

MEMORANDUM

Staff Summary No. 7

Date: January 30, 2020

To: Members, California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Re: Resolution No. 20-04 Approving Amendments to the Regulations for the State Charter School Revolving Loan Fund Program and Authorizing the Rulemaking Process

The proposed amended regulations for the State Charter School Revolving Loan Fund Program (Program) are intended to address the following: (1) a significant shift in the legal requirements pertaining to charter school applicants, specifically the prohibition of new petitions for online charter schools for two years pursuant to AB 1505 enacted 2019 (1/1/2020 – 1/1/2022); (2) the need to ensure regulations are consistent with current Program practices (i.e. all applications are online); and (3) the need to further clarify language and internal consistency within the regulations. It is noteworthy that, since the Authority took responsibility for the Program in 2013, there have been a significant number of online charter school applicants during each funding round, and most recently, during the 2018-19 and 2019-20 fiscal years, approximately 31% of applicants have been online charter schools. As such, in the interest of efficient use of resources and address an anticipated reduction in applications, the Authority is proposing to transition from one annual application submission process to an ongoing or rolling application process, subject to funding availability.

Background: The Charter School Revolving Loan Fund Program (Program) provides for loan funds of up to \$250,000 to new charter schools. Pursuant to Education Code, Section 41365(h), on January 8, 2014, the Authority approved the emergency regulations that became effective on February 3, 2014 for a period of 180 days (expiration date of August 5, 2014). On July 11, 2014, the Authority approved permanent regulations that became effective on March 10, 2015. The Authority approved amended permanent regulations on August 10, 2016, which became effective on December 1, 2016; the proposed amended regulations are intended to amend the latter. Authority staff identified recommended amendments to the permanent regulations, identified by single underlines and strikeouts in the revised regulations attached as Exhibit A. The Authority will be requesting approval of these amendments so that these revisions may become part of the permanent regulations upon the Office of Administrative Law's approval. The details and justification for these amendments are outlined below.

Section 10170.17. Definitions

- Addition of new subdivision (j), which sets forth the definition of "Good Standing," specifically the requirement that charter schools be in good standing with their chartering authorities and in compliance with the terms of their

charters. This change is necessary to provide consistency among programs with regard to the charter school's relationship with its chartering authority.

- Addition of new subdivision (n), which sets for the definition of "Non-profit Entity." This change is necessary to address the prohibition of for-profit charter schools pursuant to the Charter School Act, as amended in 2018.

Section 10170.18. Eligible Applicant

- Addition of new subdivision (b) to address the prohibition of for-profit charter schools pursuant to the Charter School Act, as amended in 2018. This amendment will reconcile our program requirements with State law.

Section 10170.19. Application Content and Submission

- Revision of subdivision (a) to reflect the transition to an ongoing application submission process from an annual submission process. This change is necessary to allow CSFA to open up additional funding rounds throughout the year.
- Revision of subdivision (b) to reflect the transition to an exclusively online application submission process, as well as an ongoing submission process. This amendment is required as CSFA no longer accepts paper applications.
- Addition of new subdivision (c)(2) to reference the requirement to submit verification of non-profit status as part of the documents supporting the application. This is also based on the change in the Charter School Act.

Section 10170.21. Loan Amount and Repayment Terms.

- Revision of subdivision (c) to clarify that: (1) the first year of repayment of the loan shall be based on the date of the disbursement, and in the case of multiple disbursements, the date of final disbursement, rather than simply based on the fiscal year of disbursement; and (2) all disbursements shall occur within a single fiscal year. The revised language is necessary to ensure that the date of disbursement or final disbursement is consistently referenced for purposes of determining commencement of loan repayment, and regulations explicitly reflect Program policy and procedure regarding disbursements.

Section 10170.22. Loan Agreements.

- Addition of new subdivision (h) to provide that, in the event of default of the loan by a Charter School due to inability to repay the loan, and where the Charter School is operated by an Affiliate Organization or is operated under the auspices of its Chartering Authority, and the Charter School is an awardee under one of the Authority's other Programs, the Authority may offset the Charter School's award funding from the other program to recoup defaulted Program loan funds.

Section 10170.24(a). Funding Contingency.

- Omission of language referencing "fiscal year" to make explicit that the Application process is an ongoing process rather than on a fiscal year basis.

Recommendation: Staff recommends that the Board adopt Resolution 20-04 approving the amended permanent regulations for the administration of the Charter School Revolving Loan Fund Program. If approved, the Executive Director will include the resolution demonstrating board approval with the rulemaking file to the Office of Administrative Law.