

## **BILL ANALYSIS**

S.B. 963  
By: Shapiro  
Public Education  
Committee Report (Unamended)

### **BACKGROUND AND PURPOSE**

In response to rising school administration costs, the 72nd Texas Legislature, 1991, imposed an administrative cost ratio comparing administrative costs to instructional costs. The cost ratio was later repealed as part of an effort to accurately identify spending devoted to direct classroom instruction. Current law does not require a minimum spending level on direct classroom instruction.

As proposed, S.B. 963 requires the commissioner of education to establish an acceptable instructional cost ratio. The cost ratio will vary depending on the size of the district. A district which spends less than the required minimum must achieve compliance or lose state funding in an amount equal to the amount by which the district is non-compliant.

### **RULEMAKING AUTHORITY**

Rulemaking authority is expressly granted to the commissioner of education in SECTION 1 of this bill.

### **ANALYSIS**

SECTION 1. Amends Chapter 42, Education Code, by adding Subchapters D and D-1, as follows:

#### **SUBCHAPTER D. LIMIT ON ADMINISTRATIVE COSTS.**

Sec. 42.201. DEFINITIONS. Defines "adjusted group standard," "administrative cost ratio," "administrative costs," and "instructional costs."

Sec. 42.202. ADMINISTRATIVE COST RATIO. (a) Requires the commissioner of education by rule to determine annually an administrative cost ratio for certain categories of school districts. Sets forth said district categories.

(b) Authorizes the commissioner to adjust the administrative cost ratio of a school district to allow for certain additional administrative costs.

Sec. 42.203. NOTIFICATION OF NONCOMPLIANCE. (a) Requires, not later than February 1 of each year, the commissioner to notify each school district of the requirements and standards for determining the administrative cost ratio for the following year.

(b) Requires, not later than May 1 of each year, Texas Education Agency staff to conduct a desk audit of expenditure data for the preceding year and available through the Public Education Information Management System (PEIMS) to identify each district that has a ratio for that year that fails to comply with the applicable adjusted group standard. Requires the commissioner to provide notice not later than May 15 of each year to each district that fails to comply with the applicable adjusted group standard. Requires the notice to inform the district that the district has failed to comply with the applicable adjusted group standard and that the district is required to increase direct instructional expenditures or direct classroom hours to the level of the applicable adjusted group standard for the following school year.

Sec. 42.204. PLAN FOR COMPLIANCE; WAIVER. (a) Requires, not later than the 60th day after the date that a school district receives the notice under Section 42.203(b), the district shall provide to the commissioner a description of the district's plan to comply with the applicable adjusted group standard for the following year or a request for a waiver with an explanation for the district's inability to comply with the applicable adjusted group standard.

(b) Authorizes the commissioner to grant a waiver to a district that exceeds its administrative cost ratio if the excess is justified by unusual circumstances.

(c) Requires, not later than August 15 of each year, the commissioner to notify a district that provides a plan or requests a waiver under this section whether the district is required to take further action.

Sec. 42.205. WITHHOLDING OF STATE AID. (a) Unless the commissioner has granted a waiver in response to a school district request under Section 42.204, the commissioner shall withhold from the tier one allotments of a district that fails to reduce administrative costs to the level required by this subchapter an amount equal to the amount by which the district's administrative costs exceed the amount permitted by the applicable adjusted group standard. Requires the commissioner to withhold funds under this subsection from the foundation school fund payments to the district in the year following the year in which the plan to reduce administrative costs was to be implemented. If a school district does not receive a tier one allotment, the district is required to remit an amount equal to the excess to the comptroller for deposit to the credit of the foundation school fund.

(b) Requires a school district to include a statement of any amount withheld or remitted under Subsection (a) in the required district report.

#### SUBCHAPTER D-1. MINIMUM INSTRUCTIONAL EXPENDITURES AND HOURS

Sec. 42.221. DEFINITIONS. Defines "adjusted group standard," "direct instructional expenditure ratio," and "instructional employee ratio."

Sec. 42.222. DIRECT INSTRUCTIONAL EXPENDITURE AND INSTRUCTIONAL EMPLOYEE RATIOS. Requires the commissioner by rule to determine annually a minimum direct instructional expenditure ratio and a minimum instructional employee ratio for certain categories of school districts. Sets forth said district categories.

Sec. 42.223. NOTIFICATION OF NONCOMPLIANCE. Requires, not later than February 1 of each year, the commissioner to notify each school district of the requirements and standards for determining the ratios under Section 42.222 for the following year.

(b) Requires, not later than May 1 of each year, TEA staff to conduct a desk audit of certain expenditure data for the preceding year and available through PEIMS to identify each district that has a ratio for that year that fails to comply with the applicable adjusted group standard. Requires the commissioner to provide notice not later than May 15 of each year to each district that fails to comply with the applicable adjusted group standard. Requires the notice to inform the district that the district has failed to comply with the applicable adjusted group standard and that the district is required to increase direct instructional expenditures or direct classroom hours to the level of the applicable adjusted group standard for the following school year.

Sec. 42.224. PLAN FOR COMPLIANCE; WAIVER. (a) Requires, not later than the 60th day after the date a school district receives the notice under Section 42.223(b), the district to provide to the commissioner a description of the district's plan to comply with the applicable adjusted group standard for the following year or a request for a waiver with an explanation for the district's inability to comply with the applicable adjusted group standard.

(b) Authorizes the commissioner to grant a waiver to a district that fails to comply with a ratio under this subchapter if the noncompliance is justified by unusual circumstances.

(c) Requires, not later than August 15 of each year, the commissioner to notify a district that provides a plan or requests a waiver under this section whether the district is required to take further action.

Sec. 42.225. WITHHOLDING OF STATE AID. (a) Unless the commissioner has granted a waiver in response to a school district request under Section 42.224, the commissioner shall withhold funds from the tier one allotments of a district that fails to increase direct instructional expenditures or direct classroom hours to the level necessary for compliance with the applicable adjusted group standard. Requires, if the district has failed to increase direct instructional expenditures, the commissioner to withhold the amount by which the direct instructional expenditures required by the applicable adjusted group standard exceed the district's direct instructional expenditures. If the district has failed to increase direct classroom hours, the commissioner is required to withhold an amount equal to the amount of the district's average expenditure per hour for direct instructional activities, multiplied by the number of hours by which the number of classroom instruction hours required by the applicable adjusted group standard exceeds the district's direct classroom hours.

(b) Requires the commissioner to withhold funds under Subsection (a) from the foundation school fund payments to the district in the year following the year in which the plan to comply with the applicable adjusted group standard was to be implemented. Requires, if a school district does not receive a tier one allotment, the district to remit an amount equal to the adjusted amount to the comptroller for deposit to the credit of the foundation school fund.

(c) Requires a school district to include a statement of any amount withheld or remitted under this section in the required district report.

SECTION 2. This Act applies beginning with the 2005 - 2006 school year, and a school district becomes subject to the withholding of state funds as provided by Subchapters D and D-1, Chapter 42, Education Code, as added by this Act beginning with the 2005 - 2006 school year.

#### **EFFECTIVE DATE**

This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2005.