certifies are not
 19-4 needed to purchase and distribute textbooks under Chapter 31.

19-5 SECTION 1.11. Section 46.033, Education Code, is amended to
 19-6 read as follows:

19-7 Sec. 46.033. ELIGIBLE BONDS. Bonds, including bonds issued
 19-8 under Section 45.006, are eligible to be paid with state and local
 19-9 funds under this subchapter if:

19-10 (1) the district made payments on the bonds during the
 19-11 final [2000-2001] school year of the state fiscal biennium
 19-12 preceding the biennium in which the district first receives
 19-13 assistance under this subchapter for the payment of principal of
 19-14 and interest on the bonds or taxes levied to pay the principal of
 19-15 and interest on the bonds were included in the district's audited
 19-16 debt service collections for that school year; and

19-17 (2) the district does not receive state assistance
 19-18 under Subchapter A for payment of the principal and interest on the
 19-19 bonds.

19-20 SECTION 1.12. Section 46.034(c), Education Code, is amended
 19-21 to read as follows:

19-22 (c) If the amount required to pay the principal of and
 19-23 interest on eligible bonds in a school year is less than the amount
 19-24 of payments made by the district on the bonds during the final
 19-25 [2000-2001] school year of the state fiscal biennium preceding the
 19-26 biennium in which the district first receives assistance under this
 19-27 subchapter for the payment of principal of and interest on the bonds
 19-28 or the district's audited debt service collections for that school
 19-29 year, the district may not receive aid in excess of the amount that,
 19-30 when added to the district's local revenue for the school year,
 19-31 equals the amount required to pay the principal of and interest on
 19-32 the bonds.

19-33 SECTION 1.13. The following provisions of the Education
 19-34 Code are repealed:

19-35 (1) Section 33.001, as amended by Chapters 1223 and
 19-36 1487, Acts of the 77th Legislature, Regular Session, 2001;

19-37 (2) Chapters 41 and 42, as added by Chapter 260, Acts
 19-38 of the 74th Legislature, Regular Session, 1995; and

19-39 (3) Sections 11.151(b), 43.001(c), 43.016, 45.002,
 19-40 and 45.003(d).

19-41 SECTION 1.14. (a) The Education Excellence Task Force is
 19-42 composed of:

19-43 (1) five members appointed by the governor;
 19-44 (2) five members appointed by the lieutenant governor,
 19-45 three of whom must be members of the senate; and

19-46 (3) five members appointed by the speaker of the house
 19-47 of representatives, three of whom must be members of the house of
 19-48 representatives.

19-49 (b) The Education Excellence Task Force shall:
 19-50 (1) study academic inputs needed to ensure educational
 19-51 excellence;

19-52 (2) study the "best practices" of exemplary schools;

19-53 (3) analyze cost inputs;

19-54 (4) assess educational funding formulas and weights
 19-55 and any impacts on educational programs provided to sustain the
 19-56 weights; and

19-57 (5) study educational programs designed to improve
 19-58 high school graduation rates.

19-59 (c) The Education Excellence Task Force shall, not later
 19-60 than December 1, 2004, submit to the lieutenant governor, the
 19-61 speaker of the house of representatives, and the legislature a
 19-62 comprehensive study of the academic and funding elements needed to
 19-63 ensure the opportunity for educational excellence of every Texas
 19-64 student. The report must include specific recommendations for
 19-65 improving student performance on the Texas Assessment of Knowledge
 19-66 and Skills, for increasing high school graduation rates, and for
 19-67 revising the education funding formulas and weights to promote
 19-68 educational excellence.

19-69 SECTION 1.15. (a) Except as otherwise provided by this

Act, this article takes effect September 1, 2004, and applies beginning with the 2004-2005 school year.

(b) Chapter 42, Education Code, as added by this Act, applies beginning with the 2005-2006 school year.

SECTION 1.16. (a) A school district maintenance tax rate imposed under Sections 45.002 and 45.003, Education Code, before September 1, 2004, is void. The board of trustees of a school district may not impose a district enrichment tax under Chapter 42, Education Code, as added by this Act, without holding an election in compliance with that chapter.

(b) The repeal by this Act of Section 45.002, Education Code, does not affect the authority of a school district to collect and use delinquent ad valorem taxes imposed under that section before September 1, 2004.

(c) The repeal of Chapter 42, Education Code, by this Act does not affect the liability of a school district for excess administrative costs during the 2003-2004 school year that the commissioner of education is entitled to recover during the 2004-2005 school year under Section 42.201(d), Education Code, as that subsection existed on January 1, 2003, and the former law is continued in effect for that purpose.

SECTION 1.17. A reference in this code or other law to the Foundation School Program means the Texas Education Excellence Program. A reference in this code or other law to the foundation school fund means the Texas education fund.

ARTICLE 2. TEXAS EDUCATION FUND

SECTION 2.01. Chapter 45, Education Code, is amended by adding Subchapter I to read as follows:

SUBCHAPTER I. TEXAS EDUCATION FUND

Sec. 45.251. TEXAS EDUCATION FUND. (a) The Texas education fund is a fund maintained by the comptroller within the general revenue fund. The Texas education fund consists of the tax revenue allocated to the fund under Section 5A, Article VII, Texas Constitution.

(b) The state ad valorem tax rate is \$0.75 for each \$100 of the taxable value of property subject to the tax.

(c) Except as otherwise provided by law, the state shall be treated, for purposes of the state ad valorem tax, as a taxing unit under Title 1, Tax Code.

Sec. 45.252. APPRAISAL OF PROPERTY. (a) Property subject to the state ad valorem tax shall be appraised by the appraisal district for the county in which the property is located.

(b) Property subject to the state ad valorem tax shall be appraised in the manner provided by Title 1, Tax Code, for the appraisal of property that is subject to ad valorem taxation by a county.

Sec. 45.253. TAX COLLECTION. (a) In each county, the assessor-collector for the county shall assess and collect state ad valorem taxes imposed on property in that county.

(b) If the commissioners court of a county contracts with an official, taxing unit, or political subdivision of this state for the assessment or collection of the ad valorem taxes of the county, the official, taxing unit, or political subdivision shall also assess or collect, as applicable, the state ad valorem taxes imposed on property in that county.

(c) Each assessor or collector of state ad valorem taxes is entitled to be reimbursed by the comptroller for the actual costs incurred by the assessor or collector in assessing or collecting state ad valorem taxes. However, an assessor or collector is not entitled to be reimbursed for any amount that is greater than the additional incremental costs incurred in assessing or collecting the state ad valorem taxes.

(d) The comptroller shall:

(1) prescribe methods of accounting for and remitting state ad valorem taxes;

(2) prescribe methods for establishing an assessor's or collector's additional incremental costs incurred in assessing or collecting state ad valorem taxes;

(3) prescribe and furnish forms for periodic reports

21-1 relating to state ad valorem taxes; and

21-2 (4) periodically examine the records of each assessor
 21-3 or collector of state ad valorem taxes to verify the accuracy of any
 21-4 reports required under this subsection.

21-5 Sec. 45.254. DUTIES AND POWERS OF COMPTROLLER. (a) Except
 21-6 as otherwise provided by this subchapter, a duty imposed on or power
 21-7 granted to the governing body of a taxing unit by Title 1, Tax Code,
 21-8 may, for purposes of the state ad valorem tax under this subchapter,
 21-9 be exercised by the comptroller. A reference to the presiding
 21-10 officer of a governing body in Title 1, Tax Code, is a reference to
 21-11 the comptroller for the purposes of the state tax under this
 21-12 subchapter.

21-13 (b) The comptroller may delegate to the county
 21-14 assessor-collector any function of the comptroller with respect to
 21-15 the state ad valorem tax and may designate the county
 21-16 assessor-collector as the comptroller's agent for purposes of
 21-17 administration of the state ad valorem tax.

21-18 Sec. 45.255. ADMINISTRATION AND REFUND ACCOUNTS. The
 21-19 comptroller shall deposit to the credit of the general revenue fund
 21-20 in appropriately designated accounts an amount of revenue collected
 21-21 from the state ad valorem tax to pay for the comptroller's expenses
 21-22 in administering this subchapter and for the payment of tax refunds
 21-23 that may become payable.

21-24 Sec. 45.256. NONAPPLICABILITY OF CERTAIN OTHER TAX LAWS.
 21-25 Title 2, Tax Code, does not apply to the state ad valorem tax under
 21-26 this subchapter.

21-27 SECTION 2.02. Except as otherwise provided by this Act,
 21-28 this article takes effect January 1, 2004.

21-29 ARTICLE 3. AMENDMENTS TO PROPERTY TAX CODE

21-30 SECTION 3.01. Subchapter A, Chapter 6, Tax Code, is amended
 21-31 by adding Section 6.038 to read as follows:

21-32 Sec. 6.038. STATE PARTICIPATION. (a) The comptroller and
 21-33 the state do not participate in the election of the board of
 21-34 directors of an appraisal district, the governance or management of
 21-35 the district, or the determination of the district's finances and
 21-36 budget.

21-37 (b) The comptroller by rule shall establish guidelines and
 21-38 criteria under which, if the comptroller finds that generally
 21-39 accepted appraisal standards and practices were not used by the
 21-40 appraisal district appraising property subject to the state ad
 21-41 valorem tax or that the appraised values assigned to property
 21-42 subject to that tax are invalid, the comptroller may:

21-43 (1) withhold payment of all or part of the portion of
 21-44 the amount of the budget of the appraisal district that is allocated
 21-45 to the state until the district takes appropriate actions to remedy
 21-46 the deficiencies in appraisals found by the comptroller; or

21-47 (2) direct that all or any part of the portion of the
 21-48 amount of the budget of the district allocated to the state be
 21-49 applied to remedying those deficiencies.

21-50 SECTION 3.02. Section 6.06(d), Tax Code, is amended to read
 21-51 as follows:

21-52 (d) The state and each [Each] taxing unit participating in
 21-53 the district is allocated a portion of the amount of the budget
 21-54 equal to the proportion that the total dollar amount of property
 21-55 taxes imposed in the district by the state or taxing unit for the
 21-56 tax year in which the budget proposal is prepared bears to the sum
 21-57 of the total dollar amount of property taxes imposed in the district
 21-58 by the state and each participating unit for that year. For
 21-59 purposes of this subsection, only state ad valorem taxes imposed in
 21-60 the county for which the district is established are considered as
 21-61 state ad valorem taxes imposed in the district. If a taxing unit
 21-62 participates in two or more districts, only the taxes imposed in a
 21-63 district are used to calculate the unit's cost allocations in that
 21-64 district. If the number of real property parcels in a taxing unit
 21-65 is less than 5 percent of the total number of real property parcels
 21-66 in the district and the taxing unit imposes in excess of 25 percent
 21-67 of the total amount of the property taxes imposed in the district by
 21-68 all of the participating taxing units for a year, the unit's
 21-69 allocation may not exceed a percentage of the appraisal district's

22-1 budget equal to three times the unit's percentage of the total
22-2 number of real property parcels appraised by the district.

22-3 SECTION 3.03. Sections 11.13(b) and (c), Tax Code, are
22-4 amended to read as follows:

22-5 (b) An adult is entitled to exemption from taxation by the
22-6 state for public school purposes or by a school district of \$15,000
22-7 of the appraised value of the adult's residence homestead, except
22-8 that \$10,000 of the exemption does not apply to an entity operating
22-9 under former Chapter 17, 18, 25, 26, 27, or 28, Education Code, as
22-10 those chapters existed on May 1, 1995, as permitted by Section
22-11 11.301, Education Code.

22-12 (c) In addition to the exemption provided by Subsection (b)
22-13 [~~of this section~~], an adult who is disabled or is 65 years of age or
22-14 older is entitled to an exemption from taxation by the state for
22-15 public school purposes or by a school district of \$10,000 of the
22-16 appraised value of the adult's [his] residence homestead.

22-17 SECTION 3.04. Section 11.14, Tax Code, is amended by adding
22-18 Subsection (f) to read as follows:

22-19 (f) Subsection (c) does not apply to the comptroller or to
22-20 the state ad valorem tax.

22-21 SECTION 3.05. Section 11.251(i), Tax Code, is amended to
22-22 read as follows:

22-23 (i) The exemption provided by Subsection (b) does not apply
22-24 to a taxing unit that takes action to tax the property under Article
22-25 VIII, Section 1-j, Subsection (b), of the Texas Constitution. If
22-26 the property is located in a school district that taxes the property
22-27 in the tax year, the property is not exempt from state ad valorem
22-28 taxes imposed under Article VIII, Section 1-n, Texas Constitution,
22-29 in that tax year.

22-30 SECTION 3.06. The heading to Section 11.26, Tax Code, is
22-31 amended to read as follows:

22-32 Sec. 11.26. LIMITATION OF SCHOOL TAXES [~~TAX~~] ON HOMESTEADS
22-33 OF ELDERLY.

22-34 SECTION 3.07. Section 11.26, Tax Code, is amended by
22-35 amending Subsections (a), (b), (g), (h), (j), and (k) and adding
22-36 Subsections (a-1) and (g-1) to read as follows:

22-37 (a) The tax officials shall appraise the property to which
22-38 this section applies and calculate taxes as on other property, but
22-39 if the tax so calculated exceeds the limitation imposed by this
22-40 section, the tax imposed is the amount of the tax as limited by this
22-41 section, except as otherwise provided by this section. The state or
22-42 a [A] school district may not increase the total annual amount of ad
22-43 valorem tax it imposes on the residence homestead of an individual
22-44 65 years or older above the amount of the tax it imposed in the first
22-45 tax year in which the individual qualified that residence homestead
22-46 for the exemption provided by Section 11.13(c) for an individual 65
22-47 years of age or older. If the individual qualified that residence
22-48 homestead for the exemption after the beginning of that first year
22-49 and the residence homestead remains eligible for the exemption for
22-50 the next year, and if the school [district] taxes imposed by the
22-51 state or the school district taxes on the residence homestead in the
22-52 next year are less than the amount of taxes it imposed in that first
22-53 year, the state or a school district may not subsequently increase
22-54 the total annual amount of ad valorem taxes it imposes on the
22-55 residence homestead above the amount it imposed in the year
22-56 immediately following the first year for which the individual
22-57 qualified that residence homestead for the exemption, except as
22-58 provided by Subsection (b).

22-59 (a-1) If the first tax year the individual qualified the
22-60 residence homestead for the exemption provided by Section 11.13(c)
22-61 was a tax year before the 2004 [1997] tax year, except as provided
22-62 by Subsection (b):

22-63 (1) the amount of the limitation on state taxes
22-64 provided by this section is the amount of tax the school district in
22-65 which the property is located imposed for the 2003 [1996] tax year
22-66 [less an amount equal to the amount determined by multiplying
22-67 \$10,000 times the tax rate of the school district for the 1997 tax
22-68 year,] plus any 2004 state [1997] tax attributable to improvements
22-69 made in 2003 [1996], other than improvements made to comply with

23-1 governmental regulations or repairs; and
 23-2 (2) the amount of the limitation provided by this
 23-3 section on school district taxes is the amount of tax the school
 23-4 district imposed for the 2003 tax year less the amount of state
 23-5 taxes imposed in the 2004 tax year, plus any 2004 school taxes
 23-6 attributable to improvements made in 2003, other than improvements
 23-7 made to comply with governmental regulations or repairs.

23-8 (b) If an individual makes improvements to the individual's
 23-9 residence homestead, other than improvements required to comply
 23-10 with governmental requirements or repairs, the state or the school
 23-11 district may increase the tax on the homestead in the first year the
 23-12 value of the homestead is increased on the appraisal roll because of
 23-13 the enhancement of value by the improvements. The amount of the tax
 23-14 increase is determined by applying the current tax rate to the
 23-15 difference in the assessed value of the homestead with the
 23-16 improvements and the assessed value it would have had without the
 23-17 improvements. A limitation imposed by this section then applies to
 23-18 the increased amount of tax until more improvements, if any, are
 23-19 made.

23-20 (g) Except as provided by Subsection (b), if an individual
 23-21 who receives a limitation on tax increases imposed by this section,
 23-22 including a surviving spouse who receives a limitation under
 23-23 Subsection (i), subsequently qualifies a different residence
 23-24 homestead for an exemption under Section 11.13, the state or a
 23-25 school district may not impose ad valorem taxes on the subsequently
 23-26 qualified homestead in a year in an amount that exceeds the amount
 23-27 of taxes the state or the school district would have imposed on the
 23-28 subsequently qualified homestead in the first year in which the
 23-29 individual receives that exemption for the subsequently qualified
 23-30 homestead had the limitation on tax increases imposed by this
 23-31 section not been in effect, multiplied by a fraction the numerator
 23-32 of which is the total amount of [~~school district~~] taxes imposed by
 23-33 the state or the school district on the former homestead in the last
 23-34 year in which the individual received that exemption for the former
 23-35 homestead and the denominator of which is the total amount of taxes
 23-36 the state or the school district [~~taxes that~~] would have [~~been~~]
 23-37 imposed on the former homestead in the last year in which the
 23-38 individual received that exemption for the former homestead had the
 23-39 limitation on tax increases imposed by this section not been in
 23-40 effect.

23-41 (g-1) Subsection (g) does not apply to a residence homestead
 23-42 to which this subsection applies. Except as provided by Subsection
 23-43 (b), if an individual who receives a limitation on tax increases
 23-44 imposed by this section in a tax year before the 2004 tax year,
 23-45 including a surviving spouse who receives a limitation under
 23-46 Subsection (i), subsequently qualifies a different residence
 23-47 homestead for an exemption under Section 11.13 and the first year in
 23-48 which the subsequently qualified homestead qualifies for the
 23-49 exemption is a tax year after the 2003 tax year:

23-50 (1) the state may not impose taxes on the subsequently
 23-51 qualified homestead in an amount that exceeds the amount of taxes
 23-52 the state would have imposed on the subsequently qualified
 23-53 homestead in the first year in which the individual receives that
 23-54 exemption for the subsequently qualified homestead had the
 23-55 limitation on tax increases imposed by this section not been in
 23-56 effect, multiplied by a fraction the numerator of which is the total
 23-57 amount of school district taxes imposed on the former homestead in
 23-58 the last year in which the individual received that exemption for
 23-59 the former homestead and the denominator of which is the total
 23-60 amount of school district taxes that would have been imposed on the
 23-61 former homestead in the last year in which the individual received
 23-62 that exemption for the former homestead had the limitations on tax
 23-63 increases imposed by this section not been in effect; and

23-64 (2) the school district may not impose taxes on the
 23-65 subsequently qualified homestead in an amount that exceeds the
 23-66 positive amount, if any, by which the limitation on state taxes
 23-67 calculated under Subdivision (1) exceeds the amount of state taxes
 23-68 imposed in the first year in which the subsequently qualified
 23-69 homestead receives the exemption.

24-1 (h) An individual who receives a limitation on tax increases
 24-2 under this section, including a surviving spouse who receives a
 24-3 limitation under Subsection (i), and who subsequently qualifies a
 24-4 different residence homestead for an exemption under Section 11.13,
 24-5 or an agent of the individual, is entitled to receive from the chief
 24-6 appraiser of the appraisal district in which the former homestead
 24-7 was located a written certificate providing the information
 24-8 necessary to determine whether the individual may qualify for a
 24-9 limitation on the subsequently qualified homestead under
 24-10 Subsection (g) or (g-1) and to calculate the amount of taxes the
 24-11 state or the school district may impose on the subsequently
 24-12 qualified homestead.

24-13 (j) If an individual who qualifies for an exemption provided
 24-14 by Section 11.13(c) for an individual 65 years of age or older dies
 24-15 in the first year in which the individual qualified for the
 24-16 exemption and the individual first qualified for the exemption
 24-17 after the beginning of that year, except as provided by Subsection
 24-18 (k), the amount to which the surviving spouse's state or school
 24-19 district taxes are limited under Subsection (i) is the amount of
 24-20 state or school district taxes imposed on the residence homestead
 24-21 in that year determined as if the individual qualifying for the
 24-22 exemption had lived for the entire year.

24-23 (k) If in the first tax year after the year in which an
 24-24 individual dies in the circumstances described by Subsection (j)
 24-25 the amount of [~~school district~~] taxes imposed by the state or the
 24-26 school district on the residence homestead of the surviving spouse
 24-27 is less than the amount of state or school district taxes imposed in
 24-28 the preceding year as limited by Subsection (j), in a subsequent tax
 24-29 year the surviving spouse's state or school district taxes on that
 24-30 residence homestead are limited to the amount of taxes imposed by
 24-31 the state or the school district in that first tax year after the
 24-32 year in which the individual dies.

24-33 SECTION 3.08. Section 21.03(a), Tax Code, is amended to
 24-34 read as follows:

24-35 (a) If personal property that is taxable by this state or a
 24-36 taxing unit of this state is used continually outside this state,
 24-37 whether regularly or irregularly, the appraisal office shall
 24-38 allocate to this state the portion of the total market value of the
 24-39 property that fairly reflects its use in this state.

24-40 SECTION 3.09. Section 21.031(a), Tax Code, is amended to
 24-41 read as follows:

24-42 (a) If a vessel or other watercraft that is taxable by this
 24-43 state or a taxing unit of this state is used continually outside
 24-44 this state, whether regularly or irregularly, the appraisal office
 24-45 shall allocate to this state the portion of the total market value
 24-46 of the vessel or watercraft that fairly reflects its use in this
 24-47 state. The appraisal office shall not allocate to this state the
 24-48 portion of the total market value of the vessel or watercraft that
 24-49 fairly reflects its use in another state or country, in
 24-50 international waters, or beyond the Gulfward boundary of this
 24-51 state.

24-52 SECTION 3.10. Section 23.46(d), Tax Code, is amended to
 24-53 read as follows:

24-54 (d) A tax lien attaches to the land on the date the sale or
 24-55 change of use occurs to secure payment of the additional tax and
 24-56 interest imposed by Subsection (c) [~~of this section~~] and any
 24-57 penalties incurred. The lien exists in favor of the state and all
 24-58 taxing units for which the additional tax is imposed.

24-59 SECTION 3.11. Section 23.55(b), Tax Code, is amended to
 24-60 read as follows:

24-61 (b) A tax lien attaches to the land on the date the change of
 24-62 use occurs to secure payment of the additional tax and interest
 24-63 imposed by this section and any penalties incurred. The lien exists
 24-64 in favor of the state and all taxing units for which the additional
 24-65 tax is imposed.

24-66 SECTION 3.12. Section 23.76(b), Tax Code, is amended to
 24-67 read as follows:

24-68 (b) A tax lien attaches to the land on the date the change of
 24-69 use occurs to secure payment of the additional tax and interest

25-1 imposed by this section and any penalties incurred. The lien exists
 25-2 in favor of the state and all taxing units for which the additional
 25-3 tax is imposed.

25-4 SECTION 3.13. Section 23.86(b), Tax Code, is amended to
 25-5 read as follows:

25-6 (b) A tax lien attaches to the land on the date the change of
 25-7 use occurs or the deed restriction expires to secure payment of the
 25-8 additional tax and interest imposed by this section and any
 25-9 penalties incurred. The lien exists in favor of the state and all
 25-10 taxing units for which the additional tax is imposed.

25-11 SECTION 3.14. Section 23.96(b), Tax Code, is amended to
 25-12 read as follows:

25-13 (b) A tax lien attaches to the property on the date the deed
 25-14 restriction expires to secure payment of the additional tax and
 25-15 interest imposed by this section and any penalties incurred. The
 25-16 lien exists in favor of the state and all taxing units for which the
 25-17 additional tax is imposed.

25-18 SECTION 3.15. Section 23.9807(c), Tax Code, is amended to
 25-19 read as follows:

25-20 (c) A tax lien attaches to the land on the date the change of
 25-21 use occurs to secure payment of the additional tax and interest
 25-22 imposed by this section and any penalties incurred. The lien exists
 25-23 in favor of the state and all taxing units for which the additional
 25-24 tax is imposed.

25-25 SECTION 3.16. Section 24.39, Tax Code, is amended to read as
 25-26 follows:

25-27 Sec. 24.39. IMPOSITION OF TAX. (a) The county
 25-28 assessor-collector and commissioners court may not change the
 25-29 apportioned values certified as provided by this subchapter.

25-30 (b) The county assessor-collector shall add each owner's
 25-31 rolling stock and the value apportioned to the county as certified
 25-32 to that official ~~[him]~~ to the appraisal roll certified to that
 25-33 official ~~[him]~~ by the chief appraiser as provided by Section 26.01
 25-34 ~~[of this code]~~ for county tax purposes and to the appraisal roll for
 25-35 state ad valorem taxes. The county assessor-collector [He] shall
 25-36 calculate the county and state taxes ~~[tax]~~ due on the rolling stock
 25-37 as provided by Section 26.09 ~~[of this code]~~.

25-38 SECTION 3.17. Section 25.19(b), Tax Code, as amended by
 25-39 Chapters 1358 and 1517, Acts of the 76th Legislature, Regular
 25-40 Session, 1999, is reenacted and amended to read as follows:

25-41 (b) The chief appraiser shall separate real from personal
 25-42 property and include in the notice for each:

25-43 (1) a list of the taxing units in which the property is
 25-44 taxable and a statement that the property is subject to the state
 25-45 tax to support the public schools;

25-46 (2) the appraised value of the property in the
 25-47 preceding year;

25-48 (3) the taxable value of the property in the preceding
 25-49 year for each taxing unit taxing the property and for state
 25-50 taxation;

25-51 (4) the appraised value of the property for the
 25-52 current year and the kind and amount of each partial exemption, if
 25-53 any, approved for the current year;

25-54 (5) if the appraised value is greater than it was in
 25-55 the preceding year:

25-56 (A) the effective tax rate for each taxing unit
 25-57 other than the state that would be announced pursuant to Chapter 26
 25-58 if the total values being submitted to the appraisal review board
 25-59 were to be approved by the board with an explanation that that rate
 25-60 would raise the same amount of revenue from property taxed in the
 25-61 preceding year as the unit raised for those purposes in the
 25-62 preceding year;

25-63 (B) the amount of tax that would be imposed on the
 25-64 property on the basis of each ~~[the]~~ rate described by Paragraph (A);
 25-65 and

25-66 (C) a statement that the governing body of a
 25-67 local taxing ~~[the]~~ unit may not adopt a rate that will increase tax
 25-68 revenues for operating purposes from properties taxed in the
 25-69 preceding year without publishing notice in a newspaper that it is

26-1 considering a tax increase and holding a hearing for taxpayers to
26-2 discuss the tax increase;

26-3 (6) if the appraised value is greater than it was in
26-4 the preceding year, the amount of tax that would be imposed on the
26-5 property on the basis of the tax rate for the preceding year;

26-6 (7) in italic typeface, the following statement: "The
26-7 Texas Legislature does not set the amount of your local taxes. Your
26-8 local property tax burden is decided by your locally elected
26-9 officials, and all inquiries concerning your local taxes should be
26-10 directed to those officials";

26-11 (8) a detailed explanation of the time and procedure
26-12 for protesting the value; ~~and~~

26-13 (9) the date and place the appraisal review board will
26-14 begin hearing protests; and

26-15 (10) a brief explanation that the governing body of
26-16 each local taxing unit decides whether ~~or not~~ taxes on the
26-17 property will increase and the appraisal district only determines
26-18 the value of the property.

26-19 SECTION 3.18. The heading to Section 26.01, Tax Code, is
26-20 amended to read as follows:

26-21 Sec. 26.01. SUBMISSION OF ROLLS TO STATE AND TAXING UNITS.

26-22 SECTION 3.19. Sections 26.01(a), ~~(c)~~, and (d), Tax Code,
26-23 are amended to read as follows:

26-24 (a) By July 25, the chief appraiser shall prepare and
26-25 certify to the assessor for each taxing unit participating in the
26-26 district that part of the appraisal roll for the district that lists
26-27 the property taxable by the unit. By that date the chief appraiser
26-28 shall prepare and certify to the comptroller that part of the
26-29 appraisal roll for the district that lists property taxable by the
26-30 state. The part certified to the assessor or the comptroller is the
26-31 appraisal roll for the taxing unit or the state. The chief
26-32 appraiser shall consult with the assessor for each taxing unit and
26-33 the comptroller and notify each taxing unit and the comptroller in
26-34 writing by April 1 of the form in which the roll will be provided to
26-35 each unit and to the comptroller.

26-36 (c) The chief appraiser shall prepare and certify to the
26-37 assessor for each taxing unit and the comptroller a listing of those
26-38 properties which are taxable by that unit or the state but which are
26-39 under protest and therefore not included on the appraisal roll
26-40 approved by the appraisal review board and certified by the chief
26-41 appraiser. This listing shall include the appraised market value,
26-42 productivity value (if applicable), and taxable value as determined
26-43 by the appraisal district and shall also include the market value,
26-44 taxable value, and productivity value (if applicable) as claimed by
26-45 the property owner filing the protest if available. If the property
26-46 owner does not claim a value and the appraised value of the property
26-47 in the current year is equal to or less than its value in the
26-48 preceding year, the listing shall include a reasonable estimate of
26-49 the market value, taxable value, and productivity value (if
26-50 applicable) that would be assigned to the property if the
26-51 taxpayer's claim is upheld. If the property owner does not claim a
26-52 value and the appraised value of the property is higher than its
26-53 appraised value in the preceding year, the listing shall include
26-54 the appraised market value, productivity value (if applicable) and
26-55 taxable value of the property in the preceding year, except that if
26-56 there is a reasonable likelihood that the appraisal review board
26-57 will approve a lower appraised value for the property than its
26-58 appraised value in the preceding year, the chief appraiser shall
26-59 make a reasonable estimate of the taxable value that would be
26-60 assigned to the property if the property owner's claim is upheld.
26-61 The taxing unit shall use the lower value for calculations as
26-62 prescribed in Sections 26.04 and 26.041 ~~[of this code]~~.

26-63 (d) The chief appraiser shall prepare and certify to the
26-64 assessor for each taxing unit and the comptroller a list of those
26-65 properties of which the chief appraiser has knowledge that are
26-66 reasonably likely to be taxable by that unit or the state but that
26-67 are not included on the appraisal roll certified to the assessor or
26-68 the comptroller under Subsection (a) or included on the listing
26-69 certified to the assessor or the comptroller under Subsection (c).

27-1 The chief appraiser shall include on the list for each property the
 27-2 market value, appraised value, and kind and amount of any partial
 27-3 exemptions as determined by the appraisal district for the
 27-4 preceding year and a reasonable estimate of the market value,
 27-5 appraised value, and kind and amount of any partial exemptions for
 27-6 the current year. Until the property is added to the appraisal
 27-7 roll, the assessor for the taxing unit shall include each property
 27-8 on the list in the calculations prescribed by Sections 26.04 and
 27-9 26.041, and for that purpose shall use the lower market value,
 27-10 appraised value, or taxable value, as appropriate, included on or
 27-11 computed using the information included on the list for the
 27-12 property.

27-13 SECTION 3.20. Chapter 26, Tax Code, is amended by adding
 27-14 Section 26.011 to read as follows:

27-15 Sec. 26.011. PROVISIONS EXCLUDED FOR STATE TAX. Sections
 27-16 26.04, 26.041, 26.05, 26.051, 26.06, 26.07, and 26.08 do not apply
 27-17 to the state ad valorem tax or to the comptroller.

27-18 SECTION 3.21. Sections 26.09(b) and (c), Tax Code, are
 27-19 amended to read as follows:

27-20 (b) The county assessor-collector shall add the properties
 27-21 and their values certified to that official [him] as provided by
 27-22 Chapter 24 ~~[of this code]~~ to the appraisal roll for county tax
 27-23 purposes and to the appraisal roll for state ad valorem taxes. The
 27-24 county assessor-collector shall use the appropriate appraisal roll
 27-25 certified to that official [him] as provided by Section 26.01 with
 27-26 the added properties and values to calculate county and state
 27-27 taxes.

27-28 (c) The tax is calculated by:

27-29 (1) subtracting from the appraised value of a property
 27-30 as shown on the appraisal roll for a taxing ~~[the]~~ unit or the state
 27-31 the amount of any partial exemption allowed the property owner that
 27-32 applies to appraised value to determine taxable [net appraised]
 27-33 value; and

27-34 ~~(2) [multiplying the net appraised value by the~~
 27-35 ~~assessment ratio to determine assessed value;~~

27-36 ~~[(3) subtracting from the assessed value the amount of~~
 27-37 ~~any partial exemption allowed the property owner to determine~~
 27-38 ~~taxable value; and~~

27-39 ~~[(4)]~~ multiplying the taxable value by the applicable
 27-40 tax rate.

27-41 SECTION 3.22. Section 26.12, Tax Code, is amended by adding
 27-42 Subsection (e) to read as follows:

27-43 (e) For purposes of this section, the state is not a taxing
 27-44 unit.

27-45 SECTION 3.23. Section 26.15(c), Tax Code, is amended to
 27-46 read as follows:

27-47 (c) At any time, the governing body of a taxing unit, on
 27-48 motion of the assessor for the unit or of a property owner, shall
 27-49 direct by written order changes in the tax roll to correct errors in
 27-50 the mathematical computation of a tax. The assessor shall enter the
 27-51 corrections ordered by the governing body. The comptroller may
 27-52 order changes on the state tax roll to correct errors in the
 27-53 mathematical computation of the state tax.

27-54 SECTION 3.24. Section 31.11(a), Tax Code, is amended to
 27-55 read as follows:

27-56 (a) If a taxpayer applies to the tax collector of a taxing
 27-57 unit for a refund of an overpayment or erroneous payment of taxes
 27-58 and the auditor for the unit or the comptroller in the case of the
 27-59 state ad valorem tax determines that the payment was erroneous or
 27-60 excessive, the tax collector shall refund the amount of the
 27-61 excessive or erroneous payment from available current tax
 27-62 collections or from funds appropriated by the unit for making
 27-63 refunds. For taxes other than state ad valorem taxes [However],
 27-64 the collector may not make the refund unless the governing body of the
 27-65 taxing unit or the governing body of a taxing unit that collects
 27-66 another unit's taxes also determines that the payment was erroneous
 27-67 or excessive and approves the refund if the amount of the refund
 27-68 exceeds:

27-69 (1) \$2,500 for a refund to be paid by a county with a

28-1 population of 1.5 million or more; or

28-2 (2) \$500 for a refund to be paid by any other taxing
28-3 unit.

28-4 SECTION 3.25. Sections 32.01(a) and (d), Tax Code, are
28-5 amended to read as follows:

28-6 (a) On January 1 of each year, a tax lien attaches to
28-7 property to secure the payment of all taxes, penalties, and
28-8 interest ultimately imposed for the year by the state or a taxing
28-9 unit on the property, whether or not the taxes are imposed in the
28-10 year the lien attaches. The lien to secure the payment of state ad
28-11 valorem taxes and applicable penalties and interest exists in favor
28-12 of the state. The lien to secure the payment of taxes imposed by a
28-13 taxing unit and applicable penalties and interest exists in favor
28-14 of the [each] taxing unit having power to tax the property.

28-15 (d) The lien under this section is perfected on attachment
28-16 and, except as provided by Section 32.03(b), perfection requires no
28-17 further action by the state or taxing unit.

28-18 SECTION 3.26. Section 33.01(a), Tax Code, is amended to
28-19 read as follows:

28-20 (a) A delinquent tax, including a delinquent state ad
28-21 valorem tax, incurs a penalty of six percent of the amount of the
28-22 tax for the first calendar month it is delinquent plus one percent
28-23 for each additional month or portion of a month the tax remains
28-24 unpaid prior to July 1 of the year in which it becomes delinquent.
28-25 However, a tax delinquent on July 1 incurs a total penalty of twelve
28-26 percent of the amount of the delinquent tax without regard to the
28-27 number of months the tax has been delinquent. A delinquent tax
28-28 continues to incur the penalty provided by this subsection as long
28-29 as the tax remains unpaid, regardless of whether a judgment for the
28-30 delinquent tax has been rendered.

28-31 SECTION 3.27. Subchapter A, Chapter 33, Tax Code, is
28-32 amended by adding Section 33.10 to read as follows:

28-33 Sec. 33.10. COLLECTION OF DELINQUENT STATE AD VALOREM
28-34 TAXES; PENALTY. (a) Except as provided by Subsection (b), the
28-35 attorney general shall represent the state to enforce the
28-36 collection of delinquent state ad valorem taxes. The attorney
28-37 general may delegate the attorney general's duties under this
28-38 subsection to a county or district attorney or may contract with a
28-39 private attorney for the performance of those duties.

28-40 (b) If the commissioners court of a county contracts with a
28-41 private attorney for the collection of delinquent county ad valorem
28-42 taxes, the contract applies to the collection of delinquent state
28-43 ad valorem taxes on property taxable in that county without further
28-44 action. The compensation of the private attorney for collecting
28-45 delinquent state ad valorem taxes is equal to a percentage of the
28-46 amount collected that represents the portion of that amount
28-47 attributable to the additional penalty provided by Subsection (c).
28-48 If the commissioners court of a county contracts with an official,
28-49 taxing unit, or political subdivision of this state for the
28-50 collection of the ad valorem taxes of the county that includes the
28-51 collection of delinquent county taxes, the contract applies to the
28-52 collection of delinquent state ad valorem taxes on property taxable
28-53 in that county without further action.

28-54 (c) State ad valorem taxes that remain delinquent on July 1
28-55 of the year in which they become delinquent incur an additional
28-56 penalty to defray costs of collection if the collection of the
28-57 delinquent taxes is covered by a contract with a private attorney
28-58 under Subsection (a) or (b). The amount of the penalty is 15
28-59 percent of the amount of the taxes, penalty, and interest due.

28-60 (d) A tax lien attaches in favor of the state to the property
28-61 on which the tax is imposed to secure payment of the penalty.

28-62 (e) The attorney general or the person responsible for
28-63 collecting the delinquent tax shall deliver a notice of delinquency
28-64 and of the penalty to the property owner at least 30 and not more
28-65 than 60 days before July 1.

28-66 (f) Sections 6.30, 33.07, and 33.08 do not apply to the
28-67 state ad valorem tax.

28-68 SECTION 3.28. Sections 33.21(a) and (b), Tax Code, are
28-69 amended to read as follows:

29-1 (a) A person's personal property is subject to seizure for
 29-2 the payment of a delinquent tax, penalty, and interest the person
 29-3 [he] owes the state or a taxing unit on property.

29-4 (b) A person's personal property is subject to seizure for
 29-5 the payment of a tax imposed by the state or a taxing unit on the
 29-6 person's [his] property before the tax becomes delinquent if:

29-7 (1) the collector discovers that property on which the
 29-8 tax has been or will be imposed is about to be removed from the
 29-9 county; and

29-10 (2) the collector knows of no other personal property
 29-11 in the county from which the tax may be satisfied.

29-12 SECTION 3.29. Section 33.23(b), Tax Code, is amended to
 29-13 read as follows:

29-14 (b) A bond may not be required of the state or a taxing unit
 29-15 for issuance or delivery of a tax warrant, and a fee or court cost
 29-16 may not be charged for issuance or delivery of a warrant.

29-17 SECTION 3.30. Section 33.44(b), Tax Code, is amended to
 29-18 read as follows:

29-19 (b) For purposes of joining a county, citation may be served
 29-20 on the county ~~[tax]~~ assessor-collector. For purposes of joining
 29-21 any other taxing unit, citation may be served on the officer charged
 29-22 with collecting taxes for the unit or on the presiding officer or
 29-23 secretary of the governing body of the unit. For purposes of
 29-24 joining the state, citation shall be served on the county
 29-25 assessor-collector. Citation may be served by certified mail,
 29-26 return receipt requested. A person on whom service is authorized by
 29-27 this subsection may waive the issuance and service of citation in
 29-28 behalf of the person's [his] taxing unit.

29-29 SECTION 3.31. Section 34.04(b), Tax Code, is amended to
 29-30 read as follows:

29-31 (b) A copy of the petition shall be served, in the manner
 29-32 prescribed by Rule 21a, Texas Rules of Civil Procedure, as amended,
 29-33 or that rule's successor, on all parties to the underlying action
 29-34 not later than the 20th day before the date set for a hearing on the
 29-35 petition. The attorney general represents the state at the hearing
 29-36 unless the attorney general delegates that duty to the county or
 29-37 district attorney.

29-38 SECTION 3.32. The heading to Chapter 41, Tax Code, is
 29-39 amended to read as follows:

29-40 CHAPTER 41. ADMINISTRATIVE [LOCAL] REVIEW

29-41 SECTION 3.33. Section 41.03, Tax Code, is amended to read as
 29-42 follows:

29-43 Sec. 41.03. CHALLENGE BY STATE OR TAXING UNIT. (a) The
 29-44 state or a [A] taxing unit is entitled to challenge before the
 29-45 appraisal review board:

29-46 (1) the level of appraisals of any category of
 29-47 property in the district or in any territory in the district, but
 29-48 not the appraised value of a single taxpayer's property;

29-49 (2) an exclusion of property from the appraisal
 29-50 records;

29-51 (3) a grant in whole or in part of a partial exemption;

29-52 (4) a determination that land qualifies for appraisal
 29-53 as provided by Subchapter C, D, E, or H, Chapter 23; or

29-54 (5) failure to identify the taxing unit as one in which
 29-55 a particular property is taxable.

29-56 (b) If the state or a taxing unit challenges a determination
 29-57 that land qualifies for appraisal under Subchapter H, Chapter 23,
 29-58 on the ground that the land is not located in an aesthetic
 29-59 management zone, critical wildlife habitat zone, or streamside
 29-60 management zone, the state or the taxing unit must first seek a
 29-61 determination letter from the director of the Texas Forest Service.
 29-62 The appraisal review board shall accept the letter as conclusive
 29-63 proof of the type, size, and location of the zone.

29-64 SECTION 3.34. Subchapter A, Chapter 41, Tax Code, is
 29-65 amended by adding Section 41.031 to read as follows:

29-66 Sec. 41.031. CHALLENGE BY COMPTROLLER. The comptroller is
 29-67 entitled to challenge before the appraisal review board the
 29-68 exclusion of property from the appraisal roll for state ad valorem
 29-69 taxes.

30-1 SECTION 3.35. Section 41.06(a), Tax Code, is amended to
30-2 read as follows:

30-3 (a) The secretary of the appraisal review board shall
30-4 deliver to the comptroller and the presiding officer of the
30-5 governing body of each taxing unit entitled to appear at a challenge
30-6 hearing written notice of the date, time, and place fixed for the
30-7 hearing. The secretary shall deliver the notice not later than the
30-8 10th day before the date of the hearing.

30-9 SECTION 3.36. Section 41.07(d), Tax Code, is amended to
30-10 read as follows:

30-11 (d) The board shall deliver by certified mail a notice of
30-12 the issuance of the order and a copy of the order to the taxing unit.
30-13 If the order of the board excludes property from the appraisal roll
30-14 for state ad valorem taxes, the board shall also deliver a notice of
30-15 issuance and a copy of the order to the comptroller in the manner
30-16 prescribed by the comptroller.

30-17 SECTION 3.37. Section 41.12, Tax Code, is amended by adding
30-18 Subsection (c) to read as follows:

30-19 (c) A protest upon which a determination is pending under
30-20 Subchapter E is not considered to be an undetermined protest for the
30-21 purposes of Subsection (b).

30-22 SECTION 3.38. Section 41.47(d), Tax Code, is amended to
30-23 read as follows:

30-24 (d) The board shall deliver by certified mail a notice of
30-25 issuance of the order and a copy of the order to the property owner
30-26 and the chief appraiser. If the order of the board excludes
30-27 property from the appraisal roll for state ad valorem taxes, the
30-28 board shall also deliver a notice of issuance and a copy of the
30-29 order to the comptroller in the manner prescribed by the
30-30 comptroller.

30-31 SECTION 3.39. Section 41.41(a), Tax Code, is amended to
30-32 read as follows:

30-33 (a) A property owner is entitled to protest before the
30-34 appraisal review board the following actions:

30-35 (1) determination of the appraised value of the
30-36 owner's property or, in the case of land appraised as provided by
30-37 Subchapter C, D, E, or H, Chapter 23, determination of its appraised
30-38 or market value;

30-39 (2) unequal appraisal of the owner's property;

30-40 (3) inclusion of the owner's property on the appraisal
30-41 records;

30-42 (4) denial to the property owner in whole or in part of
30-43 a partial exemption;

30-44 (5) determination that the owner's land does not
30-45 qualify for appraisal as provided by Subchapter C, D, E, or H,
30-46 Chapter 23;

30-47 (6) identification of the taxing units in which the
30-48 owner's property is taxable in the case of the appraisal district's
30-49 appraisal roll;

30-50 (7) determination that the property owner is the owner
30-51 of property;

30-52 (8) a determination that a change in use of land
30-53 appraised under Subchapter C, D, E, or H, Chapter 23, has occurred;
30-54 [~~or~~]

30-55 (9) the inclusion of the property on or the exclusion
30-56 of the property from the appraisal roll for state ad valorem taxes;
30-57 or

30-58 (10) any other action of the chief appraiser,
30-59 appraisal district, or appraisal review board that applies to and
30-60 adversely affects the property owner.

30-61 SECTION 3.40. Subchapter A, Chapter 42, Tax Code, is
30-62 amended by adding Section 42.032 to read as follows:

30-63 Sec. 42.032. RIGHT OF APPEAL BY COMPTROLLER. (a) The
30-64 comptroller is entitled to appeal an order of the appraisal review
30-65 board excluding property from the appraisal roll for state ad
30-66 valorem taxes.

30-67 (b) The attorney general shall represent the comptroller in
30-68 an appeal under this section. The attorney general may delegate its
30-69 duties under this section to a county or district attorney or may

31-1 contract with a private attorney for the performance of those
 31-2 duties.

31-3 SECTION 3.41. Sections 42.06(a) and (c), Tax Code, are
 31-4 amended to read as follows:

31-5 (a) To exercise the party's right to appeal an order of an
 31-6 appraisal review board, a party other than a property owner must
 31-7 file written notice of appeal within 15 days after the date the
 31-8 party receives the notice required by Section 41.47 or, in the case
 31-9 of a taxing unit or the comptroller, by Section 41.07 that the order
 31-10 appealed has been issued. To exercise the right to appeal an order
 31-11 of the comptroller, a party other than a property owner must file
 31-12 written notice of appeal within 15 days after the date the party
 31-13 receives the comptroller's order. A property owner is not required
 31-14 to file a notice of appeal under this section.

31-15 (c) If the chief appraiser, a taxing unit, ~~or~~ a county, or
 31-16 the comptroller appeals, the chief appraiser, if the appeal is of an
 31-17 order of the appraisal review board, or the comptroller, if the
 31-18 appeal is of an order of the comptroller, shall deliver a copy of
 31-19 the notice to the property owner whose property is involved in the
 31-20 appeal within 10 days after the date the notice is filed.

31-21 SECTION 3.42. Sections 42.43(a)-(c), Tax Code, are amended
 31-22 to read as follows:

31-23 (a) If the final determination of an appeal that decreases a
 31-24 property owner's tax liability occurs after the property owner has
 31-25 paid the owner's ~~his~~ taxes, the taxing unit and the comptroller,
 31-26 if the property is subject to the state ad valorem tax, shall refund
 31-27 to the property owner the difference between the amount of taxes
 31-28 paid and amount of taxes for which the property owner is liable.

31-29 (b) For a refund made under this section because an
 31-30 exemption under Section 11.20 that was denied by the chief
 31-31 appraiser or appraisal review board is granted, the taxing unit or
 31-32 the comptroller shall include with the refund interest on the
 31-33 amount refunded calculated at an annual rate that is equal to the
 31-34 auction average rate quoted on a bank discount basis for
 31-35 three-month treasury bills issued by the United States government,
 31-36 as published by the Federal Reserve Board, for the week in which the
 31-37 taxes became delinquent, but not more than 10 percent, calculated
 31-38 from the delinquency date for the taxes until the date the refund is
 31-39 made. For any other refund made under this section, the taxing unit
 31-40 or the comptroller shall include with the refund interest on the
 31-41 amount refunded at an annual rate of eight percent, calculated from
 31-42 the delinquency date for the taxes until the date the refund is
 31-43 made.

31-44 (c) Notwithstanding Subsection (b), if a taxing unit or the
 31-45 comptroller does not make a refund, including interest, required by
 31-46 this section before the 60th day after the date the chief appraiser
 31-47 certifies a correction to the appraisal roll under Section 42.41,
 31-48 the taxing unit or the comptroller shall include with the refund
 31-49 interest on the amount refunded at an annual rate of 12 percent,
 31-50 calculated from the delinquency date for the taxes until the date
 31-51 the refund is made.

31-52 SECTION 3.43. Sections 43.01 and 43.04, Tax Code, are
 31-53 amended to read as follows:

31-54 Sec. 43.01. AUTHORITY TO BRING SUIT. The comptroller or a
 31-55 [A] taxing unit may sue the appraisal district that appraises
 31-56 property for the unit to compel the appraisal district to comply
 31-57 with the provisions of this title, rules of the comptroller, or
 31-58 other applicable law.

31-59 Sec. 43.04. SUIT TO COMPEL COMPLIANCE WITH DEADLINES. The
 31-60 comptroller or the governing body of a taxing unit may sue the chief
 31-61 appraiser or members of the appraisal review board, as applicable,
 31-62 for failure to comply with the deadlines imposed by Section
 31-63 25.22(a), 26.01(a), or 41.12. If the court finds that the chief
 31-64 appraiser or appraisal review board failed to comply for good cause
 31-65 shown, the court shall enter an order fixing a reasonable deadline
 31-66 for compliance. If the court finds that the chief appraiser or
 31-67 appraisal review board failed to comply without good cause, the
 31-68 court shall enter an order requiring the chief appraiser or
 31-69 appraisal review board to comply with the deadline not later than

32-1 the 10th day after the date the judgment is signed. In a suit
 32-2 brought under this section, the court may enter any other order the
 32-3 court considers necessary to ensure compliance with the court's
 32-4 deadline or the applicable statutory requirements. Failure to obey
 32-5 an order of the court is punishable as contempt.

32-6 SECTION 3.44. Subchapter A, Chapter 312, Tax Code, is
 32-7 amended by adding Section 312.0011 to read as follows:

32-8 Sec. 312.0011. DEFINITION. In this chapter, "taxing unit"
 32-9 has the meaning assigned by Section 1.04 and includes the state.

32-10 SECTION 3.45. The changes in law made by this article to
 32-11 Chapter 41, Tax Code, apply only to a challenge or protest under
 32-12 that chapter for which the notice is filed on or after the effective
 32-13 date of this article. A challenge or protest for which the notice
 32-14 is filed before the effective date of this article is covered by the
 32-15 law in effect when the notice of protest was filed, and the former
 32-16 law is continued in effect for that purpose.

32-17 SECTION 3.46. (a) Except as otherwise provided by this Act,
 32-18 this article takes effect January 1, 2004.

32-19 (b) This article applies to each tax year that begins on or
 32-20 after January 1, 2004. The changes in law made by this article do
 32-21 not apply to a tax year that begins before January 1, 2004, and the
 32-22 law as it existed before January 1, 2004, is continued in effect for
 32-23 purposes of taxes imposed in that tax year.

32-24 ARTICLE 4. STATE SALES AND USE TAXES

32-25 SECTION 4.01. Subchapter A, Chapter 151, Tax Code, is
 32-26 amended by adding Section 151.0082 to read as follows:

32-27 Sec. 151.0082. "SERVICE." "Service" means an activity
 32-28 engaged in for another person for a fee, retainer, commission, or
 32-29 other monetary charge and that predominately involves the
 32-30 performance of a service as distinguished from the sale or use of
 32-31 tangible personal property. In determining whether something is a
 32-32 service, the intended use or the principal or ultimate objective of
 32-33 the parties involved does not control.

32-34 SECTION 4.02. Section 151.0101, Tax Code, is amended by
 32-35 adding Subsection (c) to read as follows:

32-36 (c) Notwithstanding Subsection (a), "taxable service"
 32-37 includes a service to which the tax imposed by this chapter applies
 32-38 under Section 25, Article VIII, Texas Constitution, to the extent
 32-39 the service is not otherwise exempted by this chapter.

32-40 SECTION 4.03. Subchapter H, Chapter 151, Tax Code, is
 32-41 amended by adding Section 151.3135 to read as follows:

32-42 Sec. 151.3135. HEALTH CARE SERVICES. (a) In this section,
 32-43 "health care service" means a service that a person may not provide
 32-44 unless the person has a license, certificate, or permit under Title
 32-45 3, Occupations Code.

32-46 (b) Except as provided by Subsection (c), the sale or use of
 32-47 a health care service is exempted from the taxes imposed by this
 32-48 chapter.

32-49 (c) This section does not apply to a health care service for
 32-50 which a license is required under Chapter 451 or 651, Occupations
 32-51 Code.

32-52 SECTION 4.04. Subchapter H, Subchapter 151, Tax Code, is
 32-53 amended by adding Section 151.3145 to read as follows:

32-54 Sec. 151.3145. CERTAIN FINANCIAL ASSISTANCE AND FOOD STAMP
 32-55 RECIPIENTS. (a) This section applies to a person who receives
 32-56 financial assistance under Chapter 31, Human Resources Code, or
 32-57 nutritional assistance under Chapter 33, Human Resources Code,
 32-58 through the use of an electronic benefits transfer system.

32-59 (b) There is exempted from the taxes imposed by this chapter
 32-60 40 percent of the value of a taxable item sold, leased, or rented to
 32-61 a person to which this section applies.

32-62 (c) The comptroller by rule shall prescribe procedures
 32-63 relating to the exemption provided by this section. The rules must
 32-64 require that a person to whom this section applies present a
 32-65 government-issued identification card bearing the picture of the
 32-66 person to qualify for the exemption.

32-67 SECTION 4.05. Sections 151.801(a), (b), and (c), Tax Code,
 32-68 are amended to read as follows:

32-69 (a) Except for the amounts allocated under Subsections (b)

33-1 and (c), all proceeds from the collection of the taxes imposed by
 33-2 this chapter that are not required to be deposited to the credit of
 33-3 the Texas education fund under Section 25, Article VIII, Texas
 33-4 Constitution, shall be deposited to the credit of the general
 33-5 revenue fund.

33-6 (b) The amount of the proceeds from the collection of the
 33-7 taxes imposed by this chapter on the sale, storage, or use of
 33-8 lubricating and motor oils used to propel motor vehicles over the
 33-9 public roadways that are not required to be deposited to the credit
 33-10 of the Texas education fund under Section 25, Article VIII, Texas
 33-11 Constitution, shall be deposited to the credit of the state highway
 33-12 fund.

33-13 (c) The proceeds from the collection of the taxes imposed by
 33-14 this chapter on the sale, storage, or use of sporting goods that are
 33-15 not required to be deposited to the credit of the Texas education
 33-16 fund under Section 25, Article VIII, Texas Constitution, shall be
 33-17 ~~[deposited as follows:~~

33-18 ~~[(1) For the period beginning September 1, 1993, and~~
 33-19 ~~ending August 31, 1995, an amount equal to 50 cents per 1,000~~
 33-20 ~~cigarettes shall be deposited to the credit of the general revenue~~
 33-21 ~~fund, state parks account, and an amount equal to 50 cents per 1,000~~
 33-22 ~~cigarettes shall be deposited to the credit of the general revenue~~
 33-23 ~~fund, Texas recreation and parks account, and the balance shall be~~
 33-24 ~~retained in the general revenue fund.~~

33-25 ~~[(2) Beginning September 1, 1995, the taxes collected~~
 33-26 ~~shall be] credited to the Parks and Wildlife Department and~~
 33-27 ~~deposited as specified in the Parks and Wildlife Code. The~~
 33-28 ~~comptroller shall not credit in excess of \$32 million in sporting~~
 33-29 ~~goods tax revenue annually to the Parks and Wildlife Department.~~

33-30 SECTION 4.06. Section 152.122, Tax Code, is amended to read
 33-31 as follows:

33-32 Sec. 152.122. ALLOCATION OF TAX. The comptroller shall
 33-33 deposit the funds received under Section 152.121 that are not
 33-34 required to be deposited to the credit of the Texas education fund
 33-35 under Section 26, Article VIII, Texas Constitution, ~~[of this code~~
 33-36 ~~as follows:~~

33-37 ~~[(1) 1/4 to the credit of the foundation school fund,~~
 33-38 ~~and~~

33-39 ~~[(2) the remaining funds] to the credit of the general~~
 33-40 ~~revenue fund.~~

33-41 SECTION 4.07. Section 321.501(a), Tax Code, is amended to
 33-42 read as follows:

33-43 (a) After deducting the taxes that are required to be
 33-44 deposited to the credit of the Texas education fund under Section
 33-45 25, Article VIII, Texas Constitution, the ~~[The]~~ comptroller shall
 33-46 deposit the taxes collected by the comptroller under this chapter
 33-47 in trust in the separate suspense account of the municipality from
 33-48 which the taxes were collected.

33-49 SECTION 4.08. Section 321.503, Tax Code, is amended to read
 33-50 as follows:

33-51 Sec. 321.503. STATE'S SHARE. Before sending any money to a
 33-52 municipality under this subchapter the comptroller shall deduct two
 33-53 percent of the amount of the municipality's share of the taxes
 33-54 collected within the municipality during the period for which a
 33-55 distribution is made as the state's charge for its services under
 33-56 this chapter and shall, subject to premiums payments under Section
 33-57 321.501(c), credit the money deducted to the general revenue fund.

33-58 SECTION 4.09. Section 322.303, Tax Code, is amended to read
 33-59 as follows:

33-60 Sec. 322.303. STATE'S SHARE. Before sending any money to a
 33-61 taxing entity under this subchapter, the comptroller shall deduct
 33-62 two percent of the amount of the taxing entity's share of the taxes
 33-63 collected within the entity area during the period for which a
 33-64 distribution is made as the state's charge for its services under
 33-65 this chapter and shall credit the money deducted to the general
 33-66 revenue fund.

33-67 SECTION 4.10. Section 323.501(a), Tax Code, is amended to
 33-68 read as follows:

33-69 (a) After deducting the taxes that are required to be

34-1 deposited to the credit of the Texas education fund under Section
34-2 25, Article VIII, Texas Constitution, the [The] comptroller shall
34-3 deposit the taxes collected by the comptroller under this chapter
34-4 in trust in the separate suspense account of the county from which
34-5 the taxes were collected.

34-6 SECTION 4.11. Section 323.503, Tax Code, is amended to read
34-7 as follows:

34-8 Sec. 323.503. STATE'S SHARE. Before sending any money to a
34-9 county under this subchapter the comptroller shall deduct two
34-10 percent of the amount of the county's share of the taxes collected
34-11 within the county during the period for which a distribution is made
34-12 as the state's charge for its services under this chapter and shall,
34-13 subject to premiums payments under Section 323.501(c), credit the
34-14 money deducted to the general revenue fund.

34-15 SECTION 4.12. Except as otherwise provided by this Act,
34-16 this article takes effect July 1, 2004.

34-17 ARTICLE 5. RESIDENTIAL TENANT'S PROPERTY TAX RELIEF

34-18 SECTION 5.01. Title 1, Tax Code, is amended by adding
34-19 Chapter 61 to read as follows:

34-20 CHAPTER 61. PROPERTY TAX RELIEF FOR RESIDENTIAL TENANTS

34-21 Sec. 61.001. PURPOSE. The purpose of this chapter is to
34-22 ensure that residential rental tenants receive direct and immediate
34-23 benefit from reductions in local school district ad valorem taxes
34-24 until the benefit of that tax relief is fully reflected in rental
34-25 rates through free market competition and that every residential
34-26 landlord gives a monthly rent credit or rebate, at the landlord's
34-27 option, to each tenant who is renting a residential dwelling unit in
34-28 this state during 2005, 2006, and 2007.

34-29 Sec. 61.002. DEFINITIONS. In this chapter:

34-30 (1) "Landlord" means the owner, lessor, or sublessor
34-31 of a dwelling unit, but does not include a manager or agent of the
34-32 landlord unless the manager or agent purports to be the owner,
34-33 lessor, or sublessor in a written or oral lease.

34-34 (2) "Lease" means a written or oral agreement between
34-35 a landlord and tenant that establishes or modifies the terms,
34-36 conditions, rules, or other provisions regarding the use and
34-37 occupancy of a dwelling unit.

34-38 (3) "Multifamily rental dwelling property" means a
34-39 multiunit residential property with two or more rental dwelling
34-40 units. The term includes a duplex, apartment building, dormitory,
34-41 manufactured housing community, retirement center or community,
34-42 and assisted living center and any other multiunit rental
34-43 residential property subject to local school district ad valorem
34-44 taxes.

34-45 (4) "Rent" includes the total amount charged by a
34-46 landlord, or by a person on the landlord's behalf, for the use and
34-47 occupancy of a dwelling unit. The term does not include a
34-48 refundable security deposit.

34-49 (5) "Rental dwelling unit" means one or more rooms
34-50 rented for use as a permanent residence under a single lease to one
34-51 or more tenants.

34-52 (6) "Tenant" means an individual who is authorized by
34-53 a lease to occupy a dwelling to the exclusion of others other than
34-54 cotenants and who is obligated under the lease to pay rent.

34-55 Sec. 61.003. APPLICABILITY. (a) This chapter applies only
34-56 to a rental dwelling unit or multifamily rental dwelling property
34-57 that is subject to ad valorem taxation by a school district.

34-58 (b) This chapter does not apply to a temporary residential
34-59 tenancy created by a contract of sale under which the buyer is
34-60 entitled to occupy the property before closing or the seller is
34-61 entitled to occupy the property after closing for a term of not more
34-62 than 90 days.

34-63 Sec. 61.004. CREDIT OR REBATE TO TENANT OF LANDLORD'S
34-64 PROPERTY TAX SAVINGS. A landlord shall provide each of the
34-65 landlord's tenants with a monthly credit or rebate on the tenant's
34-66 rent to reflect a portion of the landlord's school district ad
34-67 valorem tax savings for 2004, 2005, and 2006.

34-68 Sec. 61.005. NOTICE BY CHIEF APPRAISERS. (a) On or before
34-69 October 1, 2004, or as soon as practicable after that date, the

35-1 chief appraiser of each appraisal district shall send to all
 35-2 residential property owners a notice describing the requirements of
 35-3 this chapter. The notice shall contain language substantially
 35-4 similar to the following:

35-5 "Due to the property tax relief law approved by the voters in
 35-6 November 2003, residential landlords are required to pass along
 35-7 school district ad valorem tax savings to their tenants under all
 35-8 leases in effect as of January 1, 2005, and for all leases entered
 35-9 into in 2005, 2006, and 2007. These savings must be provided to
 35-10 tenants by giving a monthly rent credit or rebate that reflects a
 35-11 portion of the property tax savings on school property taxes.
 35-12 Failure to comply with this law could result in severe penalties,
 35-13 including a civil penalty of \$100, treble damages, and attorney's
 35-14 fees. Information on complying with this law is available by
 35-15 contacting the (name, address, and telephone number of appraisal
 35-16 district) or by contacting the Texas Comptroller of Public Accounts
 35-17 by calling 1-800-252-5555."

35-18 (b) The notice required under Subsection (a) may be sent to
 35-19 property owners as part of another communication sent by the
 35-20 appraisal district under Section 31.01 and is not required to be
 35-21 sent to property owners as a separate communication.

35-22 (c) In November and December 2004, each appraisal district
 35-23 shall place at least one advertisement monthly in a newspaper of
 35-24 general circulation in the county for which the appraisal district
 35-25 is established. The advertisement shall be in 14-point or larger
 35-26 type and contain language substantially similar to the language
 35-27 prescribed by Subsection (a).

35-28 Sec. 61.006. TECHNICAL ASSISTANCE BY COMPTROLLER. (a) Not
 35-29 later than September 1, 2004, the comptroller shall develop
 35-30 materials in plain language to assist landlords in complying with
 35-31 this chapter. The materials shall be printed in both English and
 35-32 Spanish and copies shall be sent to each appraisal district on or
 35-33 before September 15, 2004. A copy of the materials shall be
 35-34 provided without cost to any property owner on request.

35-35 (b) The comptroller shall provide necessary technical
 35-36 assistance to appraisal districts and landlords in complying with
 35-37 this chapter.

35-38 Sec. 61.007. TAX SAVINGS CALCULATIONS BY LANDLORDS.
 35-39 (a) For each year to which this chapter applies, a landlord shall
 35-40 determine the monthly school district ad valorem tax savings
 35-41 payable to the landlord's tenants as follows:

35-42 (1) the monthly rent credit or rebate for a
 35-43 single-family rental dwelling unit is equal to 6.25 percent of the
 35-44 difference between the amount of school district ad valorem taxes
 35-45 imposed on the dwelling unit for the preceding year and the amount
 35-46 of the school district ad valorem taxes that would have been imposed
 35-47 on that dwelling unit for that year if the dwelling unit had been
 35-48 taxed at a school district maintenance and operations tax rate of 75
 35-49 cents plus the school district enrichment tax rate in that tax year
 35-50 per \$100 of taxable value; and

35-51 (2) the monthly rent credit or rebate for a rental
 35-52 dwelling unit in a multifamily rental dwelling property is equal to
 35-53 6.25 percent of the difference between the amount of school
 35-54 district ad valorem taxes imposed on the dwelling unit for the
 35-55 preceding year and the amount of the school district ad valorem
 35-56 taxes that would have been imposed on that dwelling unit for that
 35-57 year if the dwelling unit had been taxed at a school district
 35-58 maintenance and operations tax rate of \$1.20 per \$100 of taxable
 35-59 value, multiplied by the square footage in the tenant's dwelling
 35-60 unit, and divided by the total net rentable square footage of all
 35-61 rental dwelling units in the multifamily rental dwelling property.

35-62 (b) The amount of the rent credit or rebate under Subsection
 35-63 (a) shall be calculated on a per-dwelling-unit basis and not on a
 35-64 per-tenant basis.

35-65 (c) If the amount of the rent credit or rebate calculated
 35-66 under Subsection (a) is less than zero, the rent credit or rebate is
 35-67 zero.

35-68 Sec. 61.008. DATE OF REQUIRED CREDIT OR REBATE. (a) If a
 35-69 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 dwelling 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 2003, the amount of school district property taxes for your dwelling 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 until sufficient time has elapsed for the tax relief to be fully reflected in rental rates through free market competition.

"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 or December 31, 2007, whichever date is first. 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 2003 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), and your rent should also be lower if you enter into a new lease for any rental dwelling unit in Texas any time in 2005, 2006, or 2007, through the date your new lease term expires or December 31, 2007, whichever date is earlier.

"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 dwelling 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 dwelling unit, real property containing a rental dwelling 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.

Sec. 61.014. EXPIRATION. This chapter expires January 1, 2008.

SECTION 5.02. Chapter 1, Tax Code, is amended by adding Section 1.16 to read as follows:

Sec. 1.16. 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 5.03. Chapter 61, Tax Code, as added by this article, applies only to a tax year that begins on or after January 1, 2004.

SECTION 5.04. Except as otherwise provided by this Act, this article takes effect January 1, 2004.

ARTICLE 6. CONTINGENT EFFECT

SECTION 6.01. This Act takes effect only if the constitutional amendment proposed by S.J.R. No. 1, 78th Legislature, Regular Session, 2003, is approved by the voters. If that proposed constitutional amendment is not approved by the voters, this Act has no effect.

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