

1-1 By: Shapiro S.B. No. 963
1-2 (In the Senate - Filed March 3, 2005; March 14, 2005, read
1-3 first time and referred to Committee on Education; March 29, 2005,
1-4 reported favorably by the following vote: Yeas 7, Nays 0;
1-5 March 29, 2005, sent to printer.)

1-6 A BILL TO BE ENTITLED
1-7 AN ACT

1-8 relating to the establishment of and liability for failing to
1-9 comply with certain administrative and instructional ratios for
1-10 public school districts.

1-11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

1-12 SECTION 1. Chapter 42, Education Code, is amended by adding
1-13 Subchapters D and D-1 to read as follows:

1-14 SUBCHAPTER D. LIMIT ON ADMINISTRATIVE COSTS

1-15 Sec. 42.201. DEFINITIONS. In this subchapter:

1-16 (1) "Adjusted group standard" means the acceptable
1-17 administrative cost ratio for each school district as determined
1-18 under Section 42.202.

1-19 (2) "Administrative cost ratio" means a school
1-20 district's administrative costs divided by its instructional
1-21 costs, expressed as a percentage.

1-22 (3) "Administrative costs" means operating expenses
1-23 made from funds other than federal funds associated with managing,
1-24 planning, directing, coordinating, and evaluating a school
1-25 district in accordance with Accounting functions 21 - Instructional
1-26 Leadership and 41 - General Administration, as described in the
1-27 Financial Accountability System Resource Guide, Bulletin 679,
1-28 Module 1: Financial Accounting and Reporting, first edition,
1-29 published by the Texas Education Agency.

1-30 (4) "Instructional costs" means operating expenses
1-31 made from funds other than federal funds associated with
1-32 teacher-student instruction in accordance with Accounting
1-33 functions 11 - Instruction, 12 - Instructional Resources and Media
1-34 Services, 13 - Curriculum Development and Instructional Staff
1-35 Development, and 31 - Guidance, Counseling and Evaluation Services,
1-36 as described in the Financial Accountability System Resource Guide,
1-37 Bulletin 679, Module 1: Financial Accounting and Reporting, first
1-38 edition, published by the Texas Education Agency.

1-39 Sec. 42.202. ADMINISTRATIVE COST RATIO. (a) The
1-40 commissioner by rule shall determine annually an administrative
1-41 cost ratio for each of the following categories of school
1-42 districts:

1-43 (1) school districts with fewer than 500 students in
1-44 average daily attendance;

1-45 (2) school districts with 500 to 999 students in
1-46 average daily attendance;

1-47 (3) school districts with 1,000 to 4,999 students in
1-48 average daily attendance;

1-49 (4) school districts with 5,000 to 9,999 students in
1-50 average daily attendance; and

1-51 (5) school districts with 10,000 or more students in
1-52 average daily attendance.

1-53 (b) The commissioner may adjust the administrative cost
1-54 ratio of a school district to allow for additional administrative
1-55 costs required by:

1-56 (1) the sparsity of the district; or

1-57 (2) students with special needs.

1-58 Sec. 42.203. NOTIFICATION OF NONCOMPLIANCE. (a) Not later
1-59 than February 1 of each year, the commissioner shall notify each
1-60 school district of the requirements and standards for determining
1-61 the administrative cost ratio for the following year.

1-62 (b) Not later than May 1 of each year, agency staff shall
1-63 conduct a desk audit of expenditure data provided for the preceding
1-64 year and available through the Public Education Information

2-1 Management System (PEIMS) to identify each district that has an
 2-2 administrative cost ratio for that year that exceeds the applicable
 2-3 adjusted group standard. The commissioner shall provide notice not
 2-4 later than May 15 of each year to each district that exceeds the
 2-5 applicable adjusted group standard. The notice must inform the
 2-6 district that the district's administrative costs are excessive and
 2-7 that the district is required to reduce administrative costs to the
 2-8 level of the applicable adjusted group standard for the following
 2-9 school year.

2-10 Sec. 42.204. PLAN FOR COMPLIANCE; WAIVER. (a) Not later
 2-11 than the 60th day after the date a school district receives the
 2-12 notice under Section 42.203(b), the district shall provide to the
 2-13 commissioner a description of the district's plan to comply with
 2-14 the applicable adjusted group standard for the following year or a
 2-15 request for a waiver with an explanation for the district's
 2-16 inability to comply with the applicable adjusted group standard.

2-17 (b) The commissioner may grant a waiver to a district that
 2-18 exceeds its administrative cost ratio if the excess is justified by
 2-19 unusual circumstances.

2-20 (c) Not later than August 15 of each year, the commissioner
 2-21 shall notify a district that provides a plan or requests a waiver
 2-22 under this section whether the district is required to take further
 2-23 action.

2-24 Sec. 42.205. WITHHOLDING OF STATE AID. (a) Unless the
 2-25 commissioner has granted a waiver in response to a school district
 2-26 request under Section 42.204, the commissioner shall withhold from
 2-27 the tier one allotments of a district that fails to reduce
 2-28 administrative costs to the level required by this subchapter an
 2-29 amount equal to the amount by which the district's administrative
 2-30 costs exceed the amount permitted by the applicable adjusted group
 2-31 standard. The commissioner shall withhold funds under this
 2-32 subsection from the foundation school fund payments to the district
 2-33 in the year following the year in which the plan to reduce
 2-34 administrative costs was to be implemented. If a school district
 2-35 does not receive a tier one allotment, the district shall remit an
 2-36 amount equal to the excess to the comptroller for deposit to the
 2-37 credit of the foundation school fund.

2-38 (b) A school district shall include a statement of any
 2-39 amount withheld or remitted under Subsection (a) in the district
 2-40 report required by Section 39.053.

2-41 SUBCHAPTER D-1. MINIMUM INSTRUCTIONAL EXPENDITURES AND HOURS

2-42 Sec. 42.221. DEFINITIONS. In this subchapter:

2-43 (1) "Adjusted group standard" means an acceptable
 2-44 ratio for each school district as determined under Section 42.222.

2-45 (2) "Direct instructional expenditure ratio" means a
 2-46 school district's direct instructional expenditures divided by its
 2-47 total expenditures, expressed as a percentage.

2-48 (3) "Instructional employee ratio" means the number of
 2-49 hours spent by a school district's employees in providing direct
 2-50 classroom instruction divided by the total number of hours worked
 2-51 by all district employees, expressed as a percentage.

2-52 Sec. 42.222. DIRECT INSTRUCTIONAL EXPENDITURE AND
 2-53 INSTRUCTIONAL EMPLOYEE RATIOS. The commissioner by rule shall
 2-54 determine annually a minimum direct instructional expenditure
 2-55 ratio and a minimum instructional employee ratio for each of the
 2-56 following categories of school districts:

2-57 (1) school districts with fewer than 500 students in
 2-58 average daily attendance;

2-59 (2) school districts with 500 to 999 students in
 2-60 average daily attendance;

2-61 (3) school districts with 1,000 to 4,999 students in
 2-62 average daily attendance;

2-63 (4) school districts with 5,000 to 9,999 students in
 2-64 average daily attendance; and

2-65 (5) school districts with 10,000 or more students in
 2-66 average daily attendance.

2-67 Sec. 42.223. NOTIFICATION OF NONCOMPLIANCE. (a) Not later
 2-68 than February 1 of each year, the commissioner shall notify each
 2-69 school district of the requirements and standards for determining

3-1 the ratios under Section 42.222 for the following year.

3-2 (b) Not later than May 1 of each year, agency staff shall
 3-3 conduct a desk audit of expenditure data provided under Section
 3-4 44.0071 for the preceding year and available through the Public
 3-5 Education Information Management System (PEIMS) to identify each
 3-6 district that has a ratio for that year that fails to comply with
 3-7 the applicable adjusted group standard. The commissioner shall
 3-8 provide notice not later than May 15 of each year to each district
 3-9 that fails to comply with the applicable adjusted group standard.
 3-10 The notice must inform the district that the district has failed to
 3-11 comply with the applicable adjusted group standard and that the
 3-12 district is required to increase direct instructional expenditures
 3-13 or direct classroom hours to the level of the applicable adjusted
 3-14 group standard for the following school year.

3-15 Sec. 42.224. PLAN FOR COMPLIANCE; WAIVER. (a) Not later
 3-16 than the 60th day after the date a school district receives the
 3-17 notice under Section 42.223(b), the district shall provide to the
 3-18 commissioner a description of the district's plan to comply with
 3-19 the applicable adjusted group standard for the following year or a
 3-20 request for a waiver with an explanation for the district's
 3-21 inability to comply with the applicable adjusted group standard.

3-22 (b) The commissioner may grant a waiver to a district that
 3-23 fails to comply with a ratio under this subchapter if the
 3-24 noncompliance is justified by unusual circumstances.

3-25 (c) Not later than August 15 of each year, the commissioner
 3-26 shall notify a district that provides a plan or requests a waiver
 3-27 under this section whether the district is required to take further
 3-28 action.

3-29 Sec. 42.225. WITHHOLDING OF STATE AID. (a) Unless the
 3-30 commissioner has granted a waiver in response to a school district
 3-31 request under Section 42.224, the commissioner shall withhold funds
 3-32 from the tier one allotments of a district that fails to increase
 3-33 direct instructional expenditures or direct classroom hours to the
 3-34 level necessary for compliance with the applicable adjusted group
 3-35 standard. If the district has failed to increase direct
 3-36 instructional expenditures, the commissioner shall withhold the
 3-37 amount by which the direct instructional expenditures required by
 3-38 the applicable adjusted group standard exceed the district's direct
 3-39 instructional expenditures. If the district has failed to increase
 3-40 direct classroom hours, the commissioner shall withhold an amount
 3-41 equal to the amount of the district's average expenditure per hour
 3-42 for direct instructional activities, as computed under Section
 3-43 44.0071(c), multiplied by the number of hours by which the number of
 3-44 classroom instruction hours required by the applicable adjusted
 3-45 group standard exceeds the district's direct classroom hours.

3-46 (b) The commissioner shall withhold funds under Subsection
 3-47 (a) from the foundation school fund payments to the district in the
 3-48 year following the year in which the plan to comply with the
 3-49 applicable adjusted group standard was to be implemented. If a
 3-50 school district does not receive a tier one allotment, the district
 3-51 shall remit an amount equal to the adjusted amount to the
 3-52 comptroller for deposit to the credit of the foundation school
 3-53 fund.

3-54 (c) A school district shall include a statement of any
 3-55 amount withheld or remitted under this section in the district
 3-56 report required by Section 39.053.

3-57 SECTION 2. This Act applies beginning with the 2005-2006
 3-58 school year, and a school district becomes subject to the
 3-59 withholding of state funds as provided by Subchapters D and D-1,
 3-60 Chapter 42, Education Code, as added by this Act, beginning with the
 3-61 2005-2006 school year.

3-62 SECTION 3. This Act takes effect immediately if it receives
 3-63 a vote of two-thirds of all the members elected to each house, as
 3-64 provided by Section 39, Article III, Texas Constitution. If this
 3-65 Act does not receive the vote necessary for immediate effect, this
 3-66 Act takes effect September 1, 2005.

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