

SENATE THIRD READING

SB 631 (Richardson)

As Amended July 7, 2025

Majority vote

SUMMARY

Makes several changes to the Charter School Revolving Loan Fund (CSRLF), including increasing the maximum loan amount for charter schools, expanding loan eligibility and establishing loan prioritization criteria, modifying repayment terms, and revising how the loan interest rate is calculated.

Major Provisions

- 1) Authorizes loans from the CSRLF to be made for one or more charter schools, to the chartering authority for a charter school, or directly to the charter school.
- 2) Increases the maximum loan amount to \$500,000 (from \$250,000).
- 3) Updates the priority for loans from the CSRLF to be given in the following order (previously only for charter school startup costs):
 - a) To new charter schools that are not a conversion of an existing school for startup costs;
 - b) To charter schools that were damaged, destroyed, or directly impacted as a result of a state of emergency caused by a natural disaster that has been proclaimed by the Governor, as specified; and
 - c) All other charter schools for purposes of supporting operations and financing of the charter school, consistent with the intent of the charter school pursuant to Section 47605.
- 4) Authorizes a CSRLF recipient that met the loan priority due to the impact of a natural disaster, as specified, to request to start payments no later than the first fiscal year after the most recent full year of operation, subject to the approval of the California School Finance Authority (CSFA).
- 5) Requires the number of repayment years to not exceed five years for new charter schools that are not a conversion of an existing charter school, and all other charter schools.
- 6) Requires the number of repayment years to not exceed eight years for charter schools impacted by a natural disaster, as specified.
- 7) Requires, in the case of default of a loan made directly to a charter school, the entity managing the charter school to be liable for the repayment of the loan, in addition to the current requirement for the charter school to be liable for the repayment of the loan.
- 8) Requires moneys in the CSRLF to be loaned at (1) the rate paid on moneys in the Pooled Money Investment Act (PMIA) as the date of disbursement of the funds (current method), or (2) a rate equal to 50% of the interest rate paid by the state on the most recent sale of state general obligation bonds, computed according to the true interest cost method, whichever is less, except that the rate shall not be set at a rate lower than 3%.

- 9) Requires the CSFA to provide, in a report due by October 1, 2029, an analysis and summary of the expenditures of loan funds made by the charter school loan recipient for loans issued on or after July 1, 2026. Requires the analysis and summary to include, but not be limited to, expenditure information related to facilities, employees, startup costs, equipment, direct services to pupils, and the administration of the loan, as applicable.

COMMENTS

Revolving loan funds (RLFs). Generally, a RLF is a source of money from which loans are made for multiple small business or organization development projects. RLFs start with a significant initial investment, and as loans are issued and repaid back into the fund other loans may be issued to new projects.

CSRLF applications have declined significantly. The State Treasurer, via the CSFA, administers the CSRLF, which is designed to provide low-interest loans of up to \$250,000 to new charter schools. The CSRLF gives priority to new charter schools in their first year of operation or those that will be opening next year. In cases of program oversubscription with first priority applicants, the CSFA gives preference to applicants based on the highest Free or Reduced-Price Meal (FRPM) percentage in order to ensure equal representation to the extent feasible. According to the CSRLF 2023-24 Annual Report, as of June 30, 2024, 39 active Program loans are outstanding (for schools in 14 counties), with a total outstanding balance of \$3.9 million.

In recent years, use of the program has declined significantly. The CSFA reports that from 2014 to 2023, the number of annual applicants fell from 60 to just 7, with only three loans issued in each of the past two years. This decline has coincided with a reduction in new charter school openings and may also reflect the program's narrow eligibility rules and the availability of other funding sources targeted at charter schools. As a result, the fund currently holds a balance exceeding \$27 million.

Charter schools and challenges with facility access. Charter schools are public schools operated independently of school districts under the oversight of a charter authorizer. A charter authorizer is typically a school district, but in specified circumstances may be a county office of education (COE). Charter schools are governed by nonprofit boards and receive funding through the Local Control Funding Formula (LCFF), similar to traditional public schools. However, charter schools do not have access to the same financing tools available to school districts, such as local general obligation bonds, and often face significant barriers when securing and paying for facilities. Unlike school districts, charter schools typically must lease or purchase facilities on the private market, and startup schools often face facility costs before receiving their first LCFF apportionment.

Available public support for charter school facilities and capital. To address these challenges, the state has developed several programs to support charter schools with facilities and capital needs:

- 1) *Proposition 39 (2000).* Requires school districts to provide reasonably equivalent facilities to charter schools serving students who reside in the district. While this mandate helps some charter schools access district space at no cost, it does not guarantee long-term stability or availability.

- 2) *Charter School Facility Grant Program (also known as the SB 740 program).* Provides per-pupil reimbursements for rent and lease expenses for eligible charter schools, particularly those serving low-income students.
- 3) *School Facility Program.* Includes dedicated set-asides for charter schools, allowing them to apply for state bond funds for new construction and modernization projects. These projects often require matching funds and significant upfront planning capacity.

These programs support long-term facility access, but they do not address short-term cash flow needs, particularly in the months leading up to a charter school's opening. That is the purpose of the CSRLF.

Policy and fiscal considerations. In light of the sharp decline in the participation of charter schools in the CSRLF, the State Treasurer is sponsoring this bill to broaden the scope of the CSRLF from a startup-focused fund to more of a general-purpose loan program for charter schools. The bill proposes to change the eligible and intended loan recipients from the original scope of the program (startup costs for charter schools) to a much broader program with eligibility for all charter schools. Some of the proposed changes, including revised interest rate calculations and expanded liability in the event of default, may have the effect of making the program more attractive to charter school applicants while improving risk management. Will these changes sufficiently preserve access for new and financially vulnerable schools and whether the expansion of this program remains a priority in the context of broader education budget constraints? While the CSRLF currently has a healthy fund balance, expanding its use is ultimately a fiscal policy decision that should be evaluated alongside other K-12 funding needs.

According to the Author

According to the author, "Applications for the Charter School Revolving Loan Fund have unfortunately decreased over the last handful of years due to the decline in new charter schools. Changes to the fund are needed to ensure the State Treasurer's office is able to give out the \$27 million dollars that sit in the fund balance unused."

Arguments in Support

The California State Treasurer writes, "As California State Treasurer, as well as chair of the CSFA, I proudly sponsor SB 631 which will broaden the accessibility of the CSRLF Program by modifying eligibility criteria and increasing loan amounts to support charter schools including those impacted by disaster. Recent disasters like the Southern California wildfires have devastated many charter schools, leaving them without the funds to relocate and rebuild. While the CSRLF Program has capacity to support their recovery, statutory changes are needed to make these schools eligible for these funds. SB 631 proposes expanding eligibility to include schools impacted by disasters and prioritizing them for funding. It also extends eligibility to schools in their second and subsequent charter terms—potentially benefitting 246 schools serving over 153,000 students."

Arguments in Opposition

None on file

FISCAL COMMENTS

According to the Assembly Appropriations Committee:

- 1) Ongoing cost pressures of an unknown but potentially significant amount, likely in the hundreds of thousands to millions of dollars CSRLF annually as a result of expanded eligibility beyond new charter schools allowing for an increase in the number of loan applicants. According to the State Treasurer's Office, the CSRLF currently has a fund balance of approximately \$27 million.
- 2) Minor and absorbable costs to the California School Finance Authority (CSFA) to administer the loan program.

VOTES**SENATE FLOOR: 38-0-2**

YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Hurtado, Jones, Laird, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener

ABS, ABST OR NV: Limón, Reyes

ASM EDUCATION: 9-0-0

YES: Muratsuchi, Hoover, Addis, Alvarez, Bonta, Castillo, Garcia, Lowenthal, Patel

ASM APPROPRIATIONS: 15-0-0

YES: Wicks, Sanchez, Arambula, Calderon, Caloza, Dixon, Elhawary, Fong, Mark González, Ahrens, Pacheco, Pellerin, Solache, Ta, Tangipa

UPDATED

VERSION: July 7, 2025

CONSULTANT: Marguerite Ries / ED. / (916) 319-2087

FN: 0001340