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## **Transparency Under Takeover: Financial Ramifications of the TEA Takeover of Houston ISD**

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### **Abstract**

This paper examines the financial transparency and accountability practices before and after the 2023 state takeover of the Houston Independent School District (HISD). Superintendent Mike Miles and his Board of Managers reallocated critical district resources towards troubling new “priorities,” while the district was facing a sizable deficit. Parents and community members raised concerns about the district’s transparency and accountability practices, which sparked backlash throughout the first year and a half of the takeover. Using a historical case study methodology (Widdersheim, 2018) and qualitative document analysis (Bowen, 2009), we examined school board meeting content, online news articles, and state policy to analyze the financial changes that HISD underwent as they transitioned to a state appointed superintendent and school board during the first two years of the state takeover. Findings suggest patterns of concerning fiscal practices under the post-takeover administration. We make recommendations for local and state educational agencies that may improve financial transparency and solvency during state takeovers.

*Keywords:* state takeover, school finance, school budgets, Houston ISD, district finances

### **Introduction**

In 2023, the Texas Education Agency (TEA) took control of the Houston Independent School District (HISD), the largest district in Texas and the eighth largest in the U.S., citing poor academic performance linked to issues at a single campus (Méndez, 2023). Since 1991, The Texas Education Agency (TEA) has taken over seventeen school districts statewide, citing concerns of insufficient academic performance or financial mismanagement. While TEA-appointed Superintendent Mike Miles insists the takeover will benefit students and families in HISD, the action has drawn backlash from the community (Hardy, 2023). Many educators and stakeholders in HISD have questioned the effectiveness of the new instructional approach in the district, and others have inquired about the expense of the takeover and whether Miles’s approach will save taxpayers in the long run (Noel, 2023a; Walsh 2023a). Although most experts agree that state support is necessary in circumstances of egregious financial mismanagement or habitually poor academic performance, others have challenged the idea that state takeover will provide lasting results for the district (Schueler & Bleiberg, 2021; Hayes et al., 2021). This historical case analysis of the TEA takeover of HISD contributes a detailed account of the financial implications of state takeovers to inform this ongoing debate.

### **Problem Statement**

Given the literature on past takeovers and the political turmoil surrounding the takeover of HISD, this paper seeks to explore the financial transparency practices of state and district leaders during the state takeover of HISD in real time. Although TEA typically enforces strict financial reporting standards for local districts (Hardin, 2016), local leaders and community members in Houston argue

that the state-appointed superintendent and board of managers (BOM) have neglected to follow these standards (Mizan, 2024; Noel, 2023a; Sessions, 2023). This raises questions regarding fiscal transparency and solvency. A close look at several months of budget decisions within this single case shows the financial strategies used to close a sizable budget deficit and increase academic achievement. Overall, this analysis provides valuable information for stakeholders and policymakers to consider during the state takeover process.

### **Literature Review**

A state takeover of a local school or school district occurs when a state education agency identifies a district as failing and unfit for local governance. A failing school is defined differently based on each state's education code, but most states find a takeover necessary in cases of persistent academic failures, noncompliance, or financial challenges (Schueler & Bleiberg, 2021; Schueler et al., 2023). Under state takeover, locally elected school board members relinquish their governing power to the state (Morel, 2018; Schueler et al., 2023). State leaders then appoint a new superintendent and board of managers to oversee the district during the takeover period.

In Texas, the Legislature passed House Bill 1842 (2015), which streamlined the takeover process for the TEA. Under HB 1842, a district with at least *one* campus that does not receive a sufficient accountability rating for five consecutive years must either close the failing campus or face state take-over (Legislative Budgeting Board, 2018). In 2022, although the HISD received a "B" rating on the state's A-F scale, the struggles of a single high school gave Texas cause to take over the entire district (Strauss, 2023).

### **Budget Transparency & Accountability Reporting**

Scholars largely agree that school budgeting and expenditure transparency are positive practices that increase public accountability and foster trust between schools and communities (Hardin, 2016; Roza, M., Hadley, L., & Jarmolowski, H., 2020; Jefferson, 2005). The federal Every Student Succeeds Act (2015) also supports fiscal transparency by requiring states to report per-pupil expenditures for public schools and local educational agencies (LEAs) (U.S. Department of Education, 2017). In Texas, the TEA tracks schools' financial accountability through the Financial Integrity Rating System of Texas (FIRST). This rating system follows the Texas Education Code (TEC), Chapter 39, Subchapter D, "Financial Accountability," which requires schools to share development and implementation plans, resource allocation practices, projected deficits, and corrective action plans (Texas Education Code, n.d.). Texas requires districts to post their budgets in a user-friendly format that is accessible and straightforward. The state also mandates that budgets be posted on the district's main website using plain language and detailed categorical breakdowns of expenditures (Hardin, 2016). These practices are crucial for building community engagement and trust, particularly during a state takeover of a local school district, when crucial decision-making powers are transferred from central district offices to the state (Childs et al., 2023).

Opponents of appointed school boards argue that takeovers reduce budget transparency and accountability and that removing local control during these transitory periods diminishes the overall impact of a state takeover (Ravitch, 2010; Welsh et al., 2019). Although Texas has a history of relatively high accountability and transparency requirements for districts to adhere to, community leaders have attacked Miles and his BOM for their continued lack of transparency during the first two years of the state takeover. (Mizan, 2024; Noel, 2023b; Sessions, 2023). Confusing fiscal plans

and inconsistent funding decisions have raised further concerns from parents and community members about the district's transparency practices (Walsh, 2023a). Journalists have argued that transparency during the Houston ISD takeover is essential, considering the local backlash state leaders have received (Dunlap, 2023c).

### **Prior Research on State Takeover and Fiscal Management**

In this section, we offer several examples of state takeovers: North Forest, TX; Newark, NJ; New Orleans, LA; and Detroit, MI. These represent some of the frequently studied takeovers of large urban districts in the literature and highlight issues with transparency in the management of funds. These cases also offer valuable insight into the possible financial consequences of state takeovers.

#### ***North Forest Independent School District, Texas***

In 2008, TEA took over North Forest ISD due to “financial mismanagement” (Alexander, 2023; Smith, 2012). Before the takeover, NFISD had an \$11 million deficit and was nearing bankruptcy (Smith, 2012; Dellinger, 2023). The district illegally spent 13.3 million dollars from a voter-approved bond, funds reserved for constructing campus buildings (Smith, 2012). Instead of resolving this financial mismanagement, the appointed board continued to engage in poor fiscal practices. They spent \$18,000 on central office renovations, including a 114-gallon aquarium (Mellon, 2011; Smith, 2012). Additionally, student enrollment dropped during the takeover, reducing the district's revenues. Ultimately, TEA annexed NFISD to HISD amidst continued financial and academic shortcomings (Aiyer et al., 2013). TEA could not improve North Forest's financial situation, handing it over to Houston ISD, which TEA has since taken over. The North Forest case highlights how state takeovers may not result in improved financial practices.

#### ***Newark, New Jersey***

In 1995, the New Jersey Department of Education became the first state in the nation to take over a school district when it assumed control of Newark Public Schools (NPS), citing the district's persistent educational challenges (Oluwole & Green, 2009). Soon after, the state-appointed superintendent gained authority over critical aspects of the district's operations, including budgeting, personnel decisions, curriculum, and overall management (Wilson & Latham Sikes, 2020).

During the takeover, the state-appointed leaders spent millions of dollars over their approved budget year over year (NYT, 2000). The district accumulated a \$58 million deficit under the state-appointed superintendent during the first five years, necessitating a bailout package from the New Jersey Department of Education (NYT, 2000). Newark Public Schools also accepted private donations that were “shielded from public scrutiny,” including a \$100 million matching donation from Mark Zuckerberg to create the Foundation for Newark's Future (FNF) in 2010 (Garfield, 2018; Morel, 2018, p. 119; Chin et al., 2019). This lack of transparency proved an issue, as the FNF did not adequately engage with the local community to determine how the funds would be used. With a five-year timeline to spend the \$200 million, the FNF shut down in 2016 (Garfield, 2018). The NPS case is important because it lasted for over two decades, offering a longitudinal perspective of the fiscal practices and outcomes of state takeover (Friday, 2018; Wilson & Latham Sikes, 2020).

#### ***New Orleans, Louisiana***

Before Hurricane Katrina in 2005, the Orleans Parish School Board (OPSB) was plagued by financial mismanagement and underperformance (Amparbin, 2020; Lewis, 2010). In the wake of the devastating storm, the state established the Recovery School District (RSD) to manage and improve every school in the city (Mitchell, 2018). The RSD implemented various reforms, including charter school expansions, significantly changing the city's education landscape.

During the 13 years the district was under RSD control, state-controlled charter management organizations (CMOs) violated open-meeting laws, frustrating local community members who felt they were being shut out of crucial decision-making for the district (Jabbar, 2015; Whirty, 2015). The privatization of the district further impeded transparency. The new charter schools accepted large philanthropic donations, which proved difficult to track due to inconsistent reporting practices (Jabbar, 2015). Many school leaders also felt that this increased competition needed more transparency, as the RSD awarded charters or closed schools in the district without adequate explanation (Jabbar, 2016). The community strongly opposed efforts from the state-appointed superintendent in 2015. Many argued that these proposed changes were part of a larger transparency issue the district was facing. (Jabbar, 2015). This further perpetuated the mistrust the state takeover had created.

The result of the RSD takeover showed an overall increase of \$1,358 for per-pupil expenditures (Buerger & Harris, 2017). However, the majority of this was explained by a significant increase in administrative spending and offset by large declines in instructional expenditures (Buerger & Harris, 2017). Sadly, while teachers make more in New Orleans today than before the takeover, these increases are also offset by declines in overall teacher experience and reduction in benefit payments (Buerger & Harris, 2017). Before OPSB returned to local control in 2018, every school in the district was converted into a charter school, undermining the democratic process in the district (Buras, 2011). Therefore, the state takeover's results on the district's financial transparency remain unclear as charters are not subject to the same state scrutiny as public schools.

The case of OPSB and RSD offers important insights into the public mistrust that can result from state takeovers. In particular, closed board meetings remain a regular issue for districts under state takeover (Carroll et al., 2023; Dolan, 1992; Rogers, 2012). While each state has unique laws about what happens in a closed board meeting, district leaders are usually held to an honor system without proper checks and balances (Dunlap & Carlin, 2024). These practices silence community voices from decision-making processes and disrupt transparent governing practices often mandated by the states.

### ***Detroit, Michigan***

Detroit Public Schools faced numerous challenges, including declining enrollment, financial mismanagement, and academic underperformance during its 2009 takeover. Although the Michigan Governor appointed an emergency manager to improve financial transparency, state intervenors are exempt from open access laws in the state. Thus, as the state education agency took over the district, the state managers did not have to report all decisions and transactions. Michigan's exemption clause meant that individuals could make critical decisions about school management behind closed doors without input or scrutiny from the public or other stakeholders.

Though the state take-over aimed to improve financial management and promote transparency, Michigan's efforts to solve the economic problems through short-term fixes resulted in an additional \$299 million in long-term debt, plus interest costs of \$52 million (Levin, 2019). Finally, in 2016, the Michigan Legislature approved a \$617 million restructuring plan to address the district's debt and academic issues, effectively splitting DPS into two entities (Levin, 2019). The state takeover of Detroit public schools lasted over 15 years and left schools significantly worse off (Levin, 2019; Wilson, & Latham Sikes, 2020). School buildings crumbled and fell into disrepair, the school district almost went bankrupt, and student performance did not improve.

Overall, these cases demonstrate that state takeovers in other major metropolitan areas have yielded a poor return on investment. The positive impacts of state takeovers remain elusive (Nelson, S. L., 2017). As we look to the future, these cases highlight areas of concern and potential ramifications of the takeover in HISD.

### **Methodology**

For this study, we employ a historical case study methodology to analyze the financial changes that HISD underwent as they transitioned to a state-appointed superintendent and school board during the first two years of the state takeover (Widdersheim, 2018). We define our case of study as Houston ISD, with data covering the year leading up to the state takeover and the two years into the takeover. Our data sources included video recordings, transcripts, and published records from HISD school board meetings and budget workshops from January 2023 through the end of the 23-24 school year. Online news articles were used to understand community voices and local responses to the state takeover. Legal documentation, including state congressional bills and accountability codes, was retrieved from the Texas Education Code and the Texas Legislature to offer policy context. Documents from HISD's official website were also used to support our historical analysis of past and current practices in the district.

Using a qualitative document analysis (Bowen, 2009), we organized our data sources to align with the takeover timeline. We then systematically analyzed changes in the district's budgeting documents to track revenue and expenditures. We compared these changes to the information disseminated by the district through press releases, public meetings, and website documents. Our goal was to understand how funds were spent, how these expenditures differed from the years before the takeover (considering new policies, revenue changes, and shifting budget priorities), and what transparency practices the new Board of Management (BOM) used to communicate with the local community.

### **Researcher Positionality**

We are current and former educators who examine power and privilege in education finance and resource allocation policies across K-12 settings. Our collective experiences have shaped our approach to this research topic as we continue to explore the importance of local control in public education. Our research advocates for transparency and accountability practices in school finance policy. These views guide our analysis of findings in the following sections.

### **Findings**

We organize our findings sequentially beginning with HISD pre-takeover and continuing to the first and second years of the takeover. Within each section, we outline district spending and budget cuts.

## **Houston ISD Pre-Takeover**

TEA took over the Houston Independent School District (HISD) after one high school received a failing accountability rating for five consecutive years, not due to financial mismanagement (Strauss, 2023). On the contrary, the elected board had consistently received annual awards from the Government Finance Officers Association (GOFA) and the Association of School Business Officials (ASBO) Certificate of Excellence in Financial Reporting (HISD, 2023a). The Financial Integrity Rating System of Texas (FIRST) also rated the former elected board a 96 out of 100 for the 2022-2023 SY (FIRST, 2024). They regularly engaged community members in decision-making and published reader-friendly budget documents to summarize meetings, demonstrating financial transparency. Unfortunately, like most Texas public school districts, HISD was in a financial bind due to decreasing enrollment and low average daily attendance (ADA) since the COVID-19 pandemic, the end of the Elementary and Secondary School Emergency Relief (ESSER) Fund, and skyrocketing inflation (Edison, 2024). As a result, the elected board proposed budget changes to avoid a shortfall. Otherwise, they would need to tap into the unallocated, or rainy-day, funds by FY 2024 (HISD, 2023b).

In the months leading up to the takeover, the elected school board of HISD prepared the fiscal year (FY) 2024 budget. They hosted budget workshops on February 16<sup>th</sup>, March 23<sup>rd</sup>, May 4<sup>th</sup>, and May 18<sup>th</sup>, 2023 (HISD, n.d.). On February 16<sup>th</sup>, they reviewed the adopted budget for FY 2023 and proposed changes for FY 2024 (HISD, 2023b). They outlined a plan to preserve their unallocated funds. Former elected school boards had required at least a 3-month reserve, which, in FY 2022, amounted to \$466 million. As of April 30<sup>th</sup>, 2023, HISD had over \$644 million. Previously, HISD tapped into unassigned funds to stay afloat after Hurricane Harvey destroyed multiple schools (HISD, 2018). Although the unassigned funds balance exceeded the minimum, it seemed prudent given HISD's geographic context.

To increase revenues and preserve the unallocated funds balance, the HISD school board proposed pursuing a Voter-Approval Tax Rate Election (VATRE) for a 3-cent tax increase per \$100 of property value (HISD, 2023b). These funds would not be subject to the state's recapture policy, which redistributes local tax revenue in an effort to equalize school district funding (Alemán, 2007; McDonnell & Elmore, 1987). Before the February budget workshop, property values had skyrocketed in Houston, and the property tax rate had decreased. HISD's revenue increased due to the overall increase in property taxes, but it also owed more in recapture payments (HISD, 2023b). This left the school board in a bind to create revenue exempt from recapture.

Next, the elected board proposed changes to its resource allocation model, which determines the funding each school receives from the district (HISD, 2023b). HISD adopted a weighted student funding (WSF) model in the late 1990s to increase the autonomy of individual principals (Moon, 2018). First, each school receives a weighted "per unit allocation" or PUA based on enrollment and ADA (HISD, 2023b). There are additional weights for special populations, which are proportional to what the district receives from the state. Then, schools can receive non-weighted funding, such as the small school subsidy (SSS) and high school allotment (HSA). During the February budget workshop, the board proposed standardizing the SSS to save an estimated \$7.4 million (HISD, 2023b). It also planned to reduce the HSA. Before FY 2020, the state had provided the HSA to

districts. HB 3 ended the allocation, but HISD continued providing equivalent funds to its high schools. The board estimated it could save \$4.9 million by cutting its HSA in half, from \$170 to \$85 per high school student (HISD, 2023b). As a last resort, the board discussed the possibility of funding model reductions or cuts to the PUA, but it hoped to avoid that (HISD, 2023b).

Furthermore, the elected school board hoped to stabilize the steadily decreasing enrollment patterns the district was facing since the 2016-2017 school year, when enrollment had dropped by nearly 12% (González-Kelly, 2023; Goodwin, 2024). The district was also looking to improve attendance scores across the district (HISD, 2023b). Both had fallen since the onset of the COVID-19 pandemic, leaving the district with financial worries. The state initially held school districts harmless for low ADA during the pandemic but ended the practice by FY 2023, causing HISD to receive less state funding. “Hold Harmless” is a support plan by the TEA to help districts that have suffered from low ADA and enrollment rates throughout the COVID-19 pandemic and recovery years. Under Hold Harmless, districts would not be financially penalized for decreasing ADA and enrollment rates (Office of the Governor, 2021). Nevertheless, HISD continued to hold its schools harmless from their ADA losses through its resource allocation model. This worsened the shortfall for the district, so the board planned to end its version of hold harmless for FY 2024 (HISD, 2023b; (HISD, 2024f)). The elected school board also proposed cutting \$20 million from HISD’s central office to improve the district’s financial situation.

## **Year One Under Takeover**

TEA appointed Mike Miles as superintendent of HISD in June of 2023. Miles previously served as the Dallas Independent School District superintendent, a position that he left early (DMN, 2015). His three-year superintendency in Dallas was characterized by overspending. Specifically, Miles overpaid his leadership team and initiated two costly programs with mixed results: a college and career readiness program called Destination 2020 and a school improvement program called Accelerating Campus Excellence (ACE) (DISD, n.d.; Hacker, 2015; McNeel, 2018; Northern, 2023; The Hub, 2014). Destination 2020 did not achieve its goals and, although ACE proved more successful, the test score gains made at early ACE campuses plateaued or backslid after funding ended (Morgan et al., 2023). His successor called ACE “unsustainable going forward” (Smith, 2020). Miles’ history of over spending in Dallas made him a surprising choice for the takeover given that HISD was facing budget challenges.

Heading into the 23-24 school year, school districts across the country faced a financial slump as ESSER funds ended. Like other school districts, ESSER resources kept HISD afloat during the pandemic years to counterbalance the loss of average daily attendance (Edison, 2024; HISD, 2024g). In October 2023, HISD reported a drop in enrollment of about 6,000 students. Within the 85 NES schools, the decline hit ~5%, while non-NES schools saw a ~1% decline in student enrollment (Menchaca & Goodwin, 2024). Because funding is generated based on ADA, this enrollment decline equated to a district funding decline. Nevertheless, in June 2023, Superintendent Mike Miles and his appointed BOM redistributed funds, cut positions, and raised expenditures to implement their New Education System (NES).

HISD began the 23-24 school year with a reserve balance of \$900 million. Miles’s administration criticized the former district leaders for hoarding excess funds because state law only required HISD to maintain \$484 million in reserves (HISD, 2024c). The exact reason HISD was holding onto this excess reserve is unclear. However, the elected board may have anticipated a decrease in revenue due



to HISD's declining enrollment and loss of federal funding. Additionally, recent changes to Houston's property tax revenue cap and Texas' Homestead Exemption Act have decreased the district's total revenues (Julot et al. 2023). In short, maintaining a reserve balance may have been a strategic choice to support the district's future (Noel, 2023a).

### ***Increased Expenditures in Year One***

With an adjusted \$2 billion budget for the 23-24 SY, HISD was expected to spend just under \$2.3 billion: roughly \$270 million more than their anticipated revenue (Noel, 2023a). Miles maintained that the district was spending within their means, but the press questioned the level of public accountability because the BOM held many closed sessions during board meetings, produced vague answers for the community, and contradicted its promises (Dunlap, 2023a; Dunlap, 2023b).

Particularly notable increases in expenditures resulted from the implementation of the NES, which cost the district around \$96 million in "one-time costs in 2023-2024 for NES technology, furniture and equipment" (HISD, 2024e; p.37). They also spent \$221.6 million dollars of regular district revenue and \$59 million of ESSER III funds during the 2023-2024 school year to cover additional NES expenses (HISD, 2024h). The district projected spending \$253.3 million on NES in 2024-2025 (HISD, 2024e). These changes included competitive teacher salary increases (\$30k over the state average), stipend incentives, new curricula and wrap-around services across the district. Additionally, HISD committed to purchasing new curriculum materials to support non-NES "C and D rated" schools in the district to help improve outcomes (HISD, 2024b). While these programs can produce beneficial outcomes (Hanushek & Rivkin, 2007; Hill, 2020), Miles also spent on items that teachers and staff considered wasteful, such as a \$470,000 one-off musical production at the 2023 HISD convocation (Walsh 2023b). The NES system continues to face backlash on curriculum, surveillance, and new discipline measures. Miles implemented intense monitoring and high-stakes accountability systems. His requirement to add webcams into every classroom cost HISD \$254,000 (Menchaca, 2024a).

While Miles increases surveillance and accountability for campus leaders, NES principals have lost central control over their schools (Dunlap & Lehrer-Small, 2023). The new BOM now determines the district budget and the 130 NES school budgets. Heading into the 24-25 school year, the district planned to include at least 45 additional schools into this NES model, giving Miles further power over HISD's finances (HISD, 2024e).

### ***Proposed Budget Cuts for Year Two***

Miles promised to reduce spending in 2024-2025 and warned that many non-NES schools could face up to a 12% cut in their budget (Lehrer-Small, 2024b). These cuts were geared towards offsetting declining student enrollment. These cuts were anticipated to save the district \$15 million in the 24-25 SY. The C & D rated non-NES schools that were not already using an "approved high-quality curriculum" were given the ultimatum of adopting the NES curriculum for free or choosing an external provider and using their depleted budget to pay for half the cost of the curriculum (HISDb, 2024, p.1).

In February 2024, the BOM released a 31-page Efficiency Report that attacked the formerly elected board for its mismanagement of funds (HISD, 2024c). The report listed eight key areas they planned

to overhaul: unaligned and ineffective budget processes, overreliance on purchased services, inability to track and manage employee work arrangements, low expectations and oversight of employee attendance, ineffective processes for recruitment & hiring staff, dysfunctional transportation system, highly decentralized system of autonomous schools without commensurate accountability, and no unifying vision of high-quality instruction or high-quality programming. The Efficiency Report detailed their plans to overhaul these problems, including a cut to "approximately \$50 million in purchased services" and "doubling the number of students per bus" (HISD, 2024c, p.21, p.10).

Before the budget's release for the 2024-2025 SY in May of 2024, there was uncertainty surrounding its expected contents due to the lack of transparency. The appointed BOM had multiple "closed meetings" in the spring of 2024, during which they may have discussed the budget (HISD, n.d.a). Conflict erupted when the district retracted a \$2,500 pay incentive for non-NES teachers originally included in their 2024-2025 compensation plan due to "budget constraints" (HISD, 2024d; Menchaca, 2024b, p.1; Menchaca, 2024c). While the BOM maintained that these cuts were necessary to achieve state goals, an April 2024 report found that Miles had been increasing the salaries of his top employees during this same period. Under Miles, 37 employees made over \$200k, up from just \$12k during the 22-23 SY (Goodwin & González-Kelly, 2024).

Early in 2024, Miles announced his goals to keep the fund balance above \$850 million, slow down spending for the 24-25 SY, keep cuts away from wraparound services, prevent campus closures, and simultaneously reduce the staggering district deficit (Lehrer-Small, 2024a; Lodhia, 2024; Walsh, 2024). Miles was unable to keep these promises. By early May of 2024, Miles announced job cuts for 300 wraparound resource specialists (Zuvanich, 2024a). On May 15th, during a community Zoom meeting hosted by the Houston Chronicle, Miles stated that they would keep cuts away from the classroom (class sizes will remain the same, magnet programs will remain untouched, and high-quality instructional materials will still be provided) (Houston Chronicle, 2024).

### ***Year One Accountability Ratings***

Preliminary data shows that HISD expects to receive a "C" rating for the 2023-2024 SY, although official accountability data is "pending and subject to change based on judicial rulings" (HISD, n.d.b, TEA, n.d.). If correct, this would indicate a fall from a "B" in 2021-2022, the last year with an official rating from TEA. The HISD Accountability Dashboard does not acknowledge this; instead, it compares the data to the 2022-2023 SY, which is also under review by TEA. It also claims large increases in the number of "A" and "B" schools and decreases in "D" and "F" schools, especially for NES schools, from 2023 to 2024 (HISD, n.d.b). However, TEA has not validated this.

### ***Year Two Under the Takeover***

HISD faced considerable budget challenges heading into the 2024-25 school year (HISD, 2024f). Non-NES schools had lost 6.5% of their students, while NES schools had lost 12% which exacerbated budget shortfalls due to lost revenue (Zuvanich, 2024d). The district also faced record-breaking teacher turnover at the beginning of the 2024-2025 SY, when more teachers were terminated or resigned in June than in the entirety of any previous school year (Mizan & Goodwin, 2024). Teacher turnover is notable because it is financially draining. Replacing teachers can cost districts as much as \$25,000 per teacher (Learning Policy Institute, 2024). As of November 2024, HISD has not shared how it will address issues with teacher attrition.

### ***Budget Cuts and Failed Bonds in Year Two***

As anticipated, HISD reduced bus routes for the 2024-2025 SY. This change saved approximately \$3 million, substantially less than the expected \$25 million (HISD, 2024c, p.21; Zuvanich, 2024b). Moreover, the new system reduced bus access for magnet students and students otherwise attending a school other than their zoned school and failed to provide a route to 700 students by the first day of school (Zuvanich, 2024b; Zuvanich, 2024c). The district is still working on additional changes to reduce transportation costs (Zuvanich, 2024b).

In 2024, Houston ISD asked voters to pass \$3.960 billion in bonds to renovate, expand, and build existing school buildings and \$440 million for "technology equipment and systems, technology infrastructure, instruction technology." (HISD, 2024a). Approximately 58% of voters rejected these measures, citing a lack of trust in the appointed board (Lee, 2024; Zuvanich, 2024e). As a result of the failed bonds, the BOM discussed selling 18 properties to create more revenue during a closed meeting on November 14th (Zuvanich, 2024f).

### **Policy Recommendations**

Based on this close examination of the fiscal practices during the HISD state takeover, we offer several recommendations for state and local educational agencies. These may support transparent and accountable financial decision-making for district and state-level policymakers engaged in a state takeover of a local school or school district.

#### **District**

Our analysis shows that the actual and perceived lack of transparency in budgeting by the BOM contributed to public mistrust and unsustainable budget decisions under HISD leadership following state takeover. Therefore, to build trust during state takeovers, we first recommend that state-appointed leaders engage in transparent budget planning by hosting budget workshops for the public early and often. For instance, the pre-takeover elected board shared their first budget planning documents for the 2023-2024 SY in February of 2023, while the appointed board did not share any until May of 2024 (HISD, 2023b; HISD, 2024e). This delay may have contributed to budget mistrust. We further recommend that district leaders include plain language materials published on schools' websites, such as is required under the FIRST accountability system & the Texas Education Code. These two actions may help promote community members' involvement in budget-related decision-making which may improve the district's fiscal responsibility, such as by avoiding costly convocation performances and reducing bloated administrative salaries. It may also help ensure that schools receive equitable amounts of funding rather than overspending at some schools and cutting budgets at others (e.g., NES and non-NES schools).

#### **State**

Our recommendations at the state level concern funding for at-risk districts and accountability for state-appointed leadership during state takeovers. The HISD case shows how inadequate funding may contribute to the poor performance, which precipitates a state takeover. Currently, 17% of Texas school districts are "severely" underfunded, with 73% of the state's school districts experiencing "funding needs that exceed their actual per-pupil funding." (Turley & Selsberg 2024, p.3). However, state takeovers do not address this underlying issue (Bauman, 2023). Therefore, we

recommend that state legislatures raise the basic allotment to districts, especially those in areas serving disadvantaged students. These resources may help attract better teachers and improve instructional offerings, which could help LEAs avoid state takeover. Research has shown that investing more money into school academic programs can significantly impact student success (Hardin, 2016; Jefferson, 2005).

Finally, state legislatures and state educational agencies should expand accountability and transparency reporting for districts under a state takeover. Transparency, particularly during the transition of governing powers, is crucial to maintaining public trust, ensuring accountability and the efficient use of taxpayer funds, and supporting equitable resource allocation practices (Hardin, 2016; Roza, M., Hadley, L., & Jarmolowski, H., 2020; Jefferson, 2005; Nelson, S. L., 2017). Moreover, accountability systems may help determine the conditions under which districts will remain open and local control may be restored. This is important considering that, of the 15 takeovers before HISD, four school districts were closed permanently, and two districts still have state-appointed managers in place (See Appendix).

## Conclusion

This historical case analysis of the financial management of HISD during state takeover occurred in real-time, and the state takeover of HISD continues. We show how financial practices under state takeovers can contribute to public mistrust and poor financial decision-making. Future research might focus on spending during the 2024-2025 SY and budget planning for the 2025-2016 school year, especially without the bond measures and as funds dwindle after the first year of the takeover (Lehrer-Small, 2024c). Future research may also center community voices and explore local responses to the takeover, financial decisions by the appointed BOM, and the failed bond measure.

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**Note:** The second and third authors are listed alphabetically rather than by order of contribution.

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## Appendix

**Figure 1**

*Texas School District Takeovers Since 1991*

School District	Status
Kendleton ISD	Closed permanently
La Marque ISD	Closed permanently
Wilmer-Hutchins ISD	Closed permanently
North Forest ISD	Closed permanently; annexed by HISD
Beaumont ISD	Open - local control restored after takeover
Edgewood ISD	Open - local control restored after takeover
El Paso ISD	Open - local control restored after takeover
Southside ISD	Open - local control restored after takeover
Harlandale ISD	Open - settled - no board of managers appointed
Hearne ISD	Open - settled - no board of managers appointed
Pearsall ISD	Open - settled - no board of managers appointed
Progreso ISD	Open - settled - no board of managers appointed
Snyder ISD	Open - settled - no board of managers appointed
Houston ISD	Open - still under TEA control/appointed board of managers
La Joya ISD	Open - still under TEA control/appointed board of managers
Marlin ISD	Open - still under TEA control/appointed board of managers
Shepherd ISD	Open - still under TEA control/appointed board of managers

*Note.* This table provides information about the status of school districts in Texas taken over by the Texas Education Agency (TEA) since 1991. It is adapted from "*With an HISD state takeover looming, here's how the TEA has taken over other Texas school districts*" by H. Dellinger, March 6, 2023, Houston Chronicle. <https://www.houstonchronicle.com/news/houston-texas/education/article/tea-takeover-state-hisd-houston-school-district-17818226.php>