Dear Colleagues,

For a number of legislative sessions there have been ongoing discussions of “doing away with the present school finance system and starting over.” While that sounds good, it is not an easy task. Attached you will find a very rough initial bill that makes major changes to the present system – as close to a complete change as I can conceive.

HB 654 basically narrows the difference in “taxable wealth per weighted student” by forcing consolidation for tax purposes only. This would accomplished by the creation of school finance districts (SFD). Once the taxable wealth disparity is removed it becomes a simpler matter to appropriate the Foundation School Program of which every weighted student (WADA) gets exactly the same state dollars. This assumes no hold harmless, no target revenue, no recapture, etc. All wealth disequity would be minimized to an “allowable band.” This would be a major departure from present law and would require much thought and modification.

As you know, the District Court has ruled and an appeal has been filed. Should the present ruling stand, the Legislature will be further constrained into a limited number of troubling options:

a) Adequacy of funding would become a matter of court decree or a matter for a study/report relating to education costs without relationship to other state needs, available revenue or other considerations by the publicly elected body.

b) Distribution of appropriated funds would need to be redesigned in a way to narrow the present disequity. Apart from some sort of consolidation plan or a state-wide property tax amendment, I cannot conceive of methods other than our present system. Our present system is probably the most equitable that it has been in the long history of school litigation.

c) The present formula factors would need to be reset. My proposed draft uses present factor values, but simplifies their identity making changes more transparent. Remember that changes to these values cause dramatic shifts in funding distribution.

d) The tax rate flexibility for each district/SFD would need to be sufficient to avoid the “statewide tax” issue.

While we do not know the final outcome of the school finance suit, I think it is appropriate to foster broad conversations on this matter while awaiting the final decision. HB 654 is intended to be mostly a conversation starter. I am not even confident that I like this concept. The unfortunate truth is that with each passing law suit the Legislature is forced into more and more convoluted decisions in our effort to balance constitutional requirements, court mandates, and limited resources.

So here is what I am asking each of you to think about while we wait for the final court decision:

1) Are there workable, marginal changes to the present system that need discussion?
2) Is the accompanying draft concept worth serious consideration, knowing many changes would be necessary to make it workable?
3) Does anyone have another major school finance concept to be discussed?

God Bless Texas,

Jimmie Don Aycock
Chairman
House Public Education Committee
A BILL TO BE ENTITLED

AN ACT

relating to public school finance and the formation of school
finance districts.

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

SECTION 1. Subtitle I, Title 2, Education Code, is amended
by adding Chapter 42A to read as follows:

CHAPTER 42A. PUBLIC SCHOOL FINANCE SYSTEM

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 42A.001. STATE POLICY. (a) It is the policy of this
state that the provision of public education is a state
responsibility and that a thorough and efficient system be provided
and substantially financed through state revenue sources so that
each student enrolled in the public school system shall have access
to programs and services that are appropriate to the student’s
educational needs and that are substantially equal to those
available to any similar student, notwithstanding varying local
economic factors.

(b) The public school finance system of this state shall
adhere to a standard of neutrality that provides for substantially
equal access to similar revenue per student at similar tax effort,
considering all state and local tax revenues of districts after
acknowledging all legitimate student and district cost
differences.

Sec. 42A.002. PUBLIC SCHOOL FINANCE SYSTEM. (a) The public
school finance system consists of state funding as provided by Subchapter C and local funding as provided by Subchapter D, with each source of funding distributed on the basis of weighted average daily attendance, as determined under Section 42A.102.

(b) Additional amounts of funding are made available through the public school finance system for specified purposes as provided by law.

Sec. 42A.003. STUDENT ELIGIBILITY. (a) A student is entitled to the benefits of the public school finance system if, on September 1 of the school year, the student:

(1) is 5 years of age or older and under 21 years of age and has not graduated from high school, or is at least 21 years of age and under 26 years of age and has been admitted by a school district to complete the requirements for a high school diploma; or

(2) is at least 19 years of age and under 26 years of age and is enrolled in an adult high school diploma and industry certification charter school pilot program under Section 29.259.

(b) A student to whom Subsection (a) does not apply is entitled to the benefits of the public school finance system if the student is enrolled in a prekindergarten class under Section 29.153.

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

(d) Notwithstanding Subsection (a), a student younger than
five years of age is entitled to the benefits of the public school finance system if:

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

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

Sec. 42A.004. AVERAGE DAILY ATTENDANCE. (a) In this chapter, average daily attendance is:

(1) the quotient of the sum of attendance for each day of the minimum number of days of instruction as described under Section 25.081(a) divided by the minimum number of days of instruction;

(2) for a district that operates under a flexible year program under Section 29.0821, the quotient of the sum of attendance for each actual day of instruction as permitted by Section 29.0821(b)(1) divided by the number of actual days of instruction as permitted by Section 29.0821(b)(1); or

(3) for a district that operates under a flexible school day program under Section 29.0822, the average daily attendance as calculated by the commissioner in accordance with Section 29.0822(d).

(b) For purposes of this chapter, the average daily attendance of a school district that experiences a decline of two percent or more in average daily attendance is considered to be:

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

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

(c) The commissioner shall adjust the average daily attendance of a school district that has a significant percentage of students who are migratory children as defined by 20 U.S.C. Section 6399.

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

(e) For each school year, the commissioner shall adjust the average daily attendance of school districts that are considered to have an adjusted average daily attendance under Subsection (b)(2) so that:

(1) all districts are considered to have the same percentage of the preceding year's actual average daily attendance; and

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

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

(g) If a student may receive course credit toward the student's high school academic requirements and toward the
student's higher education academic requirements for a single
course, including a course provided under Section 28.009 by a
public institution of higher education, the time during which the
student attends the course shall be counted as part of the minimum
number of instructional hours required for a student to be
considered a full-time student in average daily attendance for
purposes of this section.

Sec. 42A.005. AVERAGE DAILY ATTENDANCE FOR DISTRICTS IN
DISASTER AREA. (a) From funds specifically appropriated for the
purpose or other funds available to the commissioner for that
purpose, the commissioner shall adjust the average daily attendance
of a school district all or part of which is located in an area
declared a disaster area by the governor under Chapter 418,
Government Code, if the district experiences a decline in average
daily attendance that is reasonably attributable to the impact of
the disaster.

(b) The adjustment must be sufficient to ensure that the
district receives funding comparable to the funding that the
district would have received if the decline in average daily
attendance reasonably attributable to the impact of the disaster
had not occurred.

(c) The commissioner shall make the adjustment required by
this section for the two-year period following the date of the
governor's initial proclamation or executive order declaring the
state of disaster.

(d) Section 42A.004(b)(2) does not apply to a district that
receives an adjustment under this section.
(e) A district that receives an adjustment under this section may not receive any additional adjustment under Section 42A.004(d) for the decline in average daily attendance on which the adjustment under this section is based.

(f) For purposes of this title, a district's adjusted average daily attendance under this section is considered to be the district's average daily attendance as determined under Section 42A.004.

Sec. 42A.006. REFERENCES TO FOUNDATION SCHOOL PROGRAM. A reference in law to the Foundation School Program means the public school finance system under this chapter.

SUBCHAPTER B. PERMISSIBLE WEALTH LEVEL AND SCHOOL FINANCE

DISTRIBUTES

Sec. 42A.051. DEFINITIONS. In this subchapter:

(1) "Wealth per weighted student" means the taxable value of property, as determined under Subchapter M, Chapter 403, Government Code, divided by the number of students in weighted average daily attendance.

(2) "Weighted average daily attendance" means the number of students in total weighted average daily attendance in a school district as determined under Section 42A.102 and as adjusted under Subchapter C, if applicable.

Sec. 42A.052. PERMISSIBLE RANGE OF WEALTH. (a) Using the most current information available, the commissioner shall determine the statewide average total property tax rate imposed by school districts in this state, the statewide average wealth per weighted student of school districts in this state, and the tax
revenue per weighted student that would result from imposing the average tax rate against the average wealth per weighted student.

(b) A school district's wealth per weighted student is required to be:

(1) at least the wealth that, at the average tax rate determined under Subsection (a), would result in revenue per weighted student that is $300 less than the amount of revenue per weighted student determined by the commissioner under Subsection (a); and

(2) not more than the wealth that, at the average tax rate determined under Subsection (a), would result in revenue per weighted student that is $300 more than the amount of revenue per weighted student determined by the commissioner under Subsection (a).

(c) The commissioner shall notify each school district determined to have a wealth per weighted student that is not within the permissible range of wealth under this section. The commissioner shall also publish the permissible range of wealth on the agency's Internet website.

(d) The commissioner shall revise the determination of permissible wealth level and provide the notification required by this section every 10 years.

Sec. 42A.053. CREATION OF SCHOOL FINANCE DISTRICT. (a) If the wealth per weighted student of a school district is not within the permissible range under Section 42A.052, the district must form a school finance district with one or more other school districts in accordance with this subchapter or be subject to consolidation by
the commissioner under Section 42A.062.

(b) The board of trustees of each school district proposing to form a school finance district must execute an agreement to conduct an election on the creation of the district for the purpose of consolidating the tax bases of the component school districts.

(c) The boards of trustees may not proceed with the election unless the proposed agreement is approved by the commissioner as provided by Section 42A.054.

(d) The agreement must provide that:

(1) each component school district will receive from the maintenance tax revenue of the school finance district an equal amount of money per student in weighted average daily attendance; and

(2) the school finance district will assume all the indebtedness of the component school districts.

Sec. 42A.054. APPROVAL BY COMMISSIONER. The commissioner shall approve a proposed school finance district agreement if:

(1) the board of trustees of each component school district has approved the proposed school finance district; and

(2) the proposed school finance district's wealth per weighted student will be within the permissible range under Section 42A.052.

Sec. 42A.055. ELECTION REQUIRED. (a) An agreement under this subchapter must provide for the ordering of an election to be held on the same date in each component school district. The election must be held on a Tuesday or Saturday, and Section 41.001, Election Code, does not apply to the election.
(b) The ballot shall be printed to permit voting for or against the proposition: "Creation of a school finance district composed of the consolidated territory for taxing purposes of __________________________ school districts, and authorizing the levy, assessment, and collection of annual ad valorem taxes for the maintenance of the public free schools within that territory at a rate not to exceed $_________ on the $100 valuation of taxable property; and further to create a consolidated tax base for the repayment of all bonded indebtedness issued by the joint board of the school finance district or previously issued by the component school districts and to authorize the joint board of the school finance district to levy, pledge, and collect ad valorem taxes at a rate sufficient to pay the principal of and interest on those bonds."

(c) The rate of the tax for maintenance of the public free schools to be included in the proposition shall be provided by the agreement among the component school districts.

(d) The proposition is approved only if the proposition receives a favorable vote of the majority of the votes cast within each component school district.

Sec. 42A.056. STATUS OF SCHOOL FINANCE DISTRICT. (a) A school finance district is a school district established for the limited purpose of exercising the taxing power authorized by Section 3, Article VII, Texas Constitution, and distributing the revenue to its component school districts as provided by this chapter.

(b) A school finance district may issue bonds as provided by
Chapter 45.

(c) A school finance district is subject to any provision of law applicable to a school district that relates to imposition of taxes, issuance of bonds, collection and distribution of tax revenue, or the determination of a school district's entitlement to funding under this chapter.

Sec. 42A.057. GOVERNANCE. (a) A school finance district is governed by the boards of trustees of the component school districts acting jointly.

(b) Any action taken by the joint board must receive a favorable vote of a majority of each component school district's board of trustees.

Sec. 42A.058. MAINTENANCE AND BOND TAXES. (a) The joint board shall levy a maintenance tax for the benefit of the component school districts not later than September 1 of each year or as soon thereafter as practicable.

(b) The joint board shall levy a bond tax if necessary to pay principal and interest on bonds issued by the joint board or to pay indebtedness of component school districts assumed by the school finance district.

(c) Each component school district shall bear a share of the costs of assessing and collecting taxes in proportion to the component school district's share of weighted average daily attendance in the school finance district.

(d) A component school district may not levy maintenance or bond taxes.

(e) A school finance district is entitled to assistance with
payment of existing debt under Subchapter B, Chapter 46.

Sec. 42A.059. DISSOLUTION OF SCHOOL FINANCE DISTRICT. (a) A school finance district formed under this subchapter exists for 10 years after the date the district was created. On the expiration of the 10-year period, a school finance district is dissolved.

(b) Each component school district that remains, after the commissioner's revision of the permissible range of wealth, subject to the requirement to form a school finance district under Section 42A.053(a) shall form a new school finance district or seek continuation of the former school finance district, as provided by Section 42A.060.

Sec. 42A.060. CONTINUED MEMBERSHIP IN SCHOOL FINANCE DISTRICT. (a) A school district shall form a new school finance district in the manner provided by this subchapter or continue an existing school finance district if the school district continues to have a wealth per weighted student that is not within the most recently determined permissible range of wealth.

(b) The board of trustees of each component school district that seeks to continue an existing school finance district shall seek the commissioner's approval to continue the school finance district for another 10-year period.

(c) The commissioner shall approve the continuation of a school finance district for a succeeding 10-year period if:

(1) the board of trustees of each component school district petitions the commissioner for the continuation of the school finance district; and

(2) the school finance district's wealth per weighted
student is within the most recently determined permissible range of wealth.

(d) An existing school finance district that obtains the commissioner's approval for a succeeding 10-year period is not required to obtain renewed voter approval.

Sec. 42A.061. OPTIONAL FORMATION OR CONTINUATION OF SCHOOL FINANCE DISTRICT. The board of trustees of a school district not required to form or continue a school finance district under this subchapter may elect to do so by satisfying the requirements for formation or continuation provided by this subchapter.

Sec. 42A.062. CONSOLIDATION BY COMMISSIONER. (a) A school district required to form a school finance district under Section 42A.053 is subject to consolidation under this section if the district has not, before the date specified by the commissioner:

(1) agreed to be a member of a school finance district;
(2) obtained approval of the commissioner as required by Section 42A.053; and
(3) received the approval of the voters in each component school district regarding the formation of the school finance district and the imposition of taxes.

(b) The commissioner shall order the consolidation of a school district described by Subsection (a) with one or more other school districts. The commissioner shall consolidate school districts so that the projected wealth per weighted student of the consolidated school district is within the permissible range of wealth.

Sec. 42A.063. GOVERNANCE OF CONSOLIDATED DISTRICT. (a)
Until the initial trustees elected as provided by Subsection (b) have qualified and taken office, a district consolidated under Section 42A.062 is governed by a transitional board of trustees consisting of the board of trustees of the district having the greatest student membership on the last day of the school year preceding the consolidation plus one member of the board of trustees of each other consolidating district selected by that board.

(b) The transitional board of trustees shall divide the consolidated district into nine single-member trustee districts in accordance with the procedures provided by Section 11.052. The transitional board shall order an election for the initial board of trustees to be held on the first May uniform election date after the effective date of a consolidation order.

(c) Members of the board of trustees of a consolidated district serve staggered terms of office for four years.

(d) Section 13.156 applies to districts consolidated under this subchapter.

Sec. 42A.064. FUND BALANCES OF CONSOLIDATED DISTRICT. Fund balances of a school district consolidated under Section 42A.062 may be used only for the benefit of the schools within the district that generated the funds.

Sec. 42A.065. EMPLOYMENT CONTRACTS OF CONSOLIDATED DISTRICT. A consolidated district created under Section 42A.062 shall honor an employment contract entered into by a consolidating district.

Sec. 42A.066. COMMISSIONER TO APPROVE SUBSEQUENT BOUNDARY
CHANGES. A school district that is involved in an action under this chapter that results in boundary changes to the district or in the consolidation of tax bases into a school finance district is subject to consolidation, detachment, or annexation under Chapter 13 only if the commissioner certifies that the change under Chapter 13 will not result in a district with a wealth per weighted student that is not within the permissible range of wealth.

Sec. 42A.067. HOMESTEAD EXEMPTIONS. (a) The governing board of a school district that results from consolidation under this chapter, including consolidation of tax bases into a school finance district, for the tax year in which the consolidation occurs may determine whether to adopt a homestead exemption provided by Section 11.13, Tax Code, and may set the amount of the exemption, if adopted, at any time before the governing board adopts a tax rate for that tax year. This section applies only to an exemption that the governing board of a school district is authorized to adopt or change in amount under Section 11.13, Tax Code.

(b) This section prevails over any inconsistent provision of Section 11.13, Tax Code, or other law.

Sec. 42A.068. TAX ABATEMENTS. (a) A tax abatement agreement executed by a school district that is involved in consolidation under this chapter is not affected and applies to the taxation of the property covered by the agreement as if executed by the district within which the property is included.

(b) The commissioner shall determine the wealth per weighted student of a school district under this chapter as if any
tax abatement agreement executed by a school district on or after May 31, 1993, had not been executed.

Sec. 42A.069. TAX INCREMENT OBLIGATIONS. The payment of tax increments under Chapter 311, Tax Code, is not affected by the consolidation of territory or tax bases under this chapter. In each tax year a school district paying a tax increment from taxes on property over which the district has assumed taxing power is entitled to retain the same percentage of the tax increment from that property that the district in which the property was located before the consolidation could have retained for the respective tax year.

Sec. 42A.070. REQUIRED NUMBER OF SCHOOL FINANCE DISTRICTS. In approving the formation or continuation of school finance districts under this subchapter, the commissioner shall ensure the formation of not fewer than 30 school finance districts in the state.

SUBCHAPTER C. STATE FUNDING

Sec. 42A.101. STATE FUNDS. (a) Each biennium, the legislature shall set by appropriation the amount of state funds to be distributed each school year for public education in accordance with this chapter.

(b) The amount appropriated shall be distributed to school districts on the basis of each district's total weighted average daily attendance, as computed under this subchapter, with each district entitled to receive the same amount of state funds per student in weighted average daily attendance.

(c) Distributions shall be made in accordance with the
Sec. 42A.102. DETERMINATION OF WEIGHTED AVERAGE DAILY ATTENDANCE. (a) The total weighted average daily attendance of a school district is the sum of the weighted average daily attendance for each educational program for which a student multiplier is provided under Subsection (b), as determined by the formula:

\[
\text{EPWADA} = S \times SM \times CEI
\]

where:

- "EPWADA" is the weighted average daily attendance for the educational program;
- "S" is the number of students in average daily attendance, number of full-time equivalent students, or number of students enrolled, as appropriate, in the educational program for which the computation is made;
- "SM" is the student multiplier for the educational program, as provided by Subsection (b); and
- "CEI" is 50 percent of the cost of education index adjustment for the school district adopted by the foundation school fund budget committee to reflect the geographic variation in known resource costs and costs of education due to factors beyond the control of the school district contained in Chapter 203, Title 19, Texas Administrative Code, as that chapter existed on January 1, 1997.

(b) The student multipliers are:

1. 1.0 for a student in average daily attendance, not including time the student spends each day in a special education program in an instructional arrangement other than mainstream or in
a career and technology education program;

(2) 1.1 for a student in a special education program in
a mainstream instructional arrangement;

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

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

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

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

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

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

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

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

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

(12) 4.0 for a student in a special education program
who resides in a care and treatment facility, other than a state
supported living center, whose parent or guardian does not reside
in the district, and who receives educational services from the
district campus;

(13) 2.8 for a student in a special education program
who resides in a state supported living center;

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

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

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

(17) 1.35 for a full-time equivalent student in an
approved career and technology education program in grades nine
through 12 or in a career and technology education program for
students with disabilities in grades seven through 12;

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

(19) except as provided by Section 42A.256, 0.1 for a
student in average daily attendance who is using a public education
grant under Subchapter G, Chapter 29, to attend school in a district.
other than the district in which the student resides.

(c) In this section:

1. "Career and technology education program" means a program under Subchapter F, Chapter 29.

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

3. "Special education program" means a program under Subchapter A, Chapter 29.

Sec. 42A.103. SMALL AND MID-SIZED DISTRICT ADJUSTMENT. (a) The adjusted weighted average daily attendance of certain small and mid-sized districts is computed in accordance with this section.

In this section:

1. "AWADA" is the adjusted weighted average daily attendance;

2. "ADA" is the number of students in average daily attendance in the district; and

3. "WADA" is the total number of students in weighted average daily attendance determined under Section 42A.102.

(b) The adjusted weighted average daily attendance of a school district that contains at least 300 square miles and has not more than 1,600 students in average daily attendance is determined by the formula:

\[ AWADA = (1 + ((1,600 - ADA) \times 0.0004)) \times WADA \]

(c) The adjusted weighted average daily attendance of a school district that contains less than 300 square miles and has not more than 1,600 students in average daily attendance is determined by the formula:
AWADA = (1 + ((1,600 - ADA) X .00025)) X WADA

(d) The adjusted weighted average daily attendance of a school district that offers a kindergarten through grade 12 program and has less than 5,000 students in average daily attendance is determined by the formula, of the following formulas, that results in the greatest weighted average daily attendance:

1. the formula in Subsection (b) or (c) for which the district is eligible; or

2. AWADA = (1 + ((5,000 - ADA) X .000025)) X WADA

(e) A school district's adjusted weighted average daily attendance computed under this section is used in determining the amount of funding to which the district is entitled under this chapter on the basis of weighted average daily attendance.

Sec. 42A.104. SPARSITY ADJUSTMENT. Notwithstanding Sections 42A.102 and 42A.103, the weighted average daily attendance of a school district that has fewer than 130 students in average daily attendance is 130 students in weighted average daily attendance if the district offers a kindergarten through grade 12 program and has preceding or current year's average daily attendance of at least 90 students or is 30 miles or more by bus route from the nearest high school district. The weighted average daily attendance of a district offering a kindergarten through grade 8 program whose preceding or current year's average daily attendance was at least 50 students or that is 30 miles or more by bus route from the nearest high school district is 75 students in weighted average daily attendance. A weighted average daily attendance of 60 students shall be used if a district offers a
kindergarten through grade 6 program and has preceding or current
year's average daily attendance of at least 40 students or is 30
miles or more by bus route from the nearest high school district.

SUBCHAPTER D. LOCAL FUNDING

Sec. 42A.151. DEPOSIT WITH COMPTROLLER; DISTRIBUTION OF
SCHOOL FINANCE DISTRICT LOCAL FUNDS. (a) Each school finance
district shall submit to the comptroller the local tax revenue
collected by the school finance district. The comptroller shall
hold the money for the school finance district in a numbered account
outside the treasury for distribution to the component school
districts as provided by this section.

(b) For each school year, the comptroller shall determine
the total amount available for distribution from a school finance
district's account to the component school districts.

(c) In accordance with the payment schedule adopted under
Section 42A.204, the comptroller shall distribute the amount
determined under Subsection (b) to the component school districts
on the basis of the total weighted average daily attendance of each
school district, with each school district in the school finance
district receiving the same amount of local funding per student in
total weighted average daily attendance.

(d) The commissioner shall certify the total weighted
average daily attendance of each school district for purposes of
this section.

Sec. 42A.152. SCHOOL DISTRICT LOCAL FUNDS. A school
district that is not a member of a school finance district shall
retain control and possession of all local tax revenue, subject to

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other law applicable to public education funds.

SUBCHAPTER E. ADMINISTRATION

Sec. 42A.201. ADMINISTRATION BY COMMISSIONER. The commissioner, in accordance with the rules of the State Board of Education, shall take such action and require such reports consistent with this chapter as may be necessary to implement and administer the public school finance system.

Sec. 42A.202. PUBLIC EDUCATION INFORMATION MANAGEMENT SYSTEM (PEIMS). (a) Each school district shall participate in the Public Education Information Management System (PEIMS) and shall provide through that system information required for the administration of this chapter and of other appropriate provisions of this code.

(b) The commissioner by rule shall require each school district and open-enrollment charter school to report through the Public Education Information Management System information regarding the number of students enrolled in the district or school who are identified as having dyslexia. The agency shall maintain the information provided in accordance with this subsection.

(c) Each school district shall use a uniform accounting system adopted by the commissioner for the data required to be reported for the Public Education Information Management System.

(d) Annually, the commissioner shall review the Public Education Information Management System and shall repeal or amend rules that require school districts to provide information through the Public Education Information Management System that is not necessary. In reviewing and revising the Public Education
Information Management System, the commissioner shall develop rules to ensure that the system:

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

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

(3) does not contain any information related to instructional methods, except as provided by Section 29.066 or required by federal law.

(e) The commissioner's rules must ensure that the Public Education Information Management System links student performance data to other related information for purposes of efficient and effective allocation of scarce school resources, to the extent practicable using existing agency resources and appropriations.

Sec. 42A.203. ESTIMATE REQUIRED. (a) Not later than October 1 of each even-numbered year, the agency shall submit to the legislature an estimate of the student enrollment and a projection of the weighted average daily attendance of each school district for the following biennium.

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

Sec. 42A.204. PAYMENT SCHEDULE. In coordination with the comptroller and the Legislative Budget Board, the commissioner by rule shall determine a schedule for payment of funds under this
chapter.

Sec. 42A.205. RECOVERY OF OVERALLOCATED FUNDS. (a) If a school district has received an overallocation of funds, the agency shall, by withholding from subsequent allocations of funds for the current or subsequent school year or by requesting and obtaining a refund, recover from the district an amount equal to the overallocation.

(b) Notwithstanding Subsection (a), the agency may recover an overallocation of funds over a period not to exceed the subsequent five school years if the commissioner determines that the overallocation was the result of exceptional circumstances reasonably caused by statutory changes to this chapter or Chapter 46 and related reporting requirements.

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

(d) Any amounts recovered under this section shall be deposited to the credit of the available school fund.

Sec. 42A.206. FALSIFICATION OF RECORDS; REPORT. When, in the opinion of the agency's director of school audits, audits or reviews of accounting, enrollment, or other records of a school district reveal deliberate falsification of the records, or violation of the provisions of this chapter, through which the
district's share of funds allocated under the authority of this
chapter would be, or has been, illegally increased, the director
shall promptly and fully report the fact to the State Board of
Education, the state auditor, and the appropriate county attorney,
district attorney, or criminal district attorney.

SUBCHAPTER F. CONDITIONS APPLICABLE TO FUNDING BASED ON STUDENT
MULTIPLIERS

Sec. 42A.251. SPECIAL EDUCATION PROGRAMS. (a) For funding
purposes, the number of contact hours credited per day for each
student in the off-home campus instructional arrangement may not
exceed the contact hours credited per day for the multidistrict
class instructional arrangement in the 1992-1993 school year.

(b) For funding purposes, the number of contact hours
credited per day for each student in the resource room;
self-contained, mild and moderate; and self-contained, severe,
instructional arrangements may not exceed the average of the
statewide total contact hours credited per day for those three

(c) The State Board of Education by rule shall prescribe the
qualifications an instructional arrangement must meet in order to
be funded as a particular instructional arrangement under this
chapter. In prescribing the qualifications that a mainstream
instructional arrangement must meet, the board shall establish
requirements that students with disabilities and their teachers
receive the direct, indirect, and support services that are
necessary to enrich the regular classroom and enable student
success.
(d) Funds received by a school district as a result of the district's weighted average daily attendance of students described by Sections 42A.102(b)(2)-(13), other than an indirect cost allowance established under State Board of Education rule, must be used in the special education program under Subchapter A, Chapter 29.

(e) The agency shall encourage the placement of students in special education programs, including students in residential instructional arrangements, in the least restrictive environment appropriate for their educational needs.

(f) The State Board of Education shall adopt rules and procedures governing contracts for residential placement of special education students. The legislature shall provide by appropriation for the state's share of the costs of those placements.

(g) A school district that provides an extended year program required by federal law for special education students who may regress is entitled to receive funds in an amount equal to 75 percent, or a lesser percentage determined by the commissioner, of the amount of state funds provided per student in weighted average daily attendance under Section 42A.101(b) for each full-time equivalent student in average daily attendance, multiplied by the amount designated for the student's instructional arrangement under Section 42A.102(b) for each day the program is provided divided by the number of days in the minimum school year. The total amount of state funding for extended year services under this subsection may not exceed $10 million per year. A school district
may use funds received under this subsection only in providing an extended year program.

(h) From the total amount of funds appropriated for weighted average daily attendance of students described by Sections 42A.102(b)(2)-(13), the commissioner shall withhold an amount specified in the General Appropriations Act and distribute that amount to school districts for programs under Section 29.014. The program established under that section is required only in school districts in which the program is financed by funds distributed under this subsection and any other funds available for the program. After deducting the amount withheld under this subsection from the total amount appropriated for weighted average daily attendance of students described by Sections 42A.102(b)(2)-(13), the commissioner shall reduce each district's allocation proportionately.

Sec. 42A.252. COMPENSATORY EDUCATION PROGRAMS. (a) In this section, "compensatory education funds" means funds received by a school district as a result of the district's weighted average daily attendance of students described by Sections 42A.102(b)(14) and (15).

(b) For purposes of Section 42A.102(b)(14), the number of educationally disadvantaged students is determined:

1. by averaging the best six months' enrollment in the national school lunch program of free or reduced-price lunches for the preceding school year; or

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

(c) Compensatory education funds, other than an indirect cost allowance established under State Board of Education rule, which may not exceed 48 percent, shall be used to fund supplemental programs and services designed to eliminate any disparity in performance on assessment instruments administered under Subchapter B, Chapter 39, or disparity in the rates of high school completion between students at risk of dropping out of school, as defined by Section 29.081, and all other students. Specifically, the funds may be used to meet the costs of providing a compensatory, intensive, or accelerated instruction program under Section 29.081 or a disciplinary alternative education program established under Section 37.008, to pay the costs associated with placing students in a juvenile justice alternative education program established under Section 37.011, or to support a program eligible under Title I of the Elementary and Secondary Education Act of 1965, as provided by Pub. L. No. 103-382 and its subsequent amendments, and by federal regulations implementing that Act, at a campus at which at least 40 percent of the students are educationally disadvantaged. In meeting the costs of providing a compensatory, intensive, or accelerated instruction program under Section 29.081, compensatory education funds shall be used for costs supplementary to the regular education program, such as costs for program and student evaluation, instructional materials and equipment and other supplies required for quality instruction, supplemental staff expenses, salary for teachers of at-risk students, smaller class...
size, and individualized instruction. A home-rule school district
or an open-enrollment charter school must use compensatory
education funds for a purpose authorized in this subsection but is
not otherwise subject to Subchapter C, Chapter 29. For purposes of
this subsection, a program specifically designed to serve students
at risk of dropping out of school, as defined by Section 29.081, is
considered to be a program supplemental to the regular education
program, and a district may use compensatory education funds for
such a program.

(d) Notwithstanding Subsection (c), compensatory education
funds may be used to fund in proportion to the percentage of
students served by the program that meet the criteria in Section
29.081(d) or (g):

(1) an accelerated reading instruction program under
Section 28.006(g); or

(2) a program for treatment of students who have
dyslexia or a related disorder as required by Section 38.003.

(e) Notwithstanding Subsection (c), compensatory education
funds may be used to fund a district's mentoring services program
under Section 29.089.

(f) The agency shall evaluate the effectiveness of
accelerated instruction and support programs provided under
Section 29.081 for students at risk of dropping out of school.

(g) The State Board of Education, with the assistance of the
comptroller, shall develop and implement by rule reporting and
auditing systems for district and campus expenditures of
compensatory education funds to ensure that compensatory education
funds are spent only to supplement the regular education program as required by Subsection (c). The reporting requirements shall be managed electronically to minimize local administrative costs. A district shall submit the report required by this subsection not later than the 150th day after the last day permissible for resubmission of information required under Section 42A.202.

(h) The commissioner shall develop a system to identify school districts that are at high risk of having used compensatory education funds other than in compliance with Subsection (c) or of having inadequately reported compensatory education expenditures. If a review of the report submitted under Subsection (g), using the risk-based system, indicates that a district is not at high risk of having misused compensatory education funds or of having inadequately reported compensatory education expenditures, the district may not be required to perform a local audit of compensatory education expenditures and is not subject to on-site monitoring under this section.

(i) If a review of the report submitted under Subsection (g), using the risk-based system, indicates that a district is at high risk of having misused compensatory education funds, the commissioner shall notify the district of that determination. The district must respond to the commissioner not later than the 30th day after the date the commissioner notifies the district of the commissioner's determination. If the district's response does not change the commissioner's determination that the district is at high risk of having misused compensatory education funds or if the district does not respond in a timely manner, the commissioner
shall:

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

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

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

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

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

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

(k) The commissioner, in the year following a local audit of compensatory education expenditures, shall withhold from a district's payment of funds under Section 42A.204 an amount equal to the amount of compensatory education funds the agency determines were not used in compliance with Subsection (c). The commissioner
shall release to a district funds withheld under this subsection when the district provides to the commissioner a detailed plan to spend those funds in compliance with Subsection (c).

(l) The commissioner shall grant a one-year exemption from the requirements of Subsections (g)-(k) to a school district in which the group of students who have failed to perform satisfactorily in the preceding school year on an assessment instrument required under Section 39.023(a), (c), or (l) subsequently performs on those assessment instruments at a level that meets or exceeds a level prescribed by commissioner rule. Each year the commissioner, based on the most recent information available, shall determine if a school district is entitled to an exemption for the following school year and notify the district of that determination.

Sec. 42A.253. BILINGUAL EDUCATION OR SPECIAL LANGUAGE PROGRAMS. (a) Funds received by a school district as a result of the district’s weighted average daily attendance of students described by Section 42A.102(b)(16), other than an indirect cost allowance established under State Board of Education rule, must be used in providing bilingual education or special language programs under Subchapter B, Chapter 29, and must be accounted for under existing agency reporting and auditing procedures.

(b) Funds described by Subsection (a) may be used only for program and student evaluation, instructional materials and equipment, staff development, supplemental staff expenses, salary supplements for teachers, and other supplies required for quality instruction and smaller class size.
Sec. 42A.254. CAREER AND TECHNOLOGY EDUCATION. (a) Funds received by a school district as a result of the district's weighted average daily attendance of students described by Section 42A.102(b)(17), other than an indirect cost allowance established under State Board of Education rule, must be used in providing career and technology education programs in grades nine through 12 or career and technology education programs for students with disabilities in grades seven through 12 under Sections 29.182, 29.183, and 29.184.

(b) The commissioner shall conduct a cost-benefit comparison between career and technology education programs and mathematics and science programs.

(c) Out of the total amount of funds appropriated for weighted average daily attendance of students described by Section 42A.102(b)(17), the commissioner shall set aside an amount specified in the General Appropriations Act, which may not exceed an amount equal to one percent of the total amount appropriated, to support regional career and technology education planning. After deducting the amount set aside under this subsection from the total amount appropriated, the commissioner shall reduce each district's allocation proportionately.

Sec. 42A.255. GIFTED AND TALENTED STUDENT PROGRAMS. (a) Funds received by a school district as a result of the district's weighted average daily attendance of students described by Section 42A.102(b)(18), other than the amount that represents the program's share of general administrative costs, must be used in providing programs for gifted and talented students under Subchapter D,
Chapter 29, including programs sanctioned by International Baccalaureate and Advanced Placement, or in developing programs for gifted and talented students. Each district must account for the expenditure of state funds as provided by rule of the State Board of Education. If by the end of the 12th month after receiving funds under this chapter for gifted and talented student programs for developing a program a district has failed to implement a program, the district must refund the funds received for gifted and talented student programs to the agency within 30 days.

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

(c) After each district has received allocated funds for this program, the State Board of Education may use up to $500,000 of the funds allocated under this chapter for programs such as MATHCOUNTS, Future Problem Solving, Odyssey of the Mind, and Academic Decathlon, as long as these funds are used to train personnel and provide program services. To be eligible for funding under this subsection, a program must be determined by the State Board of Education to provide services that are effective and consistent with the state plan for gifted and talented education.

Sec. 42A.256. PUBLIC EDUCATION GRANTS. The total number of students for whom a student multiplier is applied under Section 42A.102(b)(19) for a district may not exceed the number by which the number of students using public education grants to attend school in the district exceeds the number of students who reside in the district and use public education grants to attend school in
Sec. 42A.257. APPLICABILITY OF CONDITIONS TO SCHOOL DISTRICTS NOT INCLUDED IN SCHOOL FINANCE DISTRICT. The conditions prescribed by this subchapter apply to local tax revenue retained by a school district in the same manner that the conditions apply to state and local money distributed under this chapter.

SECTION 2. Section 12.106(a), Education Code, as effective September 1, 2017, is amended to read as follows:

(a) A charter holder is entitled to receive for the open-enrollment charter school funding under Chapter 42A equal to the amount of state funding per student in weighted average daily attendance provided under that chapter to [excluding enrichment funding under Section 42.302(a), to which the charter holder would be entitled for the school under Chapter 42 if the school were] a school district [without a tier one local share for purposes of Section 42.253].

SECTION 3. Section 45.003(d), Education Code, is amended to read as follows:

(d) A proposition submitted to authorize the levy of maintenance taxes must include the question of whether the governing board or commissioners court may levy, assess, and collect annual ad valorem taxes for the further maintenance of public schools, at a rate not to exceed the rate stated in the proposition. [For any year, the maintenance tax rate per $100 of taxable value adopted by the district may not exceed the rate equal to the sum of $0.17 and the product of the state compression percentage, as determined under Section 42.2516, multiplied by]
SECTION 4. The following provisions of the Education Code are repealed:

(1) Sections 12.106(a-1) and (a-2);
(2) Chapter 41;
(3) Chapter 42; and
(4) Sections 45.003(e) and (f).

SECTION 5. (a) As soon as practicable and not later than October 1, 2015, the commissioner of education, as required by Section 42A.052, Education Code, as added by this Act, shall:

(1) make the initial determination of permissible range of wealth; and
(2) notify each school district with a wealth per weighted student that is not within the permissible range of wealth.

(b) Each school district proposing to form a school finance district must submit the proposed agreement to the commissioner of education for approval not later than April 1, 2016.

(c) The commissioner of education shall approve or disapprove each proposed agreement not later than May 1, 2016.

(d) An election for voter approval of each proposed agreement approved by the commissioner of education must occur not later than December 1, 2016.

(e) Not later than May 1, 2017, the commissioner of education, as required by Section 42A.062, Education Code, as added by this Act, shall order the consolidation of each school district with a wealth per weighted student not within the permissible range...
of wealth that failed to obtain voter approval of the formation of a school finance district.

(f) Notwithstanding any other provision of this section, the commissioner of education may modify the dates specified in this section or provide for additional deadlines as necessary to ensure that the system of public school funding provided by this Act is fully implemented beginning with the 2017 tax year and the 2017-2018 school year.

SECTION 6. An obligation or entitlement of a school district in connection with state funding for the 2016-2017 or an earlier school year under Chapters 41 and 42, Education Code, as those chapters existed before repeal by this Act, is not affected by this Act, and the prior law is continued in effect for that purpose.

SECTION 7. (a) Subject to Subsection (b) of this section, this Act applies beginning with the 2017-2018 school year.

(b) Section 42A.058, Education Code, as added by this Act, applies beginning with the 2017 tax year.

SECTION 8. 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, 2015.