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TWIN RIVERS UNIFIED SCHOOL DISTRICT
BOARD OF TRUSTEES

UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA, SACRAMENTO DIVISION

In re HIGHLANDS COMMUNITY CHARTER AND TECHNICAL SCHOOLS, Debtor and Debtor in Possession.	Case No. 26-25868 Chapter 11
HIGHLANDS COMMUNITY CHARTER AND TECHNICAL SCHOOLS, Plaintiff, v. TWIN RIVERS UNIFIED SCHOOL DISTRICT BOARD OF TRUSTEES and CALIFORNIA STATE BOARD OF EDUCATION, Defendants.	Adv No. 26-02134 DCN: SMR-1 **DEFENDANT TWIN RIVERS UNIFIED SCHOOL DISTRICT BOARD OF TRUSTEE'S RESPONSE TO MOTION FOR ORDER EXTENDING STAY TO THE REVOCATION APPEAL UNDER BANKRUPTCY CODE SECTIONS 105(a) AND 362** Judge: Hon. Christopher D. Jaime Date: November 10, 2026 Time: 11:00 a.m. Dept.: Dept. B, Ctrm 32, 6th Floor 501 I Street Sacramento, CA 95814

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Defendant TWIN RIVERS UNIFIED SCHOOL DISTRICT BOARD OF TRUSTEES ("District" or "Board") hereby issues its response to Plaintiff HIGHLANDS COMMUNITY CHARTER AND TECHNICAL SCHOOLS' ("Debtor" or "Plaintiff") motion for an order extending stay to the revocation appeal under Bankruptcy Code sections 105(a) and 362. Preliminarily, given that the revocation proceedings are now before the California State Board of Education ("SBE"), the District believes the SBE should respond. At any rate, the District refutes that the automatic stay applies to the revocations proceedings as the revocation proceedings are expressly excepted from the automatic stay under 11 U.S.C. section 362(b)(4). Indeed, the revocation proceedings are an action or proceeding to enforce a governmental entity's police or regulatory power. Further, an injunction may not be ordered to contravene the provisions of the Bankruptcy Code as held in *Law v. Siegel* and an injunction, in any event, is not warranted. In support thereof, the District provides as follows:

A. The District is No Longer in Control of the Revocation Proceedings

Preliminarily, it is important to note the process for issuing and revoking a charter, and that while the District initiated the administrative appeal to the SBE, the District is no longer in control of the revocation proceedings. The proceedings are before the SBE and the controlling applicable regulation requires the SBE to take action regarding the revocation by a specified deadline.

The process for establishing a charter school typically begins by submitting a charter petition for approval to a local school district. Ed. Code, § 47605(a). If approved by the school district board, the proposed charter school is established, and the school district becomes the chartering authority (also referred to as "charter authorizer") responsible for overseeing the charter school operating under the district's authorization. After a charter is approved, a chartering authority may initiate the revocation of a charter on the statutory grounds listed in Education Code section 47607, including material charter violations, failure to meet pupil outcomes, fiscal mismanagement/accounting failures, or violation of law. Ed. Code, § 47607, subds. (f)(1)–(4). To initiate the revocation process a charter authorizer must issue a Notice of Violation identifying the alleged violation(s), supporting evidence, statutory basis, and reasonable cure period. Ed. Code, § 47607(g); Cal. Code Regs., tit. 5, § 11965(f). If following the reasonable cure period the

chartering authority decides to continue the revocation process, it must issue a Notice of Intent to Revoke identifying the evidence relied upon and the date and time of the public hearing regarding the revocation. Cal. Code Regs., tit. 5, § 11965(d). The chartering authority must then hold a public hearing on whether evidence exists to revoke a charter and the charter school may present its position and contest whether revocation is warranted. Ed. Code, § 47607(h); Cal. Code Regs., tit. 5, § 11968.5.2(f). If the chartering authority issues a final decision to revoke, the charter school may appeal the revocation decision to the county board of education. The administrative revocation appeal process then permits either the charter school or chartering authority, as applicable, to appeal the decision of the County Board of Education regarding the revocation to the SBE. Once before the SBE, the SBE must render a decision to reverse or uphold a revocation decision within a specified timeline set forth in California Code of Regulations § 11968.5.5.

Here, the District revoked the charters of Debtor's charter schools on the following statutory grounds for revocation: (1) the Debtor committed a material violation of the conditions, standards, or procedures set forth in its charter; (2) the Debtor violated law; and (3) the Debtor engaged in fiscal mismanagement. As part of the final step in the charter revocation process, the District Board unanimously approved revocation of the Debtor's charters. The Debtor appealed and the Sacramento County Board of Education reversed the revocations. The District appealed the Sacramento County Board of Education's reversal of the revocations, and the matter is now within the purview of the SBE and California law requires the SBE to act within a certain timeline.

B. The Automatic Stay Does Not Apply to the Revocation Proceedings

While the District believes that it would be more appropriate for the SBE to respond given that the revocation appeal matter is now under its administrative authority, the District asserts that Debtor's argument that the automatic stay prevents the continuation of the revocation proceedings under 11 U.S.C. sections 362(a)(1), (a)(3) and (a)(6) is without merit. (Memorandum of Points and Authorities in Support of Motion for Order Extending Stay ("Memorandum"), 20:8-20, 23:3-10.) While section 362 operates as a stay of, among other things, the commencement or continuance of a proceeding against a debtor, any act to obtain possession of property of the estate, and any act to collect, assess, or recover a claim against the debtor, the automatic stay specifically ***does not*** stay

"the commencement or continuation of an action or proceeding by a governmental unit … to enforce such governmental unit's … police or regulatory power." 11 U.S.C. section 362(b)(4).

In determining whether a governmental unit's actions fall within section 362(b)(4), a bankruptcy court must consider the "pecuniary purpose" test and the "public policy" test. "Under the 'pecuniary purpose' test, the court determines whether the government action relates primarily to the protection of the government's pecuniary interest in the debtor's property or to matters of public safety and welfare. [Cite.] If the government action is pursued ***solely*** to advance a pecuniary interest of the governmental unit, the stay will be imposed." *In re Universal Life Church, Inc.*, 128 F.3d 1294, 1297 (9th Cir. 1997) (citing *Thomassen v. Division of Med. Quality Assurance (In re Thomassen)*, 15 B.R. 907, 909 (9th Cir. BAP 1981) (emphasis added). The "public policy" test, on the other hand, distinguishes between government actions that effectuate public policy and those that adjudicate private rights. *Id*.

The Ninth Circuit in *In re Universal Life Church, Inc.* considered these two tests in determining whether the automatic stay prevented the Internal Revenue Service from revoking an entity's tax exempt status of a religious corporation. 128 F.3d at 1297. The Ninth Circuit held that the revocation met both tests, explaining that "the revocation was an exercise of the IRS's police or regulatory power because revocation promotes public welfare by assuring the public and potential donors that contributions will be used for legitimate charitable purposes." *Id*. Moreover, the Ninth Circuit agreed with the district court's determination that the exception may still be invoked "even when there is an additional pecuniary interest at stake." *Id*. at 1298. As such, the Ninth Circuit reasoned "where a governmental unit is suing a debtor to prevent or stop violation of fraud, environmental protection, consumer protection, safety, or similar police or regulatory laws, or attempting to fix damages for violation of such a law, the action or proceeding is not stayed under the automatic stay." *Id*.

Similarly, the Ninth Circuit Bankruptcy Appellate Panel ("BAP") considered whether the automatic stay could be used to stay administrative proceedings to revoke a medical license based on a debtor's perceived gross negligence, incompetence and acts of dishonesty. *In re Thomassen*, 15 B.R. 907, 907-908 (9th Cir.BAP 1981). In concluding that the administrative proceedings fell

within the exception set forth in 11 U.S.C. section 362(b)(4), the BAP explained that the proceedings were not simply pecuniary in nature because it did not concern the debtor's "failure to make necessary payment to the state or its citizens." *Id*. at 909. Rather, the BAP stated the revocation proceedings related to malpractice and professional incompetence with fraud in the handling of patients' and employees' funds, and the State's interest was "in punishing such misconduct and in preventing future acts of the type which [the debtor] has been accused." *Id*.; see also *In re McMullen,* 386 F.3d 320 (1st Cir. 2004) (holding that the automatic stay did not stay revocation proceedings of a real estate license).

Like *Universal Life Church* and *Thomassen*, the revocation proceedings at issue here do not concern the pecuniary interests of the State or the District. Rather, the revocation proceedings are an effort to protect the public, remedy misconduct, and prevent future acts that gave rise to the revocation proceedings. Indeed, the revocation proceedings relate to the District's findings that the Debtor: (1) committed a material violation of the conditions, standards, or procedures set forth in its charter by offering unauthorized grade levels and operating unauthorized locations; (2) violated the law by failing to submit an annual independent audit report, failing to track instruction minutes, and violating the federal WIOA exclusive partnership; and (3) committed fiscal mismanagement with unauthorized facilities expenditures. See California Education Code sections 47607(f)(1), (3) and (4). The proceedings are simply not aimed to serve "as a means of forcing the payment" of any debts owed by the Debtor. See *Thomassen*, *supra*, 15 B.R. at 909.

While the Debtor attempts to distinguish *Universal Life Church* and *Thomassen*, the arguments made are irrelevant to the inquiries at issue. (See Memorandum, 22:9-28). The Debtor neither claims that the revocation proceedings serve only the District's or the State's pecuniary interest nor does it refute that the revocation proceedings are an effort to protect the public. Instead, the Debtor attempts to litigate the merits of the revocation proceedings. As such, no stay applies as the revocation proceedings fall within the regulatory and police power exception to the automatic stay.

C. The Court Should Not Issue an Injunction

Separately, the Debtor seeks to have the Court invoke its section 105(a) powers to enjoin the

continuation of the revocation proceedings. The Court should deny such requests. First, following the Supreme Court's decision in *Law v. Siegel*, 571 U.S. 415 (2014), section 105(a) should not be utilized to "override the explicit mandates of other sections of the Bankruptcy Code" – to wit, section 362(b)(4). Second, even assuming 105(a) may be invoked, the Court should abstain from exercising such power. Faced with competing public interests, the revocation proceedings should be the proper mechanism to determine whether the Debtor's misconduct warrants revocation without interference from the bankruptcy.

i. Section 105(a) should not be utilized.

Section 105(a) should not be utilized to circumvent the exception to the automatic stay enunciated in 11 U.S.C. section 362(b)(4). "Section 105 limits the court to ordering those injunctions 'necessary or appropriate to carry out the provisions of this title.' 11 U.S.C. section 105(a). While endowing the court with general equitable powers, section 105 does not authorize relief inconsistent with more specific law." See *In re American Hardwoods, Inc.*, 885 F.2d 621, 625 (9th Cir. 1989).

The Supreme Court in *Law v. Siegel* addressed the scope and application of section 105(a), and "significantly curtailed" its application. See also *In re Kutumian*, 2014 WL 2024789, *8 (Bankr.E.D.Cal. 2014); see also *In re OGA Charters, LLC*, 554 B.R. 415, 427 (Bankr.S.D.Tex. 2016) (stating a section 105 injunction cannot be utilized in conflict with another section of the Code). The Supreme Court considered whether section 105(a) could be used to remedy egregious bad faith conduct by the debtor in litigation of an adversary proceeding, and in particular to surcharge an exemption asserted by a debtor. 571 U.S. 415, 421. While the Supreme Court acknowledged that the bankruptcy court may possess inherent power to sanction abusive litigation practices, the Court explained that those powers cannot be utilized to contravene specific statutory provisions. *Id*. at 422. In holding that the bankruptcy court's surcharge was unauthorized, the Supreme Court concluded that the surcharge contravened section 522 which provided that a debtor *may* exempt property and prohibited an exemption from being liable for any administrative expense. *Id*.

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Consistent with *Law*, courts have recognized that a preliminary injunction cannot issue unless it is "consistent with the rest of the Bankruptcy Code." See *In re OGA Charters, supra*, 554 B.R. at 428. Thus, the Court should not invoke section 105(a) if another provision of the Code is applicable.

Here, as noted above, 11 U.S.C. section 362(b)(4) specifically provides that the filing of a bankruptcy petition ***does not*** operate as a stay of "the commencement or continuation of an action or proceeding by a governmental unit … to enforce such governmental unit's … police or regulatory power." 11 U.S.C. section 362(b)(4). The issuance of an injunction would contravene this section. As such, an injunction should not be issued.

ii. Given the misconduct at issue, an injunction is not appropriate.

Even assuming that an injunction may be issued, an injunction is not appropriate in this instance. The Court is faced with authorizing a debtor to continue with operations to pay creditors while allowing the Debtor to avoid the potential consequences associated with the misconduct alleged in the revocation proceedings. The issues have not been adjudicated on a final basis and the state proceedings are the proper forum to adjudicate such issues. See *Thomassen*, *supra*, 15 B.R. at 910 (holding that the bankruptcy court properly denied a 105(a) injunction when the Debtor is faced with misconduct claims). Moreover, the Debtor cannot demonstrate irreparable harm, a hardship that weighs in the Debtor's favor, or that the public interest supports an injunction. To the contrary, the continuation of the revocation proceedings is just that. It does not automatically adjudicate that the license be revoked. The public has a strong interest in having the proceedings continue to determine if the misconduct alleged warrants revocation. Bankruptcy should not be utilized as a means to circumvent the consequences of a debtor's actions.

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WHEREFORE, the District requests that the Motion be denied and for such other and further relief as the Court deems necessary and proper.

DATED: October 27, 2026

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