INITIAL STATEMENT OF REASONS

Title 4, Division 15, Article 1.6,

CALIFORNIA CODE OF REGULATIONS

Charter School Revolving Loan Fund Program

INTRODUCTION

The Authority was created in 1985 to assist school districts and community college districts in financing school construction projects (Education Code Section 17170, et seq.). The Authority is authorized to adopt bylaws for the regulation and conduct of its business and is vested with all powers reasonably necessary to carry out its powers and responsibilities (Education Code Sections 17179 and 17180).

Pursuant to Education Code, Section 41365, the State Legislature directed the California School Finance Authority (Authority) to commence administration of the) Charter School Revolving Loan Fund Program (Program) with the 2013-14 fiscal year and to adopt regulations to implement the statute. The Program provides for loan funds of up to $500,000 to charter schools.

PROBLEM STATEMENT

Sections 41365(h) of the Education Code endow the Authority with the general power to adopt regulations, as a power reasonably necessary to carry out the powers and responsibilities to administer the Program effectively. The proposed regulations is to implement the mandates provided in Senate Bill 631. SB 631, Chapter 776, amended Sections 41365, 41366.5, and 41366.6 of the Education Code, became effective January 1, 2026. As a result, the Authority proposed emergency regulations which took effect on December 30, 2025. The amended sections were 10170.17-10170.23 under OAL Matter Number 2025-1219-02E. Authority staff have identified some additional changes required related to program administration in sections 10170.19, 10170.20, and 10170.21. On March 26, 2026, the Authority's Board approved the 2nd set of emergency amendments so that these revisions may become part of the Program regulations upon the Office of Administrative Law's approval. This regulatory action to establish those changes as on-going regulations for the Program for future funding rounds.

ANTICIPATED BENEFITS

These amendments will allow run an effective revolving loan program as well as complying with the mandates provided SB 631 to provide low-cost, short term, one-time financings for charter schools in need with priority towards first-year schools and those affected by disasters. The proposed regulations will also improve program administration.

SPECIFIC PURPOSE OF, AND RATIONALE FOR, EACH PROPOSED AMENDMENT

1. <u>Section 10170.17. Definitions.</u>
    i. (a) – The defined term of "Affiliated Entity" amended to align with the Amendment of Education Code section 41365(g)(2) by Senate Bill 631 (Chapter 776, Statues of 2025).

ii. (b) - The defined term of “Applicant” amended to better work with changes to Subsection (a).

iii. New (i) – The defined term of “Disaster Affected Charter School” adopted to implement Education Code section 41365(e)(2), as amended by S.B. 631– All subsequent subsections re-lettered to reflect addition.

iv. (l) [Formerly (k)] - The defined term of “Incorporated Charter School” amended to better work with changes to Subsection (o) [Formerly (n)].

v. (o) [Formerly (n)] - The defined term of “Nonprofit Entity” amended to align with Education Code section 47604(a).

vi. (p) [Formerly (o)] - The defined term of “Pooled Money Investment Account” amended to introduce the acronym PIMA.

2. Section 10170.18. Eligible Applicant.

i. (a) – Last portion is removed as a redundant definition reference.

ii. [Formerly] (b) – This subsection removed due to amended defined terms in Section 10170.17.

iii. (b) [Formerly (c)] – This subsection amended to specify requirement for established applicants.

iv. (c) [Formerly (d)] – This subsection reworded for clarity.

v. (e) - This subsection removed due to amended defined terms in Section 10170.17.

vi. (d) [Formerly (f)] – This subsection re-lettered.

vii. (g) – The subsection removed due to statue change related to SB 631.

viii. (e) [Formerly (f)] – The subsection amended to clarify ability to make determinations related to Legal Status Questionnaire disclosures.

ix. (f) [Formerly (i)] – This subsection being amended to align with the amendment of Education Code section 41365(c) by S.B. 631.

x. (g) [Formerly (j)] - The subsection amended for clarity and due amended defined terms in Section 10170.17.

xi. (h) [Formerly (k)] – This subsection amended to specify period of Good Standing (GS) request and updated to establish flexibility related to district communication, and amended for clarity and due amended defined terms in Section 10170.17..

xii. (h)(1) [Formerly (k)(1)] - The subsection amended for clarity and due amended defined terms in Section 10170.17.

xiii. (h)(2) [Formerly (k)(2)] - The subsection amended for clarity and due amended defined terms in Section 10170.17.

xiv. (i) [Formerly (l)] – This subsection re-lettered.

3. Section 10170.19. Application Content and Submission.

i. (a) - This subsection added to specify two Application periods and timelines for general funding information.

ii. New (b) [Formerly portion of (a)] – This subsection added to provide specific timeframes for Application periods.

iii. New (c) [Formerly (b)] – This subsection added to limit submissions to the Application periods.

iv. New (d) [Formerly (c)] – This subsection re-lettered.

v. New (d)(1) [Formerly (c)(1)] - The subsection amended for clarity and due amended defined terms in Section 10170.17.

vi. New (d)(5) [Formerly (c)(5)] - The subsection amended for clarity and due amended defined terms in Section 10170.17.

vii. New (d)(8) [Formerly (c)(8)] - The subsection amended for clarity and due amended defined terms in Section 10170.17 and also to include requirement for prospective site information.

viii. New (d)(9)-(14) [Formerly (c)(9)-(14)] - These subsections amended for clarity and/or due amended defined terms in Section 10170.17.

ix. New (d)(16) – This subsection added to established Application related documents required for Disaster Affected Charter Schools.

x. Formerly (d) – This subsection removed as determined to not be in the proper section. GS is an eligibility related requirement performed by the Authority and Chartering Authority. This does **not** remove or affect any GS requirements in Section 10170.18 above.

xi. (e) - The subsection amended due amended defined terms in Section 10170.17.

4. <u>Section 10170.20. Application Review and Evaluation/Underwriting Criteria.</u>

i. (b)(1) - This subsection amended to ensure clarity that all applicant fact patterns are required to submit the requested information if applicable.

ii. (b)(3) - This subsection amended to ensure clarity that all applicant fact patterns are required to submit the requested information if applicable.

iii. (c) – This subsection amended to implement Education Code section 41365(e)(2), as amended by S.B. 631.

iv. New (c)(1) [Formerly part of (c)] – These subsections separated for clarity

v. New (c)(2) – This subsection amended to implement Education Code section 41365(e)(2), as amended by S.B. 631.

vi. New (c)(3) [Formerly (c)(2)] – This subsection amended to establish schools that do not fit into the first two priority but are still in their 1st petition as third priority until July 1, 2029.

vii. New (c)(4) [Formerly (c)(3)] – This subsection amended to establish any school out of the three fact patterns does not have a priority.

viii. (d)(1) - The subsection amended due amended defined terms in Section 10170.17 and re-lettering.

ix. New (d)(2) [Formerly part of (d)(1)] – This subsection separated and reworded to reference Subsection (c)(2). Reworded due to updated definitions and re-lettering.

x. New (d)(3) – This subsection amended to address ties between schools lacking any priority.

5. Section 10170.21. Loan Amount and Repayment Terms.
   i. (a) – The subsection amended to align with the amendment of Education Code section 41366.5(a) by S.B. 631 and are also non-substantive.
   ii. (b) – This subsection amended to establish loan term determination to match petition terms outside of Disaster Affected Charter Schools.
   iii. (c) – This subsection amended for clarity.
   iv. New (c)(1) [Formerly (c)] – This subsection separated from former subsection for clarity.
   v. New (c)(2) – This subsection added to align with the amendment of Education Code section 41365(f)(3)(B) by S.B. 631.
   vi. (d) – This subsection amended for flexibility in payments within fiscal year.
   vii. (e) – This subsection amended to establish alternative loan term maximum for Disaster Affected Charter Schools to align with Education Code section 41365(f)(3)(B), amended by S.B. 631.
6. Section 10170.22. Loan Agreements.
   i. (b) - This subsection amended for clarity.
   ii. (c)(4) - This subsection amended for clarity.
   iii. (c)(5) - This subsection amended for clarity.
   iv. (c)(7) - This subsection amended for clarity.
   v. (c)(8) - This subsection amended for clarity.
   vi. (e)(2) - This subsection amended for clarity.
   vii. (g) - The subsection amended for clarity and due amended defined terms in Section 10170.17.
   viii. (h) - The subsection amended for clarity and due amended defined terms in Section 10170.17.
7. Section 10170.23. Internal Controls, Audits and Conflicts of Interest.
   i. (c) - This subsection amended for clarity.
   ii. New (d) – This section added to establish the Authority's right to check eligibility related to GS at any point in the loan term.
8. New (e) – This subsection amended to align reporting requirement with Education Code section 41366.6(b)(2), amended by SB 631.

TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDIES, REPORTS, OR DOCUMENTS

The Authority did not rely on any technical, theoretical, and/or empirical studies, reports, or documents in proposing the regulations.

ECONOMIC IMPACT ASSESSMENT

Starting with Spring 2026 Application cycle for 2026-27 Fall Semester Funding, the California School Finance Authority expected an increase in the number of applications and loan recipients. This is due to three major factors: 1) the increase in the eligible applicant pool due to the passage of Senate Bill 631 (2025); 2) the increase of lifetime loan maximums also provide in SB 631; and 3) the expiration of the mortarium on the authorization of nonclassroom-based charter schools. Additionally, SB 631 increased the program reporting requirements taken on by staff. The $500 application fee was in place to ensure funding for expected increase in workload. Over the last two funding rounds affected by these changes, the Authority received 44 applications, which was slightly below the estimated 50 applications expected in the emergency rulemaking action.

Prior to the changes related to the emergency rulemaking action, staff estimated the typical application review would take about 25 Full-time equivalent (FTE) hours per application from first look to last disbursement. Majority of the work related to this would be the pre-awarding determination and review process itself, which accounts for about 75-85%. The remaining hours would be associated with post-awarding actions such as loan agreements and accounting. Additionally, the Authority estimates an additional 2.5 FTE staff hours per application related to post-issuance reporting. In total, applications were estimated to take 27.5 FTE each.

Based the work performed post emergency rulemaking action, the typical application review time has increased to 47.5 FTE hours on average per application from first look to last disbursement. This increase is related to the pre-awarding determination and review process as changes in SB 631 allow for all active charter schools to apply. Active schools are required to provide additional financial information such as audited financial statements and outstanding loan documents. This additional level of work has increased the proportion of pre-award work to post award work at 85-90% to 10-15% respectively. Additionally, the Authority estimates an additional 2.5 FTE staff hours per application related to post-issuance reporting.

Regarding supervision, the Authority estimated 2.5 FTE per application reviewed and 0.5 FTE per application related to reporting. Below is based on the increased staff time per position with current staffing in mind with the lowest end of their pay scale to stay on the conservative side. There was not an increase in FTE at the supervisor level between the emergency and regular rulemaking actions.

As this $500 fee was meant address the increased gap, the Authority is considering the costs related to the increase and not the entirety of the process.

The salaries used below are based on average of minimum and maximum salaries per California Department of Human Resources at the time of this rulemaking action.

- Analyst II – (2 dedicated analysts)
    - $7,547.00* per month/$359.38 per day based on a 21 working day month/$44.92 per hour based on 8 hour working days.
    - $1,796.80 per Application based on 40 FTE hours

- Supervisor II –
    - $9,781.00* per month/$465.76 per day based on a 21 working day month/$58.22 per hour based on 8 hour working days.
    - $174.66 per Application based on 3 FTE hours

- Expected Totals per Application for review and reporting
    - Hours: 43 FTE hours
    - Costs: $1,971.57 per Application

Assumptions of fiscal impact for 2026-27 and two subsequent fiscal years
During the Spring and Fall application periods created by the emergency rulemaking action, the Authority received 44 applications. This is 271.6% increase from the 16.2 applications the Program received over the prior ten (10) fiscal years. As the $500 application fee was authorized by the emergency rulemaking action, CSFA collected $22,000 in application fees. As this application fee was meant to offset the increased workload, the assumptions will focus on the increase. Prior to the changes and as mentioned above, the Program average 16.2 application per year and a total of 30 FTE hours, 27.5 for the Analyst II and 3 for the Supervisor II. The resulted in a cost of $22,842.53 each year. After these changes took place, the cost of the 44 applications is estimated to be $86,748.88, which is an increase of $63,906.35. With the application fee offset, the expected deficit is $41,906.35

Using this year as a model for the two subsequent fiscal years, CSFA expects a similar number of applications at 40 per year which costs as total of $78,862.62 each year. At the end of the three years with the same estimates, the deficit will be about $113,946.53. The Authority is currently working with the Department of Finance to address these deficits as they mentioned during the emergency rulemaking action. Even with the projected deficits, CSFA believes the $500 application fee best aligns with the cost needs and the goal of supporting schools in need of funding.

REASONABLE ALTERNATIVES AND THE AUTHORITY'S REASONS FOR REJECTING THOSE ALTERNATIVES

There is no reasonable alternative as these are the establishing regulations for the Program.

DUPLICATION OR CONFLICTS WITH FEDERAL REGULATIONS

The proposed regulatory action does not contain any regulations that are identical to or in conflict with any corresponding federal regulation.

REGULATIONS MANDATED BY FEDERAL LAW

Not applicable.