

By: Shapiro

S.B. No. 963

A BILL TO BE ENTITLED

AN ACT

relating to the establishment of and liability for failing to  
comply with certain administrative and instructional ratios for  
public school districts.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Chapter 42, Education Code, is amended by adding  
Subchapters D and D-1 to read as follows:

SUBCHAPTER D. LIMIT ON ADMINISTRATIVE COSTS

Sec. 42.201. DEFINITIONS. In this subchapter:

(1) "Adjusted group standard" means the acceptable  
administrative cost ratio for each school district as determined  
under Section 42.202.

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

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

(4) "Instructional costs" means operating expenses

1 made from funds other than federal funds associated with  
2 teacher-student instruction in accordance with Accounting  
3 functions 11 - Instruction, 12 - Instructional Resources and Media  
4 Services, 13 - Curriculum Development and Instructional Staff  
5 Development, and 31 - Guidance, Counseling and Evaluation Services,  
6 as described in the Financial Accountability System Resource Guide,  
7 Bulletin 679, Module 1: Financial Accounting and Reporting, first  
8 edition, published by the Texas Education Agency.

9 Sec. 42.202. ADMINISTRATIVE COST RATIO. (a) The  
10 commissioner by rule shall determine annually an administrative  
11 cost ratio for each of the following categories of school  
12 districts:

13 (1) school districts with fewer than 500 students in  
14 average daily attendance;

15 (2) school districts with 500 to 999 students in  
16 average daily attendance;

17 (3) school districts with 1,000 to 4,999 students in  
18 average daily attendance;

19 (4) school districts with 5,000 to 9,999 students in  
20 average daily attendance; and

21 (5) school districts with 10,000 or more students in  
22 average daily attendance.

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

26 (1) the sparsity of the district; or

27 (2) students with special needs.

1       Sec. 42.203. NOTIFICATION OF NONCOMPLIANCE. (a) Not later  
2 than February 1 of each year, the commissioner shall notify each  
3 school district of the requirements and standards for determining  
4 the administrative cost ratio for the following year.

5       (b) Not later than May 1 of each year, agency staff shall  
6 conduct a desk audit of expenditure data provided for the preceding  
7 year and available through the Public Education Information  
8 Management System (PEIMS) to identify each district that has an  
9 administrative cost ratio for that year that exceeds the applicable  
10 adjusted group standard. The commissioner shall provide notice not  
11 later than May 15 of each year to each district that exceeds the  
12 applicable adjusted group standard. The notice must inform the  
13 district that the district's administrative costs are excessive and  
14 that the district is required to reduce administrative costs to the  
15 level of the applicable adjusted group standard for the following  
16 school year.

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

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

27       (c) Not later than August 15 of each year, the commissioner

1 shall notify a district that provides a plan or requests a waiver  
2 under this section whether the district is required to take further  
3 action.

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

18 (b) A school district shall include a statement of any  
19 amount withheld or remitted under Subsection (a) in the district  
20 report required by Section 39.053.

21 SUBCHAPTER D-1. MINIMUM INSTRUCTIONAL EXPENDITURES AND HOURS

22 Sec. 42.221. DEFINITIONS. In this subchapter:

23 (1) "Adjusted group standard" means an acceptable  
24 ratio for each school district as determined under Section 42.222.

25 (2) "Direct instructional expenditure ratio" means a  
26 school district's direct instructional expenditures divided by its  
27 total expenditures, expressed as a percentage.

1           (3) "Instructional employee ratio" means the number of  
2 hours spent by a school district's employees in providing direct  
3 classroom instruction divided by the total number of hours worked  
4 by all district employees, expressed as a percentage.

5           Sec. 42.222. DIRECT INSTRUCTIONAL EXPENDITURE AND  
6 INSTRUCTIONAL EMPLOYEE RATIOS. The commissioner by rule shall  
7 determine annually a minimum direct instructional expenditure  
8 ratio and a minimum instructional employee ratio for each of the  
9 following categories of school districts:

10           (1) school districts with fewer than 500 students in  
11 average daily attendance;

12           (2) school districts with 500 to 999 students in  
13 average daily attendance;

14           (3) school districts with 1,000 to 4,999 students in  
15 average daily attendance;

16           (4) school districts with 5,000 to 9,999 students in  
17 average daily attendance; and

18           (5) school districts with 10,000 or more students in  
19 average daily attendance.

20           Sec. 42.223. NOTIFICATION OF NONCOMPLIANCE. (a) Not later  
21 than February 1 of each year, the commissioner shall notify each  
22 school district of the requirements and standards for determining  
23 the ratios under Section 42.222 for the following year.

24           (b) Not later than May 1 of each year, agency staff shall  
25 conduct a desk audit of expenditure data provided under Section  
26 44.0071 for the preceding year and available through the Public  
27 Education Information Management System (PEIMS) to identify each

1 district that has a ratio for that year that fails to comply with  
2 the applicable adjusted group standard. The commissioner shall  
3 provide notice not later than May 15 of each year to each district  
4 that fails to comply with the applicable adjusted group standard.  
5 The notice must inform the district that the district has failed to  
6 comply with the applicable adjusted group standard and that the  
7 district is required to increase direct instructional expenditures  
8 or direct classroom hours to the level of the applicable adjusted  
9 group standard for the following school year.

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

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

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

24 Sec. 42.225. WITHHOLDING OF STATE AID. (a) Unless the  
25 commissioner has granted a waiver in response to a school district  
26 request under Section 42.224, the commissioner shall withhold funds  
27 from the tier one allotments of a district that fails to increase

1 direct instructional expenditures or direct classroom hours to the  
2 level necessary for compliance with the applicable adjusted group  
3 standard. If the district has failed to increase direct  
4 instructional expenditures, the commissioner shall withhold the  
5 amount by which the direct instructional expenditures required by  
6 the applicable adjusted group standard exceed the district's direct  
7 instructional expenditures. If the district has failed to increase  
8 direct classroom hours, the commissioner shall withhold an amount  
9 equal to the amount of the district's average expenditure per hour  
10 for direct instructional activities, as computed under Section  
11 44.0071(c), multiplied by the number of hours by which the number of  
12 classroom instruction hours required by the applicable adjusted  
13 group standard exceeds the district's direct classroom hours.

14 (b) The commissioner shall withhold funds under Subsection  
15 (a) from the foundation school fund payments to the district in the  
16 year following the year in which the plan to comply with the  
17 applicable adjusted group standard was to be implemented. If a  
18 school district does not receive a tier one allotment, the district  
19 shall remit an amount equal to the adjusted amount to the  
20 comptroller for deposit to the credit of the foundation school  
21 fund.

22 (c) A school district shall include a statement of any  
23 amount withheld or remitted under this section in the district  
24 report required by Section 39.053.

25 SECTION 2. This Act applies beginning with the 2005-2006  
26 school year, and a school district becomes subject to the  
27 withholding of state funds as provided by Subchapters D and D-1,

1 Chapter 42, Education Code, as added by this Act, beginning with the  
2 2005-2006 school year.

3 SECTION 3. This Act takes effect immediately if it receives  
4 a vote of two-thirds of all the members elected to each house, as  
5 provided by Section 39, Article III, Texas Constitution. If this  
6 Act does not receive the vote necessary for immediate effect, this  
7 Act takes effect September 1, 2005.