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## SENATE COMMITTEE ON APPROPRIATIONS

Senator Anna Caballero, Chair  
2025 - 2026 Regular Session

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**AB 84 (Muratsuchi) - School accountability: Office of the Education Inspector General: school financial and performance audits: charter school authorization, oversight, funding, operations, networks, and contracting: data systems: local educational agency contractor background checks**

**Version:** July 17, 2025

**Urgency:** No

**Hearing Date:** August 18, 2025

**Policy Vote:** ED. 4 - 2

**Mandate:** Yes

**Consultant:** Lenin Del Castillo

**Bill Summary:** This bill establishes various requirements regarding the oversight and operation of nonclassroom based (NCB) charter schools, including changes to their audit and accounting standards, authorizer responsibilities, the funding determination process, and contracting processes.

### **Fiscal Impact:**

- The California Department of Education (CDE) estimates General Fund costs of \$13.5 million each year to establish and staff the Office of Inspector General. This estimates assumes an office size of 45 staff which includes an Inspector General and a Deputy Inspector General, and that the office would leverage existing HR, IT, and legal services within CDE. The CDE estimates additional General Fund costs of \$174,000 each year for one position and \$750,000 in one-time General Fund to contract for work associated with the feasibility of integrating the California Longitudinal Pupil Achievement Data System (CALPADS) and apportionment data systems.
- The Fiscal Crisis and Management Assistance Team (FCMAT) estimates Proposition 98 General Fund costs ranging from \$623,000 to \$1.043 million each year and two to three positions to establish and operate the Charter Authorizing Technical Assistance Team. The FCMAT estimates additional, one-time Proposition 98 General Fund costs of \$100,000 to comply with the bill's requirement for the CDE, in consultation with FCMAT, to report on the CALPADS and apportionment data systems alignment.
- This State Controller's Office (SCO) estimates General Fund costs of \$1.6 million each year to hire 7.5 additional staff to implement the bill's provisions regarding independent auditor quality control reviews. These resources would be used to verify mathematical accuracy of additional schedules, certify additional CPA training hours, perform quality control reviews of CPA firms, and additional administrative tasks such as updating the K-12 audit guide.
- This bill could result in additional, unknown Proposition 98 General Fund costs each year for charter schools to comply with the bill's new audit requirements. Each local educational agency (LEA) contracts with an independent auditing firm to conduct its annual audit to verify compliance with state law. These auditing

firms could charge higher fees to LEAs to account for the additional requirements.

- To the extent that the bill's increased oversight provisions lead to the closure of some NCB charter schools or there is a reduction in educational options (including vendor-based services) that would be available, the transferring of students to traditional public schools or other charter schools could have a local fiscal impact. The extent of these costs is unknown and would vary depending on the type of LEAs involved, the number of students that transfer, and whether those students qualify for supplemental or concentration grant funding under the Local Control Funding Formula (LCFF). The LCFF entitlements or ADA funding for students that transfer within the public school system would typically follow those students, therefore the overall impact to the state would be cost neutral. However, if the students leave the public school system altogether and choose to attend private schools, there could be reduced ADA and LCFF costs for those students.
- The bill's oversight provisions along with the establishment of the Office of the Inspector General could potentially result in unknown savings for the state to the extent they prevent or deter future fraud and the misuse of public funds.

**Background:** Existing law establishes the Charter Schools Act of 1992, providing for the establishment of charter schools in California for the purpose, among other things, of improving student learning and expanding learning experiences for pupils who are identified as academically low achieving. The law authorizes anyone to develop, circulate, and submit a petition to establish a charter school, and requires charter developers to collect certain signatures in support of the petition, as specified.

Existing law requires charter schools to submit annual independent financial and compliance audits conducted by certified public accountants. The audit reports shall be submitted to the chartering authority, the county superintendent, the State Controller's Office (SCO), and the California Department of Education (CDE). Existing law requires financial and compliance audits to follow General Accounting Office standards and the audit guide developed by the Education Audits Appeal Panel (EAAP). The law does not require charter schools to use the Standardized Account Code Structure (SACS), unlike school districts. The SCO is authorized to conduct quality control reviews of audits, but does not require the regular selection of charter school audits for review.

Existing law requires charter schools that offer less than 80% of instructional time on school sites to obtain a funding determination from the State Board of Education (SBE) in order to receive apportionment funding. The SBE is authorized to fund NCB instruction at up to 70% of standard funding unless a higher rate is justified. The law requires the SBE to consider factors such as the charter school's spending on certificated salaries and benefits, expenditures on schoolsites, and teacher-to-pupil ratios when making a funding determination.

Existing law provides charter schools with greater flexibility than school districts in contracting and generally exempts them from the Public Contract Code (PCC). The law permits charter school contracts to be structured as a percentage of school revenue and does not prohibit contracts with private or religious organizations. It allows charter

schools to provide funds or credits to families for educational enrichment activities, even if those activities are not provided by credentialed staff.

Existing law requires charter authorizers to provide general oversight, including annual site visits, fiscal monitoring, and compliance with required reporting, such as the Local Control and Accountability Plan (LCAP). Authorizers may charge up to 1% of a charter school's revenue for oversight, or up to 3% if the authorizer provides substantially rent-free facilities.

Existing law permits any school district, regardless of size or capacity, to authorize charter schools, including NCB charter schools. It does not impose a statutory cap on the number of charter school pupils a district may authorize in proportion to its own average daily attendance (ADA).

Existing law imposes a moratorium on the authorization of new NCB charter schools until January 1, 2026. However, the law allows existing NCB charter schools to seek renewals or material revisions during the moratorium, under specified conditions.

**Proposed Law:** This bill establishes various requirements regarding the oversight and operation of nonclassroom based (NCB) charter schools. Notable provisions of the bill include:

- The alignment of charter school audits with those of school districts, including audit timelines, procedures, and the use of SACS. Requires school auditors to complete targeted training. Delays implementation of these requirements to 2027-28.
- Directs updates to the audit guide and compliance procedures to include charter-specific content, as specified, and requires the SCO to conduct more frequent quality control reviews of auditors.
- Establishes an Office of the Inspector General under the SBE to investigate charter-related financial misconduct.
- Retains the existing SBE funding determination process for NCB charter schools, but adds new transparency requirements, as specified. Clarifies that NCB charter schools within the same network must apply for funding determinations in the same year. Delays the implementation of the codified funding determination process until 2027–28.
- Provide the SBE discretionary authority to consider mitigating circumstances when a charter school does not otherwise qualify for 100% funding.
- Prohibits charter schools from contracting with private religious organizations or schools.
- Prohibits contracts structured as a percentage of school revenue.
- Prohibits charter schools from offering funds or credits for enrichment activities not provided by credentialed employees.

- Prohibits employee bonuses or compensation tied to student attendance or course completion.
- Reestablishes a statewide Charter Authorizer Technical Assistance team at FCMAT.
- Requires authorizers to provide enhanced oversight in key compliance areas, as specified, including attendance accounting and enrollment, student-teacher ratios, and classroom-based instructional minutes.
- Requires CDE to study the feasibility of integrating CALPADS with the state's ADA funding system to detect duplicate or excessive attendance claims.
- Caps authorizing capacity for districts with fewer than 10,000 ADA to no more than 100% of their own ADA in authorized NCB charter enrollment.
- Allows existing NCB charters to remain with a small-district authorizer if the district has at least four full-time executive-level staff. Requires the SBE to reassign NCB charters that exceed this threshold to a larger authorizer within the county upon renewal.
- Lifts the statutory moratorium on the approval of new NCB charter schools as of December 31, 2025.

**Related Legislation:** SB 414 (Ashby, 2025) would make a broad set of changes to charter school law related to audit procedures, financial oversight, governance, and funding determinations. The bill is currently pending in the Assembly Appropriations Committee.

SB 1477 (Ashby, 2024) would have required the governing board of a charter school to review the annual audit of the charter school for the prior fiscal year; require auditors of NCB charter schools to perform specified activities; and require all LEAs to only enter into an agreement for educational enrichment activities with a vendor that is vetted and approved. This bill was held in the Assembly Education Committee.

AB 1316 (O'Donnell, 2021) would have established new requirements for NCB charter schools, including provisions regarding auditing and accounting standards, the funding determination process, and the contracting process. This bill was held on the Assembly Floor.

AB 1505 (O'Donnell, Chapter 486, Statutes of 2019) makes various changes to the criteria for charter school authorization and renewal and also established a two-year moratorium on the establishment of NCB charter schools until January 1, 2022.

AB 1507 (Smith, Chapter 487, Statutes of 2019) prohibits charter schools from being located outside the boundaries of their authorizers.

**Staff Comments:** In 2019, the Legislature passed AB 1505 (O'Donnell, Chapter 486, Statutes of 2019) which among other things, enacted a moratorium on new NCB charter schools through January 1, 2026. The pause was intended to give the state time to re-evaluate oversight, funding, and academic accountability in the NCB sector, following concerns about weak controls and inconsistent performance. This bill proposes additional oversight reforms for NCB charter schools, mainly due to longstanding oversight concerns that were highlighted in recent cases of fraud and the misuse of public funds involving charter schools. According to the author, "Upon the discovery of large-scale fraud perpetrated by a number of nonclassroom based charter schools, the Legislature imposed a moratorium on the establishment of new NCB charter schools, with a commitment to reform NCB charter schools."

"One example of such fraud includes *People v. McManus*, where the San Diego County District Attorney's Office indicted 11 defendants in a fraud scheme involving nineteen A3 Charter Schools. A3 Charter Schools created a partnership with a Little League summer sports program and enrolled Little League players in their charter school during the summer months to generate state attendance funding, despite A3 Charter Schools having never provided instruction to these little league players. A3 Charter Schools also transferred pupils between charter schools in their network to collect more than one school year of funding per pupil. The A3 Charter Schools case revealed many weaknesses in the State's education system in the areas of pupil data tracking, auditing, and school finance."

"Loopholes in state law have allowed these unscrupulous practices at NCB charter schools to continue unchecked, wasting State taxpayer dollars. The state must enact comprehensive reforms, consistent with the 2024 Legislative Analyst's Office (LAO)/FCMAT report to the Legislature and the Controller's Taskforce report, to combat fraud before the moratorium on NCB charter schools expires in January 2026. AB 84 does that by improving transparency and accountability among charter school authorizers and charter schools."

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