

## MEMORANDUM

## Staff Summary No. 10

**Date:** February 27, 2025

**To:** Members of the California School Finance Authority

**From:** Katrina Johantgen, Executive Director

**Subject:** Consideration of an Appeal of Ineligibility under the Charter School Facility Grant Program for “Today’s Fresh Start-Compton” located in Los Angeles County

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**Issue:** Today’s Fresh Start, Inc. (“TFS”) formerly operated two charter school campuses, one in Inglewood, California, and the other in Compton, California. TFS entered into two agreements with the California School Finance Authority (“CSFA”) and the State Allocation Board (“SAB”)<sup>1</sup> under the Charter School Facilities Program (“CSFP”) pursuant to which TFS borrowed money to build a school on its Inglewood Campus. TFS defaulted under those agreements by, among other things, failing to make payments as promised in the loan documents and by failing to cooperate in the process of transferring its Inglewood campus to a successor charter school once the charter for TFS’ Inglewood campus was not renewed. As a result of these defaults, SAB and CSFA filed a complaint against TFS, seeking damages for TFS’ failure to repay its loan and for its failure to cooperate in the transfer of the Inglewood campus.

TFS sought grant funds for its Compton campus for during the 2023-24 and 2024-25 funding rounds under the CSFA-administered Charter School Facility Grant Program (the “Grant Program”) (Education Code Section 47614.5). CSFA staff determined that TFS was ineligible for these Grant Program awards because of TFS’ various CSFP defaults. The Grant Program regulations provide that an entity is not eligible for Grant Program funds where the applicant or the organization managing it have defaulted under another CSFA-administered program. TFS’ defaults under the CSFP render it ineligible for Grant Program funding.

TFS now challenges CSFA’s Staff’s determination. Staff recommends that the Board uphold its determination of ineligibility. TFS committed various defaults under its CSFP financing. TFS appears to argue that its Compton campus should receive Grant Program funding because it is a separate entity from the Inglewood campus and so defaults related to the Inglewood campus should not affect its Grant Program eligibility. Alternatively, TFS argues there was no default under its CSFP loan for the Inglewood campus.

Both positions are wrong. As to its first argument, Staff’s research shows that neither the Compton nor the Inglewood campuses were formed as separate entities. TFS is the only legal entity able to enter into contracts and grants. TFS’ defaults under the CSFP render it, and each of its campuses ineligible for Grant Program Funding. As to its second argument, TFS defaulted under its CSFP loan by failing to make payments required under the loan

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<sup>1</sup> SAB and CSFA jointly administer the CSFP.

documents. This was a clear event of default. Therefore, staff recommends that the Board adopt staff's determination that TFS is not eligible to receive Grant Program funding.

**Background:** TFS is a California nonprofit public benefit corporation. It formerly operated a charter school campus in Inglewood, California (CDS code 19767370102020/19646340119552). In 2011, TFS entered into a CSFP Funding Agreement and Memorandum of Understanding (collectively, the "loan documents") with CSFA and SAB, under which money was loaned to TFS for the acquisition and construction of the Inglewood campus. The loan documents required that TFS make payments so long as it continued to occupy or possess the Inglewood campus. It was required to make payments under the loan documents even if the Inglewood campus charter was revoked or not renewed. In 2019, the Inglewood Unified School District declined to renew the charter for the Inglewood campus. A lengthy series of TFS administrative appeals and court actions ensued. These ended in August 2023. TFS retained possession of the Inglewood campus throughout this process. It finally relinquished possession on October 17, 2024. TFS' last CSFP loan payment was made in May 2020.

In 2015-16, the Compton Unified School District authorized a charter for TFS' Compton campus (CDS Code: 19734370132845). TFS has received Grant Program funding for its Compton campus since the 2015-16 funding round. Both the Compton campus, and the Inglewood campus (when it operated) were operated and managed by TFS. Neither the Inglewood campus nor the Compton campus were ever formed as separate legal entities. TFS was the only legal entity managing those campuses. TFS signed the Grant Program application certification for the Compton campus, agreeing to conform to Grant Program regulations. TFS also executed the facility lease for the Compton campus.

Because TFS is the legal entity that operated both campuses, CSFA staff determined that TFS' defaults under the CSFP loan documents precluded any Grant Program funding for the Compton campus. 4 CCR Sect. 10170.3 provides that "Any Applicant shall be eligible to apply for a grant if all of the following conditions are met: ... (e) The Charter School, educational management organization, or charter management organization is not in default with the requirement of all programs administered by the Authority." Staff determined that TFS ran the Compton campus and so amounted to the "Applicant" and also was either a "charter school" or a "charter management organization." Therefore, TFS' default under the CSFP loan documents meant that it was not eligible for Grant Program funding and on September 16, 2024, CSFA issued an ineligibility notice to TFS.

On November 12, 2024<sup>2</sup>, CSFA received a request for reconsideration from the law offices of Young Minney & Corr ("YMC"), on behalf of TFS. As none of the information presented changed the status of the default, the request for reconsideration was rejected. A rejection letter confirming the initial ineligibility determination by CSFA staff was provided in December 2024. On January 16, 2025, CSFA received an appeal letter seeking CSFA Board review of staff's Grant program eligibility determination<sup>3</sup>.

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<sup>2</sup> TFS's request for reconsideration was initially due October 16, 2024 (4 CCR Sect. 10170.10(b)). However, TFS requested a 30-day extension to submit its request for reconsideration (4 CCR Sect. 10170(f)). CSFA staff granted TFS' extension request.

<sup>3</sup> 4 CCR 10170.10 (d) and (e) allow an applicant to appeal CSFA staff's determination to the CSFA Board

## **Analysis:**

TFS defaulted under the CSFP loan documents by failing to make required payments. TFS's obligation to make payments under the CSFP loan documents is not abated, suspended, deferred, reduced, or otherwise affected by any action of any governmental authority or any prohibition, restriction, limitation, or prevention of the use, occupancy, or enjoyment of the Inglewood campus. (Funding Agreement, Sect. 2.1(E).) The Funding Agreement required that TFS make all payments even if TFS had a dispute with its chartering authority, the State, or any other person (Funding Agreement, Sect. 2.3.). TFS agreed that if the charter for the Inglewood campus was not renewed, was revoked, or if the Inglewood campus was not used for "charter school purposes," it would constitute an event of default and TFS would remain obligated to make payments under the CSFP loan documents if it continued to occupy and/or possess the Inglewood campus, even though TFS sought review or the nonrenewal or revocation. (Funding Agreement, Sect. 5.2(A), Memorandum of Understanding, Sections 4.2(A), 4.2(B)(2).) TFS failed to make any payments for the time period between May 2020 and the time it relinquished possession of the Inglewood campus in October 2024.

As described above, 4 CCR Sect. 10170.3 provides that "Any Applicant shall be eligible to apply for a grant if all of the following conditions are met: ...(e) The Charter School, educational management organization, or charter management organization is not in default with the requirement of all programs administered by the Authority." TFS defaulted under the CSFP loan documents, rendering it ineligible for any Grant Program funding.

TFS' appeal treats the two campuses as separate entities. It referred to them as "Today's Fresh Start-Compton ('TFS-C')" and "Today's Fresh Start Charter School Inglewood ('TFS-I')". Leveraging that characterization, the appeal contended that any defaults CSFA raised related to TFS-I and not TFS-C. According to TFS, this meant that its Compton campus was the applicant for Grant Program funding and that any alleged defaults under the CSFP loan documents were attributable solely to the Inglewood campus. Staff disagrees with this position. Based on staff's research, TFS-C and TFS-I have not been formed as legally separate entities. TFS is the only legal entity. TFS formerly ran the Inglewood campus and continues to run the Compton campus. It was the entity that entered into the CSFP loan documents and is the legal entity that would receive the Grant Program funding. 4 CCR Sect. 10170.3(e) precludes TFS from receiving Grant Program funding, even if it plans to use the money for its Compton campus.

TFS' appeal also argues that there was no default under the CSFP loan documents. Its argument is founded on the position that Education Code Section 17078.62 sets forth a disposition scheme for charter school property when a charter is not renewed, and that the Inglewood Unified School District did not follow this disposition scheme. Therefore, TFS was not obligated to relinquish possession of the Inglewood campus. Staff disagrees with this position. TFS refused to cooperate with the orderly transfer of possession of the Inglewood campus making it impossible for the Inglewood Unified School District to follow the Education Code Section 17078.62 disposition scheme. Further, TFS' position ignores the significant monetary defaults TFS committed under the CSFP loan documents. As described above, TFS was required to make payments under the CSFP loan documents

between August 1, 2020, and January 1, 2025, for a total of \$2,017,872.36 (principal and interest only – does not account for late penalties nor ineligible project expenditures). It made none. There is no question that TFS defaulted under the CSFP loan documents.

**Recommendation:** Staff recommends denial of TFS' appeal regarding staff's determination that TFS-C is ineligible for grant funds under the Grant Program.

**Attachments:**

- Attachment 1 – Charter School Facility Grant Program Regulations (4 CCR § 10170 et seq.)
- Attachment 2 – Charter School Facilities Grant Program Regulations (4 CCR § 10152 et seq.)
- Attachment 3 – CA Education Code § 47614.5 et seq.
- Attachment 4 – CA Education Code § 17078.52 et seq.
- Attachment 5 – TFSI CSFP Final Apportionment Staff Summary
- Attachment 6 – CSFP Memorandum of Understanding with TFS
- Attachment 7 – CSFP Funding Agreement with TFS
- Attachment 8 – January 2021 Demand Letter from CSFA
- Attachment 9 – March 2021 Demand Letter from CSFA
- Attachment 10 – April 2021 TFS Response to March 2021 Demand Letter from CSFA
- Attachment 11 – April 2021 CSFA Response to April 2021 TFS Response
- Attachment 12 – May 2021 TFS Response to April 2021 CSFA Response Letter
- Attachment 13 – September 2024 SB740 Ineligibility Notice from CSFA
- Attachment 14 – November 2024 Appeal from YMC on behalf of TFSC
- Attachment 15 – December 2024 Appeal Denial from CSFA
- Attachment 16 – January 2025 Request for Board Level Appeal from YMC on behalf of TFSC
- Attachment 17 – May 2019 TFS Board Agenda
- Attachment 18 – February 2020 TFS Board Agenda
- Attachment 19 – April 2021 TFS Board Agenda
- Attachment 20 – CSFP TFS Timeline
- Attachment 21 – September 2023 Demand Letter from CSFA and SAB on behalf of OPSC
- Attachment 22 – Oct. 2023 Writ & Complaint from the State (CSFA and SAB on behalf of OPSC)