

REFERENCE TITLE: **insolvent school districts; student funding**

State of Arizona
House of Representatives
Fifty-seventh Legislature
First Regular Session
2025

HB 2915

Introduced by
Representatives Crews: Aguilar

AN ACT

AMENDING SECTION 15-103, ARIZONA REVISED STATUTES; RELATING TO INSOLVENT SCHOOL DISTRICTS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 15-103, Arizona Revised Statutes, is amended to
3 read:

4 15-103. School districts; financial mismanagement;
5 intervention; definitions

6 A. The state board of education shall review allegations of school
7 district insolvency and gross mismanagement. The state board shall give
8 the school district an opportunity to respond to these allegations at a
9 public meeting. If the state board determines that the school district is
10 insolvent or has grossly mismanaged its finances, the state board shall
11 appoint a receiver or fiscal crisis team for that school district.

12 B. The state board shall find a school district insolvent if it
13 finds one or more of the following:

14 1. The school district is unable to pay debts as they fall due or
15 in the usual course of business.

16 2. The salaries of any teachers or other employees have remained
17 unpaid for forty-five days.

18 3. The tuition due another school district or other state
19 institution remains unpaid on or after January 1 of the year following the
20 school year it was due and there is no dispute regarding the validity or
21 amount of the claim.

22 4. The school district has defaulted in payment of its bonds or
23 interest on bonds or in payment of rentals due any state or federal
24 authority or private business for a period of sixty calendar days and no
25 action has been initiated within that period of time to make payment.

26 5. The school district has contracted for any loan not authorized
27 by law.

28 6. The school district has accumulated and has operated with a
29 deficit equal to five ~~per cent~~ PERCENT or more of the school district's
30 revenue control limit for any fiscal year within the past two fiscal years
31 or the conditions prescribed in section 15-107 have occurred.

32 7. The school district's warrants have not been honored for payment
33 by the school district's servicing bank or by the county treasurer and the
34 warrants have remained unpaid for a period of more than sixty calendar
35 days.

36 C. A school district shall not be deemed to be insolvent pursuant
37 to subsection B of this section if the circumstances are the result of the
38 failure of the state to make any payments of monies due the school
39 district at the time payment is due.

40 D. The state board of education ~~shall have~~ HAS jurisdiction over
41 all petitions requesting that a school district be placed in receivership
42 and a receiver be appointed or that a fiscal crisis team be appointed
43 because of the school district's alleged insolvency or gross
44 mismanagement. The state board ~~shall have~~ HAS the burden of demonstrating

1 by a preponderance of the evidence that the school district is insolvent
2 or is engaged in gross mismanagement.

3 E. If the state board of education finds that the school district
4 is insolvent or has engaged in gross mismanagement, the state board may
5 place the school district in receivership and appoint a receiver
6 recommended by the state board. The state board shall develop and adopt a
7 list of qualified receivers to be appointed by the board.

8 F. On appointment, the receiver may perform any of the actions
9 prescribed in ~~paragraphs 1 through 11 of~~ this subsection and shall begin a
10 full review and investigation of the school district's financial affairs
11 and submit to the state board of education a detailed report listing the
12 findings of that investigation that ~~shall include~~ INCLUDES a financial
13 improvement plan and budget that details how the school district will
14 eliminate any continued gross financial mismanagement and achieve
15 financial solvency. The plan shall include a proposed timeline for
16 achieving financial solvency. The receiver shall submit the report within
17 one hundred twenty days after the receiver's appointment. The financial
18 improvement plan approved by the state board of education may authorize
19 the receiver to do any of the following:

20 1. Override any decisions of the school district's governing board
21 or the school district superintendent, or both, concerning the management
22 and operation of the school district, and initiate and make decisions
23 concerning the management and operation of the school district.

24 2. Attend any and all meetings of the school district's governing
25 board and administrative staff.

26 3. Supervise the day-to-day activities of the school district's
27 staff, including reassigning the duties and responsibilities of personnel
28 in a manner that, in the determination of the receiver, best suits the
29 needs of the school district.

30 4. Place on extended leave, suspend or terminate for cause the
31 school district's superintendent or chief financial officer, or both. The
32 receiver is not authorized to provide a severance or buyout package to the
33 school district's superintendent or chief financial officer if the school
34 district is placed into receivership by the state board of education. A
35 person terminated pursuant to this paragraph may appeal the receiver's
36 decision to the state board of education if an appeal is filed with the
37 state board within thirty days ~~or~~ AFTER receiving notice of the
38 termination.

39 5. Authorize pupils to transfer from schools operated by the school
40 district to schools operated by another school district that is not
41 currently in receivership.

42 6. Appoint a chief educational officer who shall possess the powers
43 and duties of a school district superintendent. A chief educational
44 officer who is appointed pursuant to this paragraph shall hold a valid
45 administrative certificate.

1 7. Appoint a chief fiscal officer who shall possess the powers and
2 duties of the school district's chief school business official and any
3 other duties regarding budgeting, accounting and other financial matters
4 that are assigned to the school district by law.

5 8. Appoint a competent independent public accountant to audit the
6 accounts of the school district.

7 9. Reorganize the school district's financial accounts, management
8 and budgetary systems to improve financial responsibility and reduce
9 financial inefficiency within the district.

10 10. Establish school district fiscal guidelines and a system of
11 internal controls, including internal administrative controls and internal
12 accounting controls, with provisions for internal audits.

13 11. Cancel or renegotiate any contract, other than contracts of
14 certificated teachers who have been employed by the school district in the
15 capacity of a certificated teacher for more than one year immediately
16 before the date the receiver was appointed, to which the governing board
17 or the school district is a party if the cancellation or renegotiation of
18 the contract will produce needed economies in the operation of the
19 district's schools. The receiver may refuse to reemploy any certificated
20 teacher who has not been employed by the school district for more than the
21 major portion of three consecutive school years ~~as provided in section~~
22 ~~15-536.~~

23 G. The receiver's power, authority and duties ~~shall be~~ ARE
24 effective on the date of the receiver's appointment by the state board of
25 education. The receiver shall perform the receiver's duties according to
26 the instructions of the state board of education order and according to
27 law. The receiver shall promptly report any violations of law, including
28 a violation of the uniform system of financial records, to the state board
29 of education.

30 H. On review and approval of the state board of education, the
31 receiver shall take all necessary steps to implement the financial
32 improvement plan and budget ~~utilizing~~ USING those powers identified in the
33 plan as prescribed in subsection F of this section.

34 I. The salary and benefits of the receiver and any officers or
35 employees appointed by the receiver shall be paid by the school district.
36 The state board of education shall determine the salary for the receiver
37 and any officers or employees appointed by the receiver based on amounts
38 recommended by the state board.

39 J. The state board of education shall remove the school district
40 from receivership and dismiss the receiver and dismiss any officer or
41 employee appointed by the receiver thirty days after all of the following
42 have occurred:

43 1. The auditor general certifies that the school district has been
44 financially solvent for one fiscal year.

1 2. The auditor general certifies that the school district's
2 financial records are in compliance with the uniform system of financial
3 records and generally accepted accounting principles.

4 3. The receiver certifies that the school district is no longer
5 engaged in gross mismanagement.

6 4. The state board of education has determined that the school
7 district is able to pay its debts as those debts become due.

8 K. Beginning ninety days after the submission of the first report
9 prescribed in subsection F of this section, the receiver shall submit a
10 quarterly progress report to the state board of education. The state
11 board of education shall review the expenses and costs of the receiver at
12 least once each calendar quarter.

13 L. The state board of education shall formally review the
14 receiver's progress every six months. If, based on the quarterly progress
15 reports, the state board determines that the receiver's progress is
16 insufficient, the state board may remove the current receiver and appoint
17 another receiver for the school district.

18 M. The state board of education may dismiss the receiver for cause
19 or on a majority vote of no confidence in the receiver of the state board.

20 N. The school district shall indemnify the receiver and any officer
21 or employee appointed by the receiver who is made or threatened to be made
22 a party to any litigation by reason of their status under this section if
23 the receiver, officer or employee acted in good faith and in a manner that
24 the receiver, officer or employee reasonably believed to be consistent
25 with the best interest of the school district and if the receiver, officer
26 or employee had no reasonable cause to believe that the conduct was
27 unlawful.

28 O. During the period of time that the school district is in
29 receivership, ~~to~~ A member, officer, employee or agent of the school
30 district may **NOT** enter into any contract or incur any liability on behalf
31 of the school district for any purpose if the amount of the contract or
32 liability exceeds the receiver's authorized financial plan and budget for
33 the school district. The receiver may discipline, including, if
34 warranted, imposing a suspension from duty without pay, removal from
35 office or termination of, any school district employee or officer who
36 violates this subsection.

37 P. This section does not create a private cause of action against
38 the school district or its officers, directors, board members or
39 employees.

40 Q. The assumption of control of the school district by the receiver
41 shall ~~in no way~~ **NOT** interfere with the election or reelection of school
42 district governing board members.

43 R. This section shall not interfere with a school district's
44 ability to declare bankruptcy under federal law.

1 S. The state board of education shall continue to monitor and offer
2 technical assistance to a school district for two years after its removal
3 from receivership.

4 T. All information received and records or reports kept by the
5 state board of education during an investigation resulting from a
6 complaint against a receiver appointed pursuant to this section or section
7 15-107 are confidential and not a public record.

8 U. The state board of education or the department of education
9 shall immediately notify the auditor general if the board or department
10 has knowledge that a superintendent or chief financial officer who was
11 employed at the school district at the time the school district was placed
12 in receivership is currently employed in another school district or
13 charter school in this state.

14 V. Notwithstanding any other law, a fiscal crisis team appointed
15 pursuant to this section ~~shall be~~ IS subject to section 15-107,
16 subsections E through H and a school district that is assigned a level two
17 fiscal crisis team pursuant to this section ~~shall be~~ IS subject to section
18 15-107, subsections J, K and L.

19 W. NOTWITHSTANDING ANY OTHER LAW, IF THE SCHOOL DISTRICT IN
20 RECEIVERSHIP CEASES OPERATIONS BECAUSE OF FINANCIAL INSOLVENCY AFTER THE
21 SCHOOL HAS BEEN IN SESSION FOR AT LEAST ONE HUNDRED DAYS:

22 1. EACH SCHOOL DISTRICT AND CHARTER SCHOOL THAT ENROLLS STUDENTS
23 WHO TRANSFER FROM THE SCHOOL DISTRICT IN RECEIVERSHIP MAY REVISE THE
24 SCHOOL DISTRICT'S OR CHARTER SCHOOL'S BUDGET AND AVERAGE DAILY MEMBERSHIP
25 COUNTS FOR THE REMAINDER OF THE SCHOOL YEAR.

26 2. SUBJECT TO REVIEW BY THE JOINT LEGISLATIVE BUDGET COMMITTEE, THE
27 SUPERINTENDENT OF PUBLIC INSTRUCTION SHALL ADJUST THE STATE AID IN THE
28 CURRENT YEAR FOR EACH SCHOOL DISTRICT THAT REQUESTS RECALCULATION DUE TO
29 THE ENROLLMENT OF STUDENTS FROM THE SCHOOL DISTRICT IN RECEIVERSHIP.

30 3. THE RECEIVER SHALL DISTRIBUTE ____ PERCENT OF THE MONIES
31 RECEIVED PURSUANT TO THE SCHOOL DISTRICT'S PROPERTY TAX LEVY ON A PRO RATA
32 BASIS TO EACH SCHOOL DISTRICT AND CHARTER SCHOOL THAT ENROLLS STUDENTS WHO
33 TRANSFER FROM THE SCHOOL DISTRICT IN RECEIVERSHIP. FOR THE PURPOSES OF
34 THIS PARAGRAPH, THE PRO RATA BASIS SHALL BE CALCULATED USING THE RATIO OF
35 THE NUMBER OF STUDENTS THAT EACH SCHOOL DISTRICT OR CHARTER SCHOOL
36 ENROLLED COMPARED TO THE TOTAL NUMBER OF STUDENTS WHO ENROLLED IN ANOTHER
37 SCHOOL DISTRICT OR CHARTER SCHOOL AFTER THE SCHOOL DISTRICT IN
38 RECEIVERSHIP CEASED OPERATIONS.

39 ~~W.~~ X. For the purposes of this section:

40 1. "Fiscal crisis team" means either:

41 (a) A level one fiscal crisis team with the duties and authority
42 prescribed in section 15-107, subsection D, paragraph 2.

43 (b) A level two fiscal crisis team with the duties and authority
44 prescribed in section 15-107, subsection D, paragraph 3.

1 2. "Gross mismanagement" means that the school district's officers
2 or employees committed or engaged in gross incompetence or systemic and
3 egregious mismanagement of the school district's finances or financial
4 records.

5 3. "Notice" means written notice personally served or delivered by
6 certified mail, return receipt requested.

7 4. "Receiver" means an individual appointed by the state board of
8 education from the persons recommended by the state board for the purpose
9 of managing a school district placed in receivership by the state board of
10 education.

11 5. "Receivership" means the state or condition of being under the
12 control of the receiver appointed by the state board of education.

13 6. "Superintendent" means the chief executive officer of the school
14 district.

15 Sec. 2. Emergency

16 This act is an emergency measure that is necessary to preserve the
17 public peace, health or safety and is operative immediately as provided by
18 law.