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IN THE UNITED STATES BANKRUPTCY COURT

FOR THE EASTERN DISTRICT OF CALIFORNIA, SACRAMENTO DIVISION

IN RE

HIGHLANDS COMMUNITY CHARTER AND TECHNICAL SCHOOLS,

Debtor and Debtor in Possession

HIGHLANDS COMMUNITY CHARTER AND TECHNICAL SCHOOLS,

Plaintiff,

v.

TWIN RIVERS UNIFIED SCHOOL DISTRICT BOARD OF TRUSTEES; CALIFORNIA DEPARTMENT OF EDUCATION,

Defendants.

Case No. 26-25868

Chapter 11

Adv No. 26-02134

DEFENDANT CALIFORNIA STATE BOARD OF EDUCATION'S OPPOSITION TO MOTION FOR ORDER EXTENDING STAY TO THE REVOCATION APPEAL

Date: November 10, 2026
Time: 11:00 a.m.
Dept: 32
Judge: The Hon. Christopher D. Jaime
Action Filed: October 13, 2026

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INTRODUCTION

This Court should deny Plaintiff and Debtor Highlands Community Charter and Technical Schools' (Debtor) Motion for Order Extending Stay to the Revocation Appeal (Motion), as an improper attempt to use the bankruptcy process to circumvent defendant State Board of Education's (SBE) statutory and regulatory role in hearing charter school revocation appeals. The appeals regarding Twin Rivers Unified School District Board of Trustees' (Twin Rivers) (collectively, Defendants) revocation of the charters for Highlands Community Charter School (HCCS) and California Innovative Career Academy (CICA) (Revocation Appeal) have been scheduled to be heard by the SBE at its regularly scheduled November 12-13, 2026 meeting for months,. The Revocation Appeal falls within Sections 362(b)(4) and (b)(15) [1], which provide exceptions from the automatic stay to actions like the Revocation Appeal, which are exercises of the state's police and regulatory and educational licensure powers. Indeed, the Revocation Appeal enforces the requirements of state law to promote public policy, rather than advancing the state's pecuniary interest or adjudicating a dispute between private parties. Furthermore, it is imperative that SBE proceed with the November 12-13, 2026 Revocation Appeal, which Twin Rivers initiated and HCCS and CICA responded to, well before Debtor's eleventh-hour decision to file for bankruptcy, in order to protect the public at large by adjudicating whether HHCS or CICA violated minimum educational requirements. Accordingly, the Revocation Appeal is statutorily excepted from the automatic stay, and this Court should deny the Motion on these grounds.

This Court should also decline to issue a discretionary stay of the Revocation Appeal because Section 105(a) does not apply to this adversary proceeding, and the state (and by extension the public) will suffer harm if SBE is not allowed to enforce state law through the Revocation Appeal. Specifically, SBE's duty to review charter school revocation appeals is essential to protect public school students, particularly where the alleged actions at issue concern material violations of conditions, standards, or procedures set forth in a charter, violations of law, and fiscal mismanagement. Cal. Educ. Code § 47607(f). The Revocation Appeal is the exact

[1] All unspecified statutory references are to title 11 of the United States Code.

type of proceeding that Congress intended bankruptcy courts to allow to proceed when it enacted exceptions to the automatic stay. This Court therefore should not allow Debtor to use Section 105(a) to avoid the consequences of HCCS and CICA's alleged violations of state law while Debtor proceeds to seek a new, legally distinct charter school proposed to serve the same students with the same staff, but with a new chartering authority in a different county. Furthermore, even if Section 105(a) applied to the instant proceedings, Debtor cannot meet its burden to demonstrate that it is entitled to enjoin the Revocation Appeal. Because staying the Revocation Appeal would harm the public interest and prevent SBE from advancing public policy, the Motion should be denied so that the SBE can proceed with hearing the Revocation Appeal at its November 12-13, 2026 meeting, as scheduled.

FACTUAL AND PROCEDURAL BACKGROUND

I. FACTUAL BACKGROUND

Highlands Community Charter and Technical Schools (Highlands) is a non-profit public benefit corporation which currently operates two separate charter schools, HCCS and CICA. Exhibits in support of Declaration of Jonathan Raymond in Support of Chapter 11 Petition and First Day Motions (Raymond Decl.), Main Case ECF No. 5, Ex. B, California State Auditor's Audit Report 2024-106, Highlands Community Charter and Technical Schools (June 2025) (CSA Audit Report), p. 1. HCCS and CICA operate under charters granted by Twin Rivers, which serves as the authorizer for the two charter schools. Twin Rivers approved HCCS for a five-year term beginning in August 2014, and approved CICA for a five-year term beginning in August 2019, at which time it also renewed HCCS for a five-year term. *Id.*, p. 48. After a statutory extension of all charter schools in California, both schools' current charter terms expire on June 30, 2027. SBE's Request for Judicial Notice (RJN), Ex. A, HCCS Notice of Violation, p. 1, dated June 12, 2025; Ex. B, CICA Notice of Violation, dated June 12, 2025. HCCS provides classroom-based instruction, while CICA provides nonclassroom-based instruction. Raymond Decl., Main Case ECF No. 5, Ex. B, CSA Audit Report, p. 9.

A. Alternative Adult Education and Career Preparedness Opportunities

Although HCCS and CICA serve an important community in Sacramento and the surrounding areas, these schools are not the only institutions that provide continuing education and career development for the adult population attending Debtor's schools. Within 15 miles of the Highlands Sacramento City Center, there are 11 different adult education programs which provide opportunities for Career Technical Education and Workforce Preparation, English Language Learning classes, Adult Basic Education, and more. RJN, Ex. D, Outreach and Technical Assistance Network, California AE Provider Directory; Ex. E, Capital Adult Education, Adult Education Career & Workforce Preparation Fall 2025. Other schools, such as John Muir Charter School, are able to serve the community around Sacramento and Twin Rivers through similar partnerships and funding even if HCCS and CICA close. RJN, Ex. F, School Sites – John Muir Charter Schools. There is a vast ecosystem of adult education opportunities in the Sacramento area, which offer programs similar to HCCS and CICA, for students who wish to seek other educational opportunities.

II. PROCEDURAL BACKGROUND

A. California Charter Laws and Role of Twin Rivers and SBE

"[C]harter schools are part of California's single, statewide public school system." *Wilson v. State Bd. of Educ.*, 75 Cal. App. 4th 1125, 1137 (1999). Charter schools are statutorily created, subject to public oversight, and obligated to meet the requirements set out in Education Code, regulations, their own charter, and any memorandum of understanding or other contract with their chartering authority. *Am. Indian Model Schs v. Oakland Unified Sch. Dist.*, 227 Cal. App. 4th 258, 265-266 (2014). A chartering authority, in this case, Twin Rivers, has the obligation to monitor the fiscal condition and academic performance of the charter schools it authorizes, and has the authority to revoke a charter when the charter school is in violation of the law, its own charter, or not providing the outcomes it promised. Cal. Educ. Code, § 47607(f); *Today's Fresh Start, Inc. v. Los Angeles County Off. of Educ.* (*Fresh Start*), 57 Cal. 4th 197, 206-207 (2013). Charter school revocations include an administrative appeals process, through which the final

administrative appeal is heard and decided by SBE, under a substantial evidence standard of review. Cal. Educ. Code, § 47607(i)(4).

The Legislature has plenary power over the public school system. *Wilson v. State Bd. of Educ.,* 75 Cal. App. 4th at 1134. The Legislature has delegated a portion of its plenary power to SBE, a governing and policy-making body for the state's public schools. Cal. Educ. Code, § 33031. SBE's role includes hearing appeals involving charter revocations. Cal. Educ. Code, § 47607(i)(2).

SBE has various statutory and regulatory duties with respect to charter schools operating within the State. SBE has a role, for example, with respect to assigning charter school numbers (Cal. Educ. Code, § 47602), appeals of denials of initial charter petition approvals and charter school renewals (*id.*, §§ 47605 & 47607), and appeals of decisions by charter authorizers to revoke a charter school. *Id.* § 47607. Additionally, SBE directly oversees some charter schools when it is the "chartering authority." *Id.* § 47613; *Fresh Start*, 57 Cal.4th at 206 (citing Cal. Educ. Code, §§ 47605, subds. (a), (b), 47605.5, 47605.6).[2]

B. Twin Rivers Revokes the Charters for HCCS and CICA, Sacramento County Board of Education Reverses Twin Rivers' Revocation on Appeal, and the Revocation Appeal Is Now Pending Before SBE for Adjudication

Prior to the issuance of the CSA Audit, Twin Rivers started the charter revocation as part of its responsibilities as the schools' chartering authority by issuing Notices of Violation to HCCS and CICA. Raymond Decl., Main Case ECF No. 4, ¶ 52, Exh. B, CSA Audit Report, p. 3; RJN, Ex. A, June 12, 2025 HCCS Notice of Violation, p. 1; Ex. B, June 12, 2025 CICA Notice of Violation, p. 1. The HCCS Notice of Violation states that HCCS (1) exceeded its charter by offering instruction to students in grade 9 and 10; (2) opened schools in locations not approved by Twin Rivers; (3) failed to submit its annual audit report; (4) failed to properly credential its teachers; (5) failed to track minimum instructional minutes; (6) violations of WIOA Exclusive Partnership Agreement; and (7) engaged in fiscal mismanagement at the San Diego Administrative Location and a Marysville location. RJN, Ex. A, June 12, 2025 HCCS Notice of

[2] AB 1505, passed in 2019, amended California Education Code Section 47605.6.

Violation, pp. 4-8. The CICA Notice of Violation similarly stated that CICA (1) exceeded its charter by offering instruction to students in grade 9 and 10; (2) opened schools in locations not approved by Twin Rivers; (3) failed to submit its annual audit report; (4) failed to track minimum instructional minutes; and (5) engaged in fiscal mismanagement at the San Diego Administrative Location and a Marysville location. RJN, Ex. B, June 12, 2025 CICA Notice of Violation, pp. 4-8. Neither notice relied on the findings from either the FCMAT Audit or the CSA Audit. RJN, Ex. A, June 12, 2025 HCCS Notice of Violation; Ex. B, June 12, 2025 CICA Notice of Violation.

On September 26, 2025, the same date identified by the Notices of Violation for HCCS and CICA to remediate the violations, the schools replied to the notice. RJN, Ex. G, HCCS Response to Notice of Violation; Ex. H, CICA Response to Notice of Violation; Ex. A, June 12, 2025 HCCS Notice of Violation, p. 8; Ex. B, CICA Notice of Violation, p. 9.

On November 04, 2025, Twin Rivers issued its Notice of Intent to Revoke. RJN, Ex. I, HCCS Notice of Intent to Revoke; Ex. J, CICA Notice of Intent to Revoke. On January 30, 2026, the Twin Rivers governing board revoked the charters of HCCS and CICA. RJN, Ex. K, Twin Rivers Special and Virtual School Board Meeting Minutes.

On February 27, 2026, pursuant to Education Code section 47606(i)(1), HCCS and CICA appealed Twin Rivers' revocation to the Sacramento County Board of Education (SCBOE). RJN, Ex. L, SCOE Board Agenda, dated May 19, 2026. On May 19, 2026, SCBOE reversed Twin Rivers' revocation of HCCS and CICA. RJN, Ex. M, SCOE Board Minutes, dated May 19, 2026.

On June 18, 2026, following action by its governing board, Twin Rivers appealed SCBOE's reversal to SBE, pursuant to California Education Code section 47606(i)(2). Motion MPA, 10; RJN, Ex. N, October 6, 2026 Advisory Committee on Charter Schools (ACCS) Meeting Agenda, Item 2 at p. 3, Item 3 at p. 3; Ex. O, Twin Rivers Board Meeting Resolution, dated June 16, 2026. Based on receipt of Twin Rivers' appeals, the appeals are scheduled to be heard by the SBE at its November 12-13, 2026 SBE Meeting.

On July 17, 2026, HCCS and CICA submitted their opposition to Twin Rivers' appeal. RJN, Ex. N, ACCS October 6, 2026 Meeting Agenda, Item 2, Attachment 4 & Item 3,

Attachment 4. On July 31, 2026, Twin Rivers submitted its reply in support of its appeal. RJN, Ex. N, ACCS October 6, 2026 Meeting Agenda, Item 2, Attachment 5 & Item 3, Attachment 5.

On September 25, 2026, in accordance with the Bagley-Keene Open Meeting Act, ACCS posted its October 6, 2026 Meeting Agenda in which it agendized for hearing, in an advisory capacity to the SBE only, the Revocation Appeal.[3] RJN, Ex. C, September 25, 2026 ACCS Meeting Notice and Agenda, SBE Policy.

Debtor filed for bankruptcy on October 4, 2026. Motion MPA, 10. Pursuant to the Bagley-Keene Open Meeting Act requirements, the SBE expects to post the agenda for the November 12-13, 2026 SBE Meeting with both Revocation Appeal items for HHCS and CICA on October 30, 2026. Cal. Gov. Code, §§ 11120–11132.

APPLICABLE LAW

I. CHARTER REVOCATION PROCESS

A charter may be revoked by the chartering authority upon a showing, supported by substantial evidence, that the charter school did any of the following: (1) committed a material violation of any of the conditions, standards, or procedures set forth in the charter; (2) failed to meet or pursue any of the pupil outcomes identified in the charter; (3) failed to meet generally accepted accounting principles or engaged in fiscal mismanagement; or (4) violated any law. Cal. Educ. Code, § 47607(f). A chartering authority is required to make written factual findings, supported by substantial evidence and specific to the charter school, to revoke a charter school. Cal. Educ. Code, § 47607(h).

The chartering authority must notify the charter school of the violations and allow the school a reasonable opportunity to cure them. Cal. Code Regs. tit. 5, § 11968.5.2. Specifically, the chartering authority: (1) must notify the charter school of the violation(s) and allow a reasonable opportunity to cure them; (2) if the charter school chooses to respond to the notice of violation, it must submit a detailed, written response addressing each identified violation, including any supporting evidence, by the end of the remedy period identified in the notice; (3)

[3] The ACCS is an advisory body to the SBE, established pursuant to Education Code Sections 33031 and 47634.2(b). *See* Governing Policy: [https://www.cde.ca.gov/be/cc/cs/documents/charterschools.pdf].

the chartering authority must act within 60 days of the conclusion of the remedy period outlined in the notice, or the revocation process terminates; (4) If the chartering authority issues a notice of intent to revoke, it must hold a public hearing no later than 30 days after the notice of intent to revoke is issued, on the date and time specified therein; and (5) the chartering authority must issue a Final Decision, which must include written factual findings, supported by substantial evidence and specific to the charter school, within 30 days of the public hearing (or within 60 days by written mutual agreement), or the revocation process terminates. *Id*.

A charter may appeal the revocation of its charter to the county board of education. Cal. Educ. Code, § 47607(i). Upon appeal, the county board of education may reverse a district's revocation decision if the county board determines that the findings made by the district are not supported by substantial evidence. Cal. Educ. Code, § 47607(i)(2). In the event the county board reverses a district's revocation decision, the school district may then appeal a county board of education's reversal of a revocation decision to the SBE. *Id*.

II. SBE PROCEDURES FOR REVOCATION APPEALS

If a school district appeals the reversal of a district's revocation decision by a county board of education, SBE may reverse the revocation decision if it determines that the findings made by the chartering authority are not supported by substantial evidence. In the alternative, SBE may uphold the revocation decision of the school district if it determines that the findings made by the chartering authority are supported by substantial evidence. Cal. Educ. Code, § 47607(i)(2).

ARGUMENT

I. THIS COURT SHOULD DENY THE MOTION BECAUSE EXCEPTIONS TO THE AUTOMATIC STAY APPLY TO THE REVOCATION APPEAL

Although as a general matter the filing of a bankruptcy petition may operate as an automatic stay to a variety of actions against a debtor or their estate, Section 362 provides numerous express exceptions to allow many proceedings to continue notwithstanding bankruptcy. 11 U.S.C. § 362(b); *see also NLRB v. Twin Cities Elec*., 907 F.2d 108 (9th Cir.1990) (holding that the exception applies to suits to enforce federal labor laws); *Wade v. State Bar of Arizona*, 948 F.2d 1122 (9th Cir.1991) (holding that the exception applies to state bar disciplinary proceedings

against an attorney); *In re PMI–DVW Real Estate Holdings, LLP*, 240 B.R. 24, 30 (Bankr.D.Ariz.1999) (holding that the exception may apply even to acts by governmental units to obtain possession of property of the bankruptcy estate or to exercise control over bankruptcy estate property).

Here, the Revocation Appeal is excepted from the automatic stay because it is an exercise of SBE's police and regulatory power (in addition to the regulatory power granted to Twin Rivers as the chartering authority for HCCS and CICA) and is an action regarding the licensure of debtor as an educational institution under Sections 362(b)(4) and (b)(15). The Revocation Appeal does not seek pecuniary gain for Defendants and effectuates the public policy of ensuring that charter schools comply with state law and their charters. As such, this Court should deny Debtor's Motion for Stay.

A. The Police and Regulatory Power Exception to the Automatic Stay Applies to the Revocation Appeal

The Revocation Appeal squarely fits the police and regulatory power exception to the automatic stay because it seeks to protect public welfare, rather than any pecuniary purpose, and it effectuates public policy in regulating charter schools. Section 362(b)(4) provides a police and regulatory power exception to the automatic stay:

> The filing of a petition . . . does not operate as a stay . . . of the commencement or continuation of an action or proceeding by a governmental unit . . . to enforce . . . police and regulatory power, including the enforcement of a judgment other than a money judgment, obtained in an action or proceeding by the governmental unit to enforce such governmental unit's or organization's police or regulatory power[.]

11 U.S.C. § 362(b)(4). The legislative history to Section 362(b)(4) explains the congressional intent of the police and regulatory power exception to the automatic stay. It states, in pertinent part:

> Paragraph (4) excepts commencement or continuation of actions and proceedings by governmental units to enforce police or regulatory powers. Thus, 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.

In re Universal Life Church, Inc. (*Universal Life*, 128 F.3d 1294, 1298. (9th Cir. 1997), *as amended on denial of reh'g* (Dec. 30, 1997) (citing S.Rep. No. 95-989 at 52 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5787, 5838; H.R.Rep. No. 95-595 at 343 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6299).

The phrase "police or regulatory power" has been construed by the courts to "refer to the enforcement of state laws affecting health, welfare, morals, and safety, but not regulatory laws that directly conflict with the control of the res or property by the bankruptcy court." *City & Cty. of S.F. v. PG&E Corp.*, 433 F.3d 1115, 1123 (9th Cir. 2006) (citing *Hillis Motors, Inc. v. Haw. Auto. Dealers' Ass'n*, 997 F.2d 581, 591 (9th Cir. 1993)). By allowing such actions to proceed, this exemption prevents the bankruptcy court from becoming a "haven for wrongdoers." *In re Berg*, 230 F.3d 1165, 1167 (9th Cir. 2000) (citing *O'Brien v. Fischel*, 74 B.R. 546, 550 (D.Haw.1987)).

The bankruptcy court determines whether the stay applies to individual claims, rather than the action as a whole. *PG&E Corp.*, 433 F.3d at 1124. To determine if the police and regulatory power exception applies, the court uses the "pecuniary purpose" test and the "public policy" test. *PG&E Corp.*, 433 F.3d at 1123-24 (citing *Universal Life*, 128 F.3d at 1297). For the pecuniary purpose test, an action will only be exempt from the automatic stay if it primarily seeks to protect public safety and welfare, rather than the government's pecuniary interest. *PG&E Corp.*, 433 F.3d at 1124 (citing *Universal Life*, 128 F.3d at 1297). For the public policy test, an action will be exempt from the automatic stay if its primary purpose is to effect public policy, rather than adjudicate private rights. *PG&E Corp.*, 433 F.3d at 1125 (citing *Lockyer v. Mirant Corp.*, 398 F.3d 1098, 1109 (9th Cir. 2005)). If either test is satisfied, the claim is exempt from the automatic stay. *Lockyer*, 398 F.3d at 1108. Here, the Revocation Appeal satisfies both tests because it relates primarily to matters of public welfare and effectuates public policy to ensure that charter schools meet the requirements of state education grants and thereby eliminate the misappropriation of state funds.

1. The Revocation Appeal Satisfies the Pecuniary Purpose Test Because It Seeks to Protect the Public Welfare

The Revocation Appeal clearly satisfies the pecuniary purpose test, and therefore falls into the police and regulatory power exception, because neither the SBE nor Twin Rivers stand to recoup any money as a result of the Revocation Appeal. 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." *Universal Life*, 128 F.3d at 1297; *In re First Alliance Mortgage Co.*, 264 B.R. 634, 645 (C.D. Cal. 2001). The relevant inquiry under the pecuniary purpose test is whether the action is being pursued "solely to advance a pecuniary interest of the governmental unit," in which case the bankruptcy stay will be imposed. *Universal Life*, 128 F.3d at 1297 (citing *In re Thomassen* (*Thomassen*), 15 B.R. 907, 909 (9th Cir. BAP 1981) (emphasis added)). Importantly, Section 362(b)(4) "does not exclude a governmental action to obtain the entry of a money judgment for a past violation of the law . . . Indeed, most government actions which fall under this exemption have some pecuniary component . . . This does not abrogate their police power function." *Universal Life*, 128 F.3d at 1298-1299 (citing *In re Thomassen*, 15 B.R. at 909).

As Debtor notes, in *Universal Life,* the IRS "revoking the church's tax-exempt would serve a general public welfare purpose beyond just a pecuniary application because the revocation was aimed at deterring fraud and assuring potential donors of the church that their contributions would be used appropriately." Motion MPA, 21 (citing *Universal Life*, 128 F.3d at 1298. Similarly here, the Revocation Appeal would promote the public welfare by ensuring the effective oversight of charter schools in the state as required by state law, deterring other charter schools from violating state law and assuring charter students, particularly HCCS and CICA's students, that they will receive education from charter schools that comply with applicable state law.

Debtor's reliance on *In re Thomassen* is misplaced. As Debtor notes, in that case, the California Board of Medical Quality Assurance (Board) initiated post-bankruptcy petition proceedings against a debtor physician. Motion MPA, 21 (citing *Thomassen*, 15 B.R. at 909). The Board alleged gross negligence or incompetence, and acts of dishonesty in financial dealings

against the physician. *In re Thomassen*, 15 B.R. at 909. The physician sought to have the proceeding stayed, but the trial court rejected his request. *In re Thomassen*, 15 B.R. at 909. The debtors appealed, arguing that the Board's actions were simply an attempt to force the physician to pay certain debts owed to persons whom he had allegedly defrauded. *Id*. The court held that the Board's actions were within the ambit of Section 362(b)(4) and therefore exempt from the bankruptcy stay because the charges brought against the physician involved malpractice, professional incompetence, and fraud in handling patients' and employees' money. *Id*. at 909-910 ("The State's interest in this matter is in punishing such misconduct and in preventing future acts of the type which Dr. Thomassen has been accused. This is a valid police and regulatory interest.").

Here, the only possible outcomes of the Revocation Appeal—initiated prior to Debtor's bankruptcy proceedings—are that HCCS's and CICA's charters schools remain operative, or the charters are revoked. Neither outcome involves any repayment to SBE or Twin Rivers. Motion MPA, 17-18. Although Debtor argues that if the charters are revoked, then "[it] would immediately lose its funding," the pecuniary purpose test looks to the "government's pecuniary interest in the debtor's property," and not to future funding. Motion MPA, 17; *Universal Life*, 128 F.3d at 1297.) SBE, as the regulatory authority with respect to charter school revocation appeals, is required to follow statute designed to protect California's public school students. Cal. Educ. Code, § 33031; *see also Cal. Sch. Bds. Ass'n v. State Bd. of Educ.*, 191 Cal. App. 4th 530, 542. As such, SBE's responsibility to ensure that future education funds are not misappropriated is a governmental interest that protects the public welfare, as those funds can then be appropriated to all of the other state's public schools that ensure that California's public school students receive the educational services to which they are entitled under law. Accordingly, the Revocation Appeal meets the pecuniary interest test, the police power and regulatory exception applies to the automatic stay, and the Motion should be denied.

2. The Revocation Appeal Satisfies the Public Policy Test Because It Ensures that Charter Schools Meet Educational Requirements

Even though the Revocation Appeal must only satisfy one of the two tests, it similarly satisfies the public policy test for the police and regulatory power exception to the automatic stay. Here, the Revocation Appeal seeks to avoid the misappropriation of education funding and to ensure that HCCS and CICA complied with the requirements of state law and their charters. Under the public policy test, the court must distinguish "between government actions that effectuate public policy and those that adjudicate private rights." *Universal Life*, 128 F.3d at 1297 (citing *N.L.R.B. v. Continental Hagen Corp*., 932 F.2d 828, 833 (9th Cir.1991)). A suit does not satisfy the public purpose test if it is brought primarily to advantage discrete and identifiable individuals or entities rather than some broader segment of the public. *Lockyer v. Mirant Corp*., 398 F.3d at 1109. If, on the other hand, the suit "seeks to protect public safety and welfare, the exception does apply." *Id*. The Revocation Appeal is a regulatory proceeding stemming from a chartering authority's determination of whether the charter schools Debtor operates, HCCS and CICA, complied with state law and the requirements of the charters issued by Twin Rivers, designed to protect students of those charter schools. The Revocation Appeal's primary purpose is therefore clearly to effectuate the public policy, rather than adjudicating private rights.

In *In re Poule*, 91 B.R. 83, 87 (9th Cir. BAP 1988), the debtor was charged with willful misconduct and fraudulent activities in violation of California's Contractor's Licensing Law, which was intended to protect the public against the consequences of incompetent workmanship and deception. The court found that the Contractor's Licensing Law is a legitimate exercise of California's police power and the State has a legitimate interest in punishing and preventing the alleged misconduct by the debtor. *In re Poule*, 91 B.R. at 87. The court held that the assessment of civil penalties against the debtor comes within the ambit of Section 362(b)(4) and the penalties are valid. *Id*. However, the court distinguished civil penalties from the assessment of the order of corrections, which the court found is the adjudication of private rights. *Id*. Thus, the order of corrections was not subject to Section 362(b)(4), and was therefore void. *Id*.

Debtor argues that the Revocation Appeal "serve[s] no valid regulatory purpose whatsoever" because it received "five consecutive years of clean, certified audits" accepted by its oversight entities.[4] Motion MPA, 22. However, Debtor claims that they "implemented all of the recommendations in [the] Audit Report" indicating they were not in compliance with at least some grant requirements until the Audit Report identified those deficiencies. *Id*. Regardless, the Revocation Appeal's purpose of determining whether Twin Rivers had sufficient evidence to revoke based on HCCS and CICA's alleged lack of compliance with statutory requirements for the operation of a public charter school clearly "effectuate[s] public policy," rather than "adjudicat[ing] private rights," and therefore satisfies the public policy test. *NLRB v. Continental Hagen Corp.*, 932 F.2d 828, 833 (9th Cir.1991) (quoting *NLRB v. Edward Cooper Painting, Inc.*, 804 F.2d 934, 942 (6th Cir.1986)).

Even assuming arguendo that Debtor is currently in full compliance with all applicable statutory and regulatory requirements, revocation of the HCCS and CICA charter may be warranted to avoid the possibility of future violations and misappropriations. *See* RJN, Exs. I, HCCS Notice of Intent to Revoke, K, CICA Notice of Intent to Revoke; *see also* RJN Ex. A, FCMAT Audit Report (requested in 2016). For example, Twin River's independent investigation found that HCCS and CICA (1) violated provisions of their own charter petitions by offering grade and locations without obtaining material revisions to their charters; (2) failed to sufficiently offer and track instructional minutes; and (3) mismanaged their financial resources. (RJN Ex. A, FCMAT Audit Report, Ex. E, HCCS Notice of Violation, Ex. F, CICA Notice of Violation; Raymond Decl., Ex. B, CSA Audit Report. This Court should not allow Debtor to use the automatic stay to thwart SBE and Twin Rivers' statutory and regulatory authority when the police and regulatory power exception squarely applies to the Revocation Appeal proceedings.

[4] Of note, HCCS and CICA's Audit Reports for the 2023-2024 fiscal year were rejected by the State Controller's Office. RJN, Ex. P, August 6, 2026 HCCS Notice of Violation; Ex. Q, August 6, 2026 CICA Notice of Violation. Additionally, the new Notices of Violation issued by Twin Rivers on August 11, 2026, include findings of noncompliance for HCCS and CICA's failure to submit audit reports for the 2024-2025 fiscal year. *Id*

B. The Educational Licensure Exception to the Automatic Stay Also Applies to the Revocation Appeal

In addition to the police and regulatory power exception, the Revocation Appeal is excepted from the automatic stay because it is an action "by a State licensing body regarding the licensure of the debtor as an educational institution." 11 U.S.C. § 362(b)(15). SBE is the governing and policy-making body for California's public school system, and has been charged by the Legislature to hear appeals involving charter school revocations. Cal. Educ. Code, §§ 12000 (SBE is the state educational agency under federal law because it is primarily responsible for state supervision of public schools), 33030 (SBE determines policy questions within its powers), 33301(a) (SBE is governing and policy determining body of the California Department of Education) 47607(i) (assigns SBE role in charter revocation appeals); Motion MPA, 17-18 (SBE is presiding over Revocation Appeal). As public schools, charter schools qualify as educational institutions. Cal. Educ. Code §§ 210.3 (defining educational institution), 47600 et seq. (Charter Schools Act). The Revocation Appeal is an action that falls squarely within Section 362(b)(15) because Twin Rivers seeks to revoke charters for two schools operated by Debtor in California, HCCS and CICA, and has submitted appeals regarding its revocations to the SBE in accordance with Education Code section 47607(i)(2). Motion MPA, 17-18. Therefore, the automatic stay exception for educational licensure actions also applies to the Revocation Appeal and the Motion should be denied.

II. THIS COURT SHOULD ALSO DENY DEBTOR'S REQUEST TO ISSUE A DISCRETIONARY STAY UNDER SECTION 105(A)

As discussed, *supra*, the Revocation Appeal clearly falls within the exceptions of the automatic stay as set forth in Section 362(b)(4) and (15), and Debtor's request that this Court grant the Motion pursuant to Section 105 is therefore improper. While Section 105(a) allows this Court to "issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of" the Bankruptcy Code, it does not permit the Court to do so in violation of another provision of the Code. *See Law v. Siegel (Law)*, 571 U.S. 415, 421 (2014) (holding that Section 105(a) "does not allow the bankruptcy court to override explicit mandates of other sections of the

Bankruptcy Code"). "'[W]hatever equitable powers remain in the bankruptcy courts must and can only be exercised within the confines of' the Bankruptcy Code." *Id*. (quoting *Norwest Bank Worthington v. Ahlers*, 485 U.S. 197, 206 (1988).

Here, Debtor urges this Court to enjoin the Revocation Appeal under section 105(a). Motion MPA, 24-32. However, Debtor's framing that the Court should exercise its broad equitable powers under section 105(a) "independent of the automatic stay, and regardless of whether the automatic stay separately applies," runs afoul of the holding in *Law*. *Id*. at 24. As such, this Court should not exercise its broad equitable powers because it is clear that exceptions to the automatic stay apply to the Revocation Appeal. To do so would violate "the axiom that a statute's general permission to take actions of a certain type must yield to a specific prohibition found elsewhere." *Law*, 571 U.S. at 421. Therefore, this Court should uphold the public policy protected by Congress when it passed the police and regulatory power and educational institution licensure exceptions to the automatic stay and deny the Motion.

III. EVEN IF SECTION 105 RELIEF WAS AVAILABLE TO DEBTOR, THIS COURT SHOULD NOT ENJOIN THE REVOCATION APPEAL BECAUSE SBE IS ENFORCING ITS REGULATORY AUTHORITY AND PROMOTING PUBLIC POLICY

Next, assuming arguendo that Section 105 applies, this Court should decline to exercise its discretion under Section 105(a) to stay the Revocation Appeal because allowing SBE to adjudicate the appeal promotes the public policy considerations safeguarded by the exceptions in Section 362(a)(4) and (15). While the bankruptcy court may use its discretionary authority to stay "regulatory proceedings [that] threaten the assets of the estate," even if those proceedings fall into the police or regulatory power exception to the automatic stay, the discretionary stay "will be granted only if a party shows the necessity for a stay" because "it is likely that the court proceedings will threaten the estate's assets." *In re Bel Air Chateau Hospital, Inc.*, 611 F.2d 1248, 1251 (9th Cir. 1979); *see also In re Thomassen* (*Thomassen*), 15 B.R. 907, 910 (9th Cir. BAP 1981) (citing 11 U.S.C. § 105(a)). Debtor does not, and cannot make this requisite showing.

This Court should therefore decline to grant the requested discretionary stay and allow the Revocation Appeal to procced because HCCS and CICA's charter are not property, and at best, the Revocation Appeal primarily threatens Debtor's speculative future apportionment to charter

schools it operates to provide public education, and moreover, declining to issue a discretionary stay of the Revocation Appeal would protect the public at large by allowing adjudication of well-documented violations of minimum educational requirements initiated well before these bankruptcy proceedings. Finally, Debtor cannot meet its burden to show that it satisfies the traditional four factor test required for injunctive relief. As such, the Motion should be denied.

A. HCCS and CICA's Charters Are Not Property, Therefore the Revocation Appeal Does Not Threaten the Assets of Debtor's Estate and This Court Should Not Issue a Discretionary Stay

The charters issued for HCCS and CICA are not property of the estate, therefore a discretionary stay of the Revocation Appeal is not warranted here. Section 541(b)(3) explicitly excludes "any accreditation status or State licensure of the debtor as an educational institution" from the definition of property of the bankruptcy estate.

Debtor incorrectly alleges that "California law confirms that a charter is itself a protected property interest" and that a "debtor-held right or license to operate or engage in business, issued by a state or federal authority, constitutes property of the estate." Motion MPA, 23 (citing *Fresh Start*, 57 Cal. 4th at 214). However, *Fresh Start* discusses due process property interests, and not property of a bankruptcy estate. 57 Cal. 4th at 214 (the opinion addressed "Fresh Start's due process claims"). Here, there is no threat of due process violations, as Debtor is being heard by this Court on its request to stay the Revocation Appeal, and SBE is seeking to provide it due process in the form of a hearing on the Revocation Appeal at its November 12-23, 2026 meeting.

Moreover, Debtor fails to cite a single case demonstrating that public charter schools' charters are property of the bankruptcy estate. The cases Debtor relies on regarding a license to operate or engage in business are distinguishable from this case. Just one of the cases cited dealt with educational institutions, and those were for-profit "proprietary schools." *In re Draughon Training Institute, Inc.* (*Draughon*), 119 B.R. 927, 929 (Bankr.W.D.La 1990). Proprietary schools are not subject to the kind of state regulation that public, non-profit charter schools such as HCCS and CICA are. Therefore, the public policy interests that apply here are significantly stronger than those in *Draughon*. Additionally, the court in *Draughon* found that the schools' accreditation was "mere status rather than property" of the estate. *Id*. at 931.

The remaining cases Debtor cites similarly deal with private, for-profit businesses that are licensed by the state or federal governments: liquor stores, a brothel, airlines with take-off and landing slots, a dog racing track, and a radio station. *See* Motion MPA, pp. 23-24 (citations omitted). None of these cases share the same public policy interests that SBE seeks to enforce through the Revocation Appeal, or deal with Section 541(b)(3). Nor is HCCS or CICA a for-profit educational institution. Motion MPA, 9. For those reasons, this Court should find that the charters of HCCS and CICA are not property of the estate and deny Debtor's request for a discretionary stay of the Revocation Appeal.

B. This Court Should Decline to Enter the Requested Discretionary Stay of the Revocation Appeal to Protect the Public at Large from Potential Further Injury

This Court should allow the Revocation Appeal to proceed because, if Debtor is found to have violated state law to a significant enough degree to require revocation of the HCCS and CICA charters, then it should not be allowed to continue operating them. In deciding whether to grant a discretionary stay, the Court should consider "whether the public at large would be injured by the continuation" of the debtor's business. *Thomassen*, 15 B.R. at 910. In *Thomassen*, the bankruptcy court declined to issue a discretionary stay of administrative proceedings to revoke the medical license of a physician accused of gross negligence and acts of dishonesty in financial dealings. *Id*. at 907. "[F]aced with the prospect of authorizing the continued medical activities of a physician, who had been accused of both professional and ethical misconduct, in order to provide funds for the repayment of the doctor's creditors," it was "not unreasonable" for the judge to deny the requested stay. *Id*. at 910. It is similarly not unreasonable for this Court to deny the requested stay to prevent a school accused of serious misconduct from continuing to operate and potentially cause further harm.

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C. The Traditional Factors for Injunctive Relief Favor Denying Debtor's Motion for Stay

Debtor argues that this Court should apply "the traditional four-factor test" requiring the Debtor to establish: (1) a likelihood of success (of reorganization) on the merits; (2) irreparable harm without a stay; (3) the balance of hardships tips in the debtor's favor; and (4) the injunction serves the public interest. Motion MPA, 26 (citing *Am. Imaging Servs., Inc. v. Eagle-Picher Indus., Inc.*, 963 F.2d 855, 858 (6th Cir. 1992); *In re Excel Innovations, Inc.* (*Excel*), 502 F.3d 1086, 1094 (9th Cir. 2007). However, even applying the four-factor test, Debtor fails to meet its burden because (1) Debtor does not have a reasonable chance of reorganizing, (2) Debtor will not suffer irreparable harm in the event that HCCS or CICA's charter is revoked, (3) the balance of hardships tip in SBE's favor, and (4) allowing the Revocation Appeal to proceed is in the public's best interest. Accordingly, this Court should therefore deny the Motion.

1. Likelihood of Successful Reorganization

This Court should decline to enter a discretionary stay of the Revocation Appeal because Debtor does not have reasonable prospects of a successful reorganization. Bankruptcy courts require a "reasonable chance of successfully reorganizing" to consider issuing a stay. *Excel*, 502 F.3d at 1097. Here, the only feasible way for Debtor to continue operating HCCS and CICA as continuing charter schools after June 30, 2027, is to obtain a renewal from Twin Rivers. Cal. Ed. Code, § 47607. However, Debtor does not intend to reorganize under its current charter, and instead proposes to seek a new charter under the authorization of the Sutter County Board of Education (Sutter County). Motion MPA, 27 (citing Raymond Decl., ¶ 56). While there are limited and statutorily defined bases for a charter school to be treated as a "continuing" charter school under a new chartering authority, rather than being a newly established charter school, these bases do not apply here. Cal. Educ. Code, §§ 47607.5, 47605(k)(1)-(2) (basis 1), 47653, 47654, 47605(a)(5)(E) (basis 2). Accordingly, if the proposed charter with Sutter County were to be approved, it would be a wholly new charter school under Education Code section 47605 for all purposes, including funding, accountability, and oversight, with a new charter number, new

county-district-school (CDS) code, and a different charter petition to follow. Cal. Educ. Code, § 47602(a), 47604.32; 47604.33(a)(1); 47605(a) and (c)(5)(N).

The establishment of schools under a new charter school in a different county is not a reorganization, it is the creation of an entirely new school operating as a different legal entity with a new charter number and new CDS Code. *See* Cal. Educ. Code, § 47605(a) ("petition for the establishment of a charter school"). Notably, Debtor appears to concede the fact that its plan would not be a reorganization, but the "appl[ication] for a *new* charter," and that its current relationship with its chartering authority Twin Rivers "is unsustainable." Motion MPA, 27 (emphasis added); *see also* Raymond Decl., ¶ 56 ("a new charter and new school represents the most viable and sustainable path forward"), ¶ 67. Because Debtor's proposal would involve a wholly new charter school, HHCS and CICA would cease to exist.

Debtor's reliance on *Purdue Pharma L.P. v. Massachusetts (In re Purdue Pharma L.P.)*, 666 B.R. 461 (Bankr. S.D.N.Y. 2024) in inapposite. Motion MPA, 26. *Purdue* held that in the bankruptcy context, the "likelihood of success" factor focuses on "the prospect of a successful reorganization . . . and whether the debtors are substantially more likely to reorganize with the injunction in place." *Purdue Pharma*, 666 B.R. at 469. However, as discussed above, staying the Revocation Appeal has no bearing on Debtor's intent to create an entirely new charter school in a different county. Accordingly, Debtor fails to show that it has a reasonable prospect of reorganizing, and the Motion should be denied.

2. Irreparable Harm

Revocation of charters operated by Debtor would not, as it claims, "end the Debtor's ability to . . . reorganize" because, as detailed above, Debtor does not intend to seek renewal of HCCS or CICA's charters with Twin Rivers in Sacramento County; Debtor seeks to establish an entirely new charter school in Sutter County. Motion MPA, 31. As such, Debtor's contention that "revocation would terminate the Debtor's authority to operate, eliminate its funding that is substantially all of its revenue, force the closure of the Schools, end the educational opportunities for approximately 2,000 current students, and destroy the going concern value that is the premise of any reorganization," is wholly without merit. Motion MPA, 26. Additionally, even if the

Revocation Appeal resulted in the revocation of HHCS and CICA's charters, nothing in California Education Code section 47607(i)(2) prevents SBE from making the revocation effective on a future date. Moreover, and regardless of the outcome of the Revocation Appeal, Sutter County would nevertheless be able to approve or deny a charter petition to establish a new charter school for Debtor based on the requirements of California Education Code section 47605 and its determination that the petition satisfies the legal requirements for the establishment of a new charter school. *See* Motion MPA, 27:25-26. Because Debtor is not intending to reorganize in Sacramento County, whether or not the revocations of HCCS and CICA are ultimately upheld is not critical to the success of its purported "reorganization," and Debtor cannot show it will suffer irreparable harm if the Revocation Appeal proceeds.

Additionally, Debtor is not currently receiving apportionment from the state because HCCS and CICA previously received overpayments. Declaration of Jonathan Raymond in Support of Debtor's Emergency Mot. for Entry of Interim and Final Orders ¶¶ 11-13, Dkt. No. 20. For that reason, even if the Revocation Appeals resulted in revocations of HCCS and CICA, Debtor would not be harmed financially by the loss of charters it currently operates. To the contrary, if the Revocation Appeals do not go forward, the public, particularly public school students, would be harmed and thereby suffer injury. Therefore, because Debtor does not plan to reorganize in Sacramento County and is not currently receiving state apportionment, allowing the Revocation Appeal to proceed would not cause irreparable harm to Debtor.

3. Balance of Hardships

The balance of hardships in this matter tips in favor to allow the Revocation Appeal to proceed because Debtor's financial harms are speculative and last only to the end of the current school year, while staying the Revocation Appeal would thwart public policy designed to protect public school students and deter other charter schools from violating the law. A state entity "suffers an 'irreparable injury whenever an enactment of its people or their representatives is enjoined.'" *April in Paris v. Becerra*, 494 F.Supp.3d 756, 771 (E.D.Cal. 2020) (quoting *Independent Living Center of S. Cal., Inc. v. Maxwell-Jolly*, 572 F.3d 644, 658 (9th Cir. 2009)

[vacated and remanded on other grounds]). "[T]his 'abstract form of harm . . . is not dispositive of the balance of harms analysis,'" but should nevertheless be given due consideration. *Id.*

The hardships of governmental units "not being allowed to proceed with their actions in their chosen forums includes harms different in character from the harms normally considered on motions for injunctions under Section 105." *In re First Alliance Mortg. Co.*, 264 B.R. 634, 659 (C.D.Cal. 2001). "As Congress recognized when it created the regulatory and police powers exception, the goals of public policy, punishment, and deterrence may sometimes conflict with the goals of maximizing an individual estate's assets and efficiently processing claims. It is the former goals, which are difficult if not impossible to measure in dollars and cents, that are impaired when a governmental unit loses the ability to enforce its laws in its own forum." *Id.* It is an abuse of discretion to fail to "adequately take into account the hardship to the governmental units of not being allowed to continue with their actions outside the bankruptcy court." *Id.*

The harm to "deterrence in particular . . . must be measured with a broader perspective in mind than these parties alone." *Id.* "[G]overnmental units are entitled to make the choice that, over time, similarly situated [students] benefit more when [charter schools] do not violate the law in part because they know that bankruptcy will not provide a way out when their wrongs are discovered." *Id.*

Here, this Court should permit the Revocation Appeal proceedings to move forward at the SBE November 12-13, 2026 meeting because it would accomplish the goals of public policy (detailed above) and deter other charter schools from violating the law, thereby protecting charter school students. On the other hand, staying the Revocation Appeal would allow charter schools to circumvent the state's responsibility to protect public school students and the public's tax dollars by sanctioning the use of bankruptcy filings to stay pending revocation proceedings while continuing to operate. Debtor spins this windfall as "promot[ing] efficient resolution of complex litigation involving different parties and claims," but such a resolution would be a significant hardship to Defendants' oversight responsibilities. Motion MPA, 31.

Debtor also alleges that "[a]ny delay of the Revocation Appeal will be temporary and ultimately promote a more comprehensive and equitable resolution" of the bankruptcy and

downplays the "[d]eferral of regulatory relief." Motion MPA, 29. This is not so. Regulatory enforcement is a strong interest, both to impose consequences for violating the law and to deter others from violating the law (and thereby harming students) in the future. SBE's hearing of the Revocation Appeal is essential to ensure compliance with the statutory requirements for charter schools, enforce charter school oversight by chartering authorities, and to provide oversight of tax payer funded public education. As such, because the balance of hardships tips in favor of allowing the Revocation Appeal to proceed, the Motion should be denied.

4. Public Interest

Finally, significant public interests are at play in this matter that weigh against granting the requested stay of the Revocation Appeal. A "charter school's compliance with the law, the regulations, and the conditions imposed on its charter can be matters of serious concern to the public and to our public school system." *Cal. Sch. Bds. Ass'n v. State Bd. of Educ.*, 186 Cal. App. 4th 1298, 1326 (2010). Charter schools "are overseen by public 'chartering authorities'", and given the explicit exception to the automatic stay provided by Congress for this type of regulatory action, this Court should allow the Revocation Appeal to proceed as scheduled at the SBE's November 12-13, 2026 meeting to protect the public's interest in charter schools by declining to enter the requested stay. *Woolard v. Thurmond*, 170 F.4th 701, 707 (9th Cir. 2026). The Revocation Appeal, scheduled long before Debtor elected to initiate bankruptcy proceedings, would allow Debtor to circumvent Defendants' regulatory authority and oversight of charter schools simply by initiating a bankruptcy filing.

Moreover, Despite Debtor's assertions, neither HCCS nor CICA are the only schools available to "address the needs of vulnerable populations in the community." Although HCCS and CICA serve an important community in Sacramento and the surrounding areas, these schools are not the only institutions that provide continuing education and career development for the adult population attending Debtor's schools. RJN, Ex. D, Outreach and Technical Assistance Network, California AE Provider Directory; Ex. E, Capital Adult Education, Adult Education Career & Workforce Preparation Fall 2025; Ex. F, School Sites – John Muir Charter Schools.

To the contrary, Sacramento County has many similar schools that could serve those students, not to mention the wide variety of virtual learning options available. Motion, MPA, 30; RJN, Exs. B, C, (similar schools in Sacramento County). The Sacramento area is served by at least 11 different local schools and nonprofits entities which provide a variety of online and in-person adult education classes, including classes for English Language Learner and Adult Basic Education classes. *Id*. Many of these schools offer Career Technical Education partnerships as well, and other exclusive partnership charter schools are available in the area. *Id.*

Finally, as mentioned, in the event HCCS and CICA's charter is revoked as a result of the Revocation Appeal, the SBE has the discretion to make the revocation effective on a future date. Cal. Educ. Code § 47607(i)(2). As such, the public interest weighs heavily in allowing the Revocation Appeal to proceed as scheduled at the November 12-13, 2026 SBE Meeting, and the Court should decline to enter Debtor's requested stay.

CONCLUSION

This Court should deny the Debtor's Motion for a Stay of the Revocation Appeal scheduled to be heard at the November 12-13, 2026 SBE Meeting. The Revocation Appeal is excepted from the automatic stay because it relates to, and seeks to protect, the public welfare. Because this proceeding is excepted from the automatic stay, Section 105 does not apply, and, even if it did, the charters are not assets, and the balance of interests weighs in favor of allowing the Revocation Appeals to proceed so as to protect California's public school students and taxpayer dollars.

Dated: October 27, 2026

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