

Date of Hearing: August 20, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

SB 414 (Ashby) – As Amended July 18, 2025

Policy Committee: Education

Vote: 8 - 1

Urgency: No

State Mandated Local Program: Yes

Reimbursable: Yes

SUMMARY:

This bill makes various changes to charter school fiscal compliance audit requirements, financial oversight by the state and charter authorizers, and the funding determination process for nonclassroom-based (NCB) charter schools.

For a detailed summary of the bill's provisions please see the Assembly Committee on Education's analysis.

FISCAL EFFECT:

- 1) Ongoing Proposition 98 General Fund costs of an unknown but significant amount, likely in the millions of dollars to tens of millions of dollars statewide, for LEAs, especially charter schools, to comply with the various requirements added by this bill.

This bill makes several changes to charter school audit and charter school authorizer oversight requirements. There are nearly 1,300 charter schools in the state. For audits, each LEA contracts with an independent auditing firm to conduct its annual audit verifying compliance with state law via the K-12 Audit Guide. As statutory requirements for LEAs increase and continue to add procedures, independent auditing firms charge LEAs more to account for increased workload. If an auditing firm increases charges to a charter school by \$500 per year to account for requirements added by this bill, the bill creates \$650,000 in new costs.

- 2) Ongoing General Fund costs of \$174,000 for the CDE to hire one additional staff responsible for fulfilling CDE requirements of the bill. CDE cites potential for significant additional costs to the extent that investigations require existing staff time across multiple divisions.
- 3) Ongoing General Fund costs of an unknown amount, possibly in the low hundreds of thousands to high hundreds of thousands of dollars for the SCO to hire additional staff responsible for determining topics for required auditor training, processing auditor certifications, providing technical assistance to auditors, and processing a potential increase in auditor quality control reviews.

COMMENTS:

- 1) **Purpose.** According to the author:

Several fiscal audits conducted by various agencies' have identified opportunities for improvement for various charter schools and charter school authorizers across the state. Most of the negative audit findings point back to a greater need for oversight, transparency, and accountability.

SB 414 addresses these issues specifically by holding charter schools responsible for internal accounting and for educational outcomes for all students. This bill incorporates recommendations from several reports, strengthening oversight and ensuring academic success.

It is vital to implement strong accountability measures and establish proper oversight to ensure that students receive quality education in appropriate, safe, and stable learning environments regardless of whether a school is traditional, chartered, or a hybrid model.

- 2) **Background. Background. Charter Schools.** According to the CDE, as of the 2024-25 school year, there are 1,280 active charter schools in California, with an enrollment of over 709,000 pupils. Some charter schools are new, while others are conversions from existing public schools. Charter schools are part of the state's public education system and receive apportionment from state funds pursuant to the Local Control Funding Formula (LCFF) and other programs similar to school districts. Typically, a group of teachers, parents, community leaders, a community-based organization, or an education management organization petitions to create a charter school. Only school district governing boards or county boards of education may authorize charter schools. Current law exempts charter schools from most laws governing school districts, except where specifically noted in the law. A charter schools agreement between the authorizing board and charter organizers (its "charter") details specific goals and operating procedures for the charter school.

Nonclassroom Based Charter Schools. Current law defines charter school nonclassroom based instruction as instruction that does not meet the requirements of classroom-based instruction. Those requirements are:

- 1) Charter school pupils are engaged in required educational activities and are under the immediate supervision and control of a certificated teacher.
- 2) At least 80% of the instructional time offered by the charter school is at the schoolsite (defined as a facility that is used primarily for classroom instruction).
- 3) The school requires pupil attendance at the schoolsite for at least 80% of the minimum instructional time.

Nonclassroom based instruction includes computer-based instruction using software modules, teacher-directed independent study, and traditional homeschool parents who enroll their children in independent study charter school programs. As of April 2021, there were 304 charter schools considered to be NCB. Of that number, 105 charter schools self-identified as providing exclusively virtual or primarily virtual instruction.

This bill replaces the definition of nonclassroom-based instruction with flex-based instruction but maintains the 80% schoolsite instructional time threshold.

Recent Incidences of Fraud. Several charter school fraud cases have occurred in recent years including, but not limited to: A3 Charter Schools, Magnolia Charter School, and Tri-Valley Learning Corporation, among others.

In *People v. McManus* the San Diego County District Attorney's Office indicted 11 defendants in a fraud scheme involving nineteen charter schools (A3 Charter Schools). The case revealed many weaknesses in state public charter school law in the areas of pupil data tracking, auditing, school finance, and oversight, which resulted in A3 schools surrendering more than \$210 million, 13 houses, and numerous shares in third-party companies.

State Controller's Office Task Force. In response to the A3 Charter School fraud case, a San Diego Superior Court Judge signed a court order to approve the formation of a multi-agency task force, known as the Multi-Agency Charter School Audits Task Force lead by the SCO to combat charter school fraud. The 2024 Task Force report made several recommendations in the areas of LEA independent auditor training, qualifications, and evaluation, late audit report notifications, K-12 Audit Guide procedures, and charter school financial statement disclosure requirements.

This bill makes various changes regarding LEA annual audits specifically as they relate to charter schools, such as requiring a review of teacher-to-student ratios in flex-based charter school, among other changes, in addition to several new audit requirements the SCO must incorporate into the annual K-12 LEA audit guide. The bill also places new explicit requirements on charter school authorizers including reviewing charter school enrollment and attendance data, reviewing a sample of credit or debit card transactions, and notifying the CDE and county superintendent of schools if they suspect fraud, misappropriation of funds, or other illegal fiscal practices may have occurred.

LAO/FCMAT NCB Report. In 2024, the LAO and FCMAT jointly furnished a report to the Legislature regarding NCB charter schools and the funding determination process. The report provides several specific recommendations the Legislature could enact to improve the funding determination process. The LAO and FCMAT state their "recommendations are intended to narrow the process to a smaller subset of schools, improve the comprehensiveness and quality of data submitted to CDE, and streamline some aspects of the process." Among other things, the report recommends consideration of two elements of charter school oversight:

Improvements to Oversight by Charter School Authorizers. We recommend the Legislature consider several changes to improve the quality of authorizer oversight. Specifically, we recommend the Legislature set limits on district authorizers by district size and grade, increase minimum requirements for authorizers, and consider an alternative authorizing structure for virtual schools.

Enhancements to Charter School Audits. Current audit requirements often do not address the complexities and unique flexibilities of charter

school finances. We recommend the Legislature align the audit process for charter schools to that of school districts and add audit requirements that would address issues specific to charter schools.

- 3) **Related Legislation.** AB 84 (Muratsuchi), of the current legislative session, establishes the Office of the Education Inspector General, creates new requirements for charter schools regarding auditing and accounting standards, the funding determination process for NCB charters, the contracting process, authorization of NCB charters by small districts, and the authorizer oversight responsibilities. The bill is currently awaiting hearing with the Senate Appropriations Committee.

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