

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 5, 2007  
POSITION: Oppose  
SPONSOR: City of Chino Hills

BILL NUMBER: SB 789  
AUTHOR: B. Margett

**BILL SUMMARY: Surplus Property: Chino Valley Unified School District**

This bill would authorize the Chino Valley Unified School District (CVUSD) to transfer surplus district property to the City of Chino Hills for an unspecified amount, and would require those proceeds to be deposited into the district's capital outlay fund. The bill further specifies that the transferred property would be used by the city as a park, but would revert in ownership to the school district if the property ceases to be used for parks and recreation purposes. Finally, the bill specifies that CVUSD is not eligible to receive a state bond apportionment for any project associated with that surplus property.

**FISCAL SUMMARY**

The changes proposed in this bill would in effect deny the transfer of this land back to the state, and thus would prevent the state from receiving any revenue associated with the sale or lease of that property. Additionally, because the bill fails to specify that any proceeds derived from this transfer by the district must be applied towards a future project under the School Facilities Aid (SFP) program, the state may fail to recover its 50 percent share of the original purchase price of the property. The combined losses would range into the millions of dollars, based on the 50 percent share of the original purchase price of \$712,140, as well as the current market value of the property.

**COMMENTS**

The Department of Finance is opposed to this bill for the following reasons:

- The bill would deprive the state of receiving property back from CVUSD based on the requirements of current law. In doing so, the state may forgo a potentially significant amount of revenue that could be derived from the subsequent sale or lease of that property. These potential revenues would likely be in the millions of dollars, based on the original appraised value of the land in 1988 (\$1,424,280), as adjusted for subsequent appreciation.
- The bill fails to specify that any proceeds received by CVUSD related to the transfer of this property must be applied to any future project under the SFP program. By failing to do so, this bill has the potential to create a loophole in current law and set a precedent that would allow other school districts to buy land, in part or in whole with state bond funds, and then resell the land for profit at a later date. In the case of CVUSD, the state stands to lose its original 50 percent share contribution towards the purchase of the property, as adjusted by the present day value.

Analyst/Principal (0341) T. Todd	Date	Program Budget Manager Jeannie Oropeza	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

**BILL ANALYSIS** Form DF-43 (Rev 03/95 Buff)

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**ANALYSIS**

## A. Programmatic Analysis

Current law allows school districts to sell any real property belonging to the district that is not needed for school classrooms at the time of the proposed sale. Current law also requires that the proceeds from the sale of surplus property be deposited into the district's capital outlay fund for facilities construction or routine maintenance. To the extent the State Allocation Board (SAB) determines that a district does not have any foreseeable facilities needs for a period of 10 years, a district may also deposit sale proceeds into their general fund for other one-time purposes. However, to the extent that the district does demonstrate additional facilities needs and seeks state bond funds for site acquisition and development, current law requires districts to apply the sale proceeds from any previous sites acquired (with all or a portion of state funds) to the cost of the new site to be acquired.

This bill would:

- Authorize CVUSD to transfer surplus property for an unspecified amount to the City of Chino Hills.
- Specify that the district and city enter into an agreement to establish this property as a park.
- Require any revenue received by the district from this transfer to be deposited into a capital outlay fund pursuant to current law.
- Require the transferred property to revert back to district ownership if the property ceases to be used for parks and recreation purposes.
- Amend current law to specify that the alternative use of the property as a park is consistent with "school purposes" to prevent the property from reverting back to state ownership.
- Specify that the district is not eligible for any bond funding for any project located on the transferred property.

Chapter 1190, Statutes of 1983, SB 549 (Nielsen) authorized the director of the Department of General Services to sell or lease 21.4 acres of state surplus property held by the Department of Fish and Game that was part of the Los Serranos Game Reserve. In October of 1988, approximately 17.2 acres were sold to the CVUSD for 50 percent of market value at that time (\$1,424,280). According to the Assembly Education Committee's analysis, the City of Chino Hills (the bill sponsor) is now interested in acquiring this property to facilitate a joint use agreement that would allow the city and school to jointly provide recreational space for students at Chaparral Elementary School. However, under current law, the land would revert back to state ownership based on the proposed change in use of the property. Thus, the district would not be allowed to transfer the property to the city under current law.

The Assembly's analysis indicates that after acquiring the property, the CVUSD proceeded to build Chaparral Elementary, but has yet to fully develop recreational space for students at the school. It is not clear why the district has failed to do so, whether there is adequate open space for play fields, or whether the district now lacks the financial resources to properly develop that space. Furthermore, although the proposed sale to the city may eventually provide for developed recreational space for students at that elementary school, it proposes an alternative use of the property that is inconsistent with current law, and would deprive the state of receiving ownership for the property as discussed in the fiscal analysis below. Additionally, the bill fails to specify that the CVUSD must apply any proceeds from the sale of this property to any new future state funded school facilities projects (given that it was acquired with 50 percent matching state funds). Failure to do so could result in a precedential loophole being created, relative to current law. The only safeguard currently contained in the bill would prevent the district from receiving bond funding for any project constructed on the transferred site, which would appear to safeguard the state against any requests by CVUSD for Joint-Use program funding.

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B. Fiscal Analysis

According to the Assembly analysis, the 17.2 acres owned by the Department of Fish and Game were sold to the CVUSD in 1988 for \$712,140, or 50 percent of market value. Furthermore, as referenced above, current law requires that the deed for the land shall revert back to the state if the use of the land is changed to a use not consistent with school purposes within 25 years following the initial sale. This bill specifies that the development of the park and use of the park by the district is consistent with the definition of "school purposes." This change would in effect deny the transfer of this land back to the state, and thus would prevent the state from receiving any revenue associated with a subsequent surplus property sale or lease of that property. Additionally, because the bill fails to specify that any proceeds derived from this transfer by the district must be applied towards a future project under the SFP program, the state would fail to recover its 50 percent share of the original purchase of the property. The combined losses would range into the low millions of dollars, based on the 50 percent share of the original purchase price of \$712,140, as well as the current market value of the property.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
	LA	(Dollars in Thousands)							
	CO	PROP	2007-2008		2008-2009		2009-2010		
	RV	98	FC	FC	FC	FC			
6350/Facil Aid	LA	No	-----	See Fiscal Summary	-----			6057	
6350/Facil Aid	LA	No	-----	See Fiscal Summary	-----			6044	
<u>Fund Code</u>	<u>Title</u>								
6044	School Facilities Fund, 2004 State								
6057	School Facilities Fund, 2006 State								