EDUCATION COMMISSION OF THE STATES
Your education policy team.

Response to information request

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Your Question:

You asked for information on state takeovers of schools and districts for financial insolvency.

Our Response:

In general, a **state takeover** occurs when a state removes control of a district or school from the local education agency and turns it over to the state education agency or receiver. Within state policy, there is significant variation in the circumstances under which states are permitted to takeover a school or district. While state takeover strategies are often discussed within the context of academic improvement, several states allow state takeovers for financial insolvency or mismanagement.

According to an **article** published in the *Michigan State Law Review Journal,* 33 states permit a state takeover of a school district for either academic or financial reasons and 17 states authorize a takeover due to a district fiscal crisis. As the author **notes in a follow-up article,** in some cases, the line between intervention for academic reasons and intervention for financial reasons is difficult to decipher. While Education Commission of the States has not recently authored reports or tracked legislation specific to state strategies for addressing financial insolvency of schools or districts, we gathered some examples from state policy and further resources for your review.

State Policy Examples

The Education Commission of the States state policy database provides summaries of legislation on school or district **sanctions/interventions** and **takeovers**. While much of the legislation summarized addresses state interventions for low-performing schools and districts more generally, we found a few examples of state laws specifically related to financial insolvency below. Generally, these laws include ***specifics on the circumstances under which a takeover is permitted***, and ***details on the takeover process*** — which usually includes ***appointing a financial manager or team of managers***.

- **Alabama (Ala. Code § 16-6B-4):** The process of addressing financial accountability in Alabama includes a few steps:
  - If a local board of education is determined to have submitted fiscally unsound financial reports, the state department of education must provide assistance and advice.
  - If during the assistance the state superintendent determines that the local board is in an unsound fiscal position, a person or persons must be appointed to advise the day-to-day financial operations.
  - If the state superintendent determines that the local board is still in an unsound position after a reasonable period of time, a request shall be made to the state board of education for direct control of the fiscal operation of the local board of education.
  - If the request is granted, the state superintendent must submit a proposal for the implementation of management controls. Once the proposal is approved, the superintendent a*ppoints an individual to be chief financial officer* to manage the fiscal operation of the local board of education.

- **Arizona (ARS § 15-103):** The state board of education is authorized to *appoint a receiver or fiscal crisis team* in the event of one or more of seven specific criteria being met. In the event a receiver is appointed, it will perform a thorough report of district operations within 120 days of appointment. The receiver has the authority to override any decision by the local board and superintendent as well as terminate the employment of the superintendent and chief financial officer. The receivership ends when the state auditor certifies the district is back in compliance with state organizational and financial standards.

- **California (2 Educ. Code § 41325):** Statute indicates that in circumstances of district financial insolvency, the state superintendent has the authority to take leadership over the district and to *appoint a financial administrator*. According to the law, state intervention may begin when a district requests a state loan that exceeds 200 percent of the amount of reserve recommended under state standards. Once appointed, the financial administrator must continuously consult community stakeholders — including the local school board, parent teacher organizations, representatives of collective bargaining units, and others. The administrator must develop and implement a multi-year management review and recovery plan for the district.

- **Florida (§ 218.503):** If the district school board is considered to be in a state of financial emergency, the Commissioner of Education has the authority to assist them in resolving that emergency through several avenues, including, but not limited to the following:
  - Requiring approval of the district school board's budget by the Commissioner of Education.
  - Making inspections and reviews of records, information, reports and assets.
  - *Establishing a financial emergency board* to oversee the activities of the district school board, appointed by the State Board of Education.

- **Pennsylvania (§ 6-691 and § 6-693):** Pennsylvania defines a 'distressed school district' and provides that when the *special board of control* assumes control of a distressed school district, it shall have the powers of the board of school directors. The special board of control shall have power to require the board of directors to revise the district's budget within 60 days for the purpose of improving the district's financial condition.

In addition to the examples summarized above, the appendix of this **article** cites statutes related to state takeover of a school district for fiscal reasons in the following states: Arkansas, Illinois, Kentucky, Michigan, Mississippi, Missouri, New Jersey, North Carolina, Ohio, Pennsylvania, Texas and West Virginia.

Further Resources

- This 2015 Fordham Institute Policy Brief, ***Who Should Be in Charge When School Districts Go into the Red?***, provides an overview of considerations related to district takeover for financial or organizational issues. The brief provides a road map for engaging in a collaborative takeover that balances local constituent demands with the broader goals of restructuring the district's management practices and includes policy recommendations. Additionally, this brief outlines the history behind a few oft-cited examples of district takeover due to financial insolvency in Philadelphia, Detroit and Camden.

- This **report** from the Institute on Education Law and Policy at Rutgers University provides a 50-state overview of accountability, state intervention and takeover more generally.