



# Stoneman Site Task Force



Review of December 2008 Findings  
San Marino School Board Meeting – April 27, 2010

# Stoneman Task Force Background

## ▶ **Spring 2008**

- ▶ Strategic Finance Committee reviews Stoneman Situation
- ▶ Committee recommends that the lease with the City be a triple net lease to avoid additional repair costs.

## ▶ **October 2008**

- ▶ Stoneman Task Force formed to make a recommendation as to potential alternatives for the Stoneman Site
- ▶ Task Force recommendation made December 9, 2008 (Attached)
- ▶ Recommendation was essentially...
  1. Retain property and negotiate a more favorable lease with the City or other philanthropic /educational organization (>\$500,000 per year) (however cost to modernize would be well over \$7.5 Million)
  2. Sell or Exchange the property to the City or other philanthropic / educational organization (> \$7 Million)
  3. Sell or Exchange the property to a residential developer (>\$7 Million)

## ▶ **April 2010**

- ▶ Review prior recommendations and in particular the advantages of an exchange versus an outright sale.

# Stoneman – Sale v. Exchange

- ▶ Outright of sale of the property would not allow the district to utilize the funds for operations
  - ▶ Proceeds from the sale of the property must be used for capital expenditures
- ▶ If the District has a party interested in buying Stoneman, then an Exchange of Stoneman property potentially achieves at least two important goals:
  - ▶ Keeps District Invested in Real Estate at a Higher Return – District can exchange Stoneman Property for income producing property at a much higher return than received from the City today.
  - ▶ Generates Increased Funds for Operations– Income producing property will generate substantially greater funds for District operations.
- ▶ **Other Considerations**
  - ▶ The District should consider a sale (exchange) process with a professional broker to generate multiple alternatives – this maximizes the potential value to the School District.

# **Appendix A**

## **Stoneman Task Force Recommendation December 9, 2008**



# Stoneman Site Task Force



Recommendation to San Marino Unified School District  
December 9, 2008

# School Board Charter

The Board of Education desires to make decisions regarding the future of this site, which would provide maximum financial benefit to the District as well as maximum use opportunities.

**Scope of Work:** Evaluate and make a recommendation regarding the optimal use of Stoneman's space/site with the key objective being sustainable income. Work will include feasibility and timing expectations of any projected funds.

# Task Force Participants

## Community Members

- ▶ Kevin McDonnell – Co Chair
- ▶ Greg Forgatch – Co Chair
- ▶ Mustapha Baha
- ▶ Ann Brazil
- ▶ Frank Bryant
- ▶ Darbin Chan
- ▶ Isaac Hung
- ▶ Dave Lipps
- ▶ Steve Silk
- ▶ John Semcken

## District and Board Participants

- ▶ Chris Norgaard
- ▶ Joseph Chang
- ▶ Gary Woods
- ▶ Julie Boucher

# Working Assumptions

- ▶ The District has no plans to use Stoneman as a comprehensive school site
- ▶ The District does not have capital funds to invest in Stoneman to bring it up to modern standards for school or other uses.
- ▶ Any foreseeable increases in student enrollment could be absorbed by the current active school sites
- ▶ The District currently spends at least \$300,000 on deferred maintenance and capital projects each year

# Legal Considerations

- ▶ **The Education Code prescribes very specific procedures for disposition, lease, exchange and joint use of property by a School District.**
- ▶ **Property sold or “leased” by the District needs to follow surplus property procedures**
  - ▶ Requires formation of 7-11 advisory committee to make formal recommendation to the Board of Education
- ▶ **Disposition of property may trigger Naylor Act**
  - ▶ Recreational site must be offered to other governmental agencies (City, county, etc) at a discount.
  - ▶ Whether the Stoneman sites would be considered a recreational site falling under the Naylor act is an open issue and not within the scope of the Task Force’s analysis
- ▶ **Use of Proceeds**
  - ▶ Lease or Sale proceeds could not be used as operating funds and must be deposited into the District’s Capital Account and/or Deferred Maintenance Budget
- ▶ **Exchange of property potentially avoids surplus property procedures**
  - ▶ However, rental income from new property would have to go into capital account

# Other Considerations

## From the School District's Perspective.....

### ▶ **Below Market Return on \$7 Million Asset**

- ▶ Currently the School District nets approximately \$120,000 per year from the Stoneman Site.
- ▶ The net income from Stoneman represents less than a 2% return
- ▶ Expected return on real estate assets is 7% to 8% or \$500,000 to \$550,000 NOI (Net Operating Income) per year.
- ▶ The District receives 3% on invested funds (\$210,000 on \$7 Million invested)

### ▶ **Substantial Deferred Maintenance Over Hang**

- ▶ Facility assessment completed by the District's architectural firm (Carmichael-Kemp Architects) in December 2007 estimated cost to modernize (structural, electrical, ADA, life/safety) Stoneman was over \$7.5 Million. If it were to be demolished and rebuilt, the costs would exceed \$15 Million.

### ▶ **Repair Cost Exposure**

- ▶ The District's ability to continue leasing the Stoneman Site is dependent upon no major structural issues which require repair.
- ▶ If repairs are required, the District may have to make a capital investment and/or discontinue leasing the facility.

# Other Considerations

## From the Community's Perspective.....

- ▶ **Programs provided by the City of San Marino on the Site provide an important service to the community**
  - ▶ Pre School
  - ▶ Before and After School Day Care (which benefits the current student population)
  - ▶ Recreation Department
  - ▶ Work Programs
- ▶ **Stoneman Site is an asset that should be retained for Community Use**
  - ▶ The Stoneman Site at approximately 3 acres is a valuable piece of real estate
  - ▶ Options to keep the site for community use should be maximized

# Stoneman Site Stakeholders & Interests

<b>Interests</b> →  <b>Stakeholders</b> ↓	Quality of Educational Programs Today	Quality of Educational Programs Future	Maximizing Current SMUSD Capital Funds	Maximizing Current SMUSD Operating Funds	Maintaining Character of Neighborhood	Avoidance of Investments in Stoneman Site	Maintaining Current Stoneman Programs	Conversion of Stoneman for Alternative Recreational Use	Preserving Stoneman as "Historical" Site	Alternative Educational Use of Stoneman	Keep Land for Future Use	Upgrade Stoneman Facility to Modern Standards
San Marino Unified School District	X	X	X	X		X		X				
Children Attending San Marino Schools	X		X	X		X		X				
Parents of Children Attending San Marino Schools	X		X	X		X	X	X				
Teachers within the San Marino Unified School District	X	X	X	X		X		X		X		
Residents of the City of San Marino	X	X		X	X		X	X	X	X	X	
Residents located near the Stoneman Site	X	X		X	X			X	X	X	X	
Children Attending San Marino Schools in the Future		X	X					X			X	
Children Attending Pre School or After School Program at the Stoneman Site							X	X	X	X		
Parents of Children Attending Pre School or After School Program at Stoneman Site					X		X	X				X
San Marino Recreation Department							X	X		X		X
The City of San Marino	X	X		X	X		X	X			X	

# Stoneman Decision Rests on Perspective and Needs of District

Reasons to Keep	Reasons to Sell	Reasons to Exchange
<ol style="list-style-type: none"> <li>1. Continuation of Current Programs at Site</li> <li>2. Hold for future sale at a higher price.</li> <li>3. Alternate User May be Able to Increase Income and benefit the community</li> <li>4. Student Population Increase</li> <li>5. Offer new educational programs (ROP, Transition, etc.)</li> <li>6. Sentimental / Historical Attachment</li> </ol>	<ol style="list-style-type: none"> <li>1. Generate \$7M of Cash for capital funds and/or income from investments.</li> <li>2. Expense &amp; Capital Avoidance</li> <li>3. New Owner Can Better Utilize the Property               <ul style="list-style-type: none"> <li>• City</li> <li>• Commercial Development</li> <li>• Residential Development</li> <li>• Other Non-Profits</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. Easier Process</li> <li>2. Remain “invested” in real estate with higher return</li> <li>3. Acquire property via exchange</li> </ol>

# Key Decision-making Criteria

Sustainable Income	Annual funds received by the School District. These funds will be “capital funds” meaning they can be used for capital projects and deferred maintenance.
Capital Funds	Funds in School District's capital account which can be used for capital projects or deferred maintenance.
Cost Avoidance	Avoidance of investment in Stoneman or other owned properties.
Long Term Asset	A real estate asset that can be sold at a later date.
Community Acceptability	How acceptable will each alternative be to the San Marino Community at large.
Feasibility	How feasible is the alternative given the time frame and anticipated financial benefit.
Time Frame	How long will this alternative take to implement.
Community Use	Will this alternative benefit the San Marino Community at large.

# Group Assessment

Option	Alternatives	Use	Sustainable Income	Capital Funds	Cost Avoidance	Long Term Asset	Community Acceptability	Feasibility	Time Frame	Community Use	
Keep	1	Current Lease with City	Current Use	Low	\$0	No	Yes	High	High	Now	Medium
	2	Expanded Lease to City	Expanded Community Use	Low	\$0	Yes	Yes	High	High	Short	High
	3	Land Lease to Developer	Commerical or Senior Living	Medium	\$0	Yes	Yes	Medium	Low	Long	None
	4	New/Add Tenant	Education, Regional Center or Other	Low	\$0	Yes	Yes	High	Medium M=7; H=1	Medium	Medium
Sell for Cash	1	City	Current or potentially expanded use	Low Interest Income	\$6M to \$8M	Yes	No	High H=6,M=1,L=1	Low/Med H=0,M=3,L=5	Medium	High
	2	Residential Developer	10 New Homes	Low Interest Income	\$6M to \$8M	Yes	No	High/Med H=3,M=2,L=3	High/Med H=4,M=2,L=2	Medium L=2,M=6	None
	3	Educational or Philanthropic Entity	Educational, Regional Center or Philanthropic	Low Interest Income	\$6M to \$8M	Yes	No	High H=6,M=1,L=1	Low/Med H=2,M=1,L=5	Long	High H=6,M=1,L=1
	4	Senior Housing Developer	Senior Housing Complex	Low Interest Income	\$6M to \$8M	Yes	No	Med/Low M=4,L=4	Low H=8	Long	None
Exchange for Property	1	Within San Marino	Same Uses as Sell for Cash	Low / Med H=0,M=3,L=5	\$0	No	Yes	Same Rating as Sell	Low	Med /Long M=4 L=4	Same as Rating for Sell
	2	Outside San Marino		Med / High H=4,M=2,L=2	\$0	No	Yes		High H=6,M=2	Short / Med S=6 M=2	
	3	Adjacent to District Property		Low	\$0	No	Yes		Low	Long	

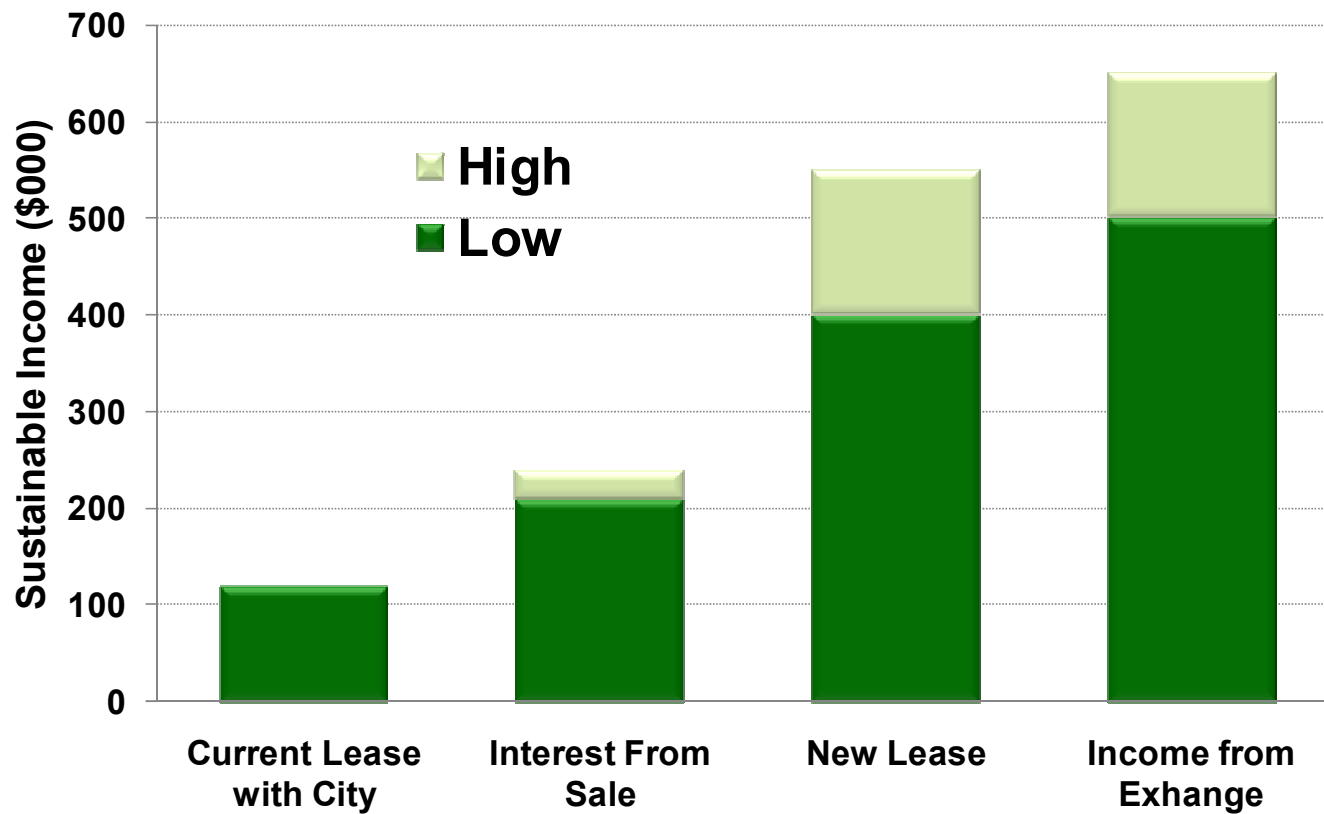
High 500K+  
Med \$250K - \$500K  
Low <\$250K

Short < 1YR  
Med 1YR to 3YR  
Long Over 3 YR

# Summary of Group Assessment

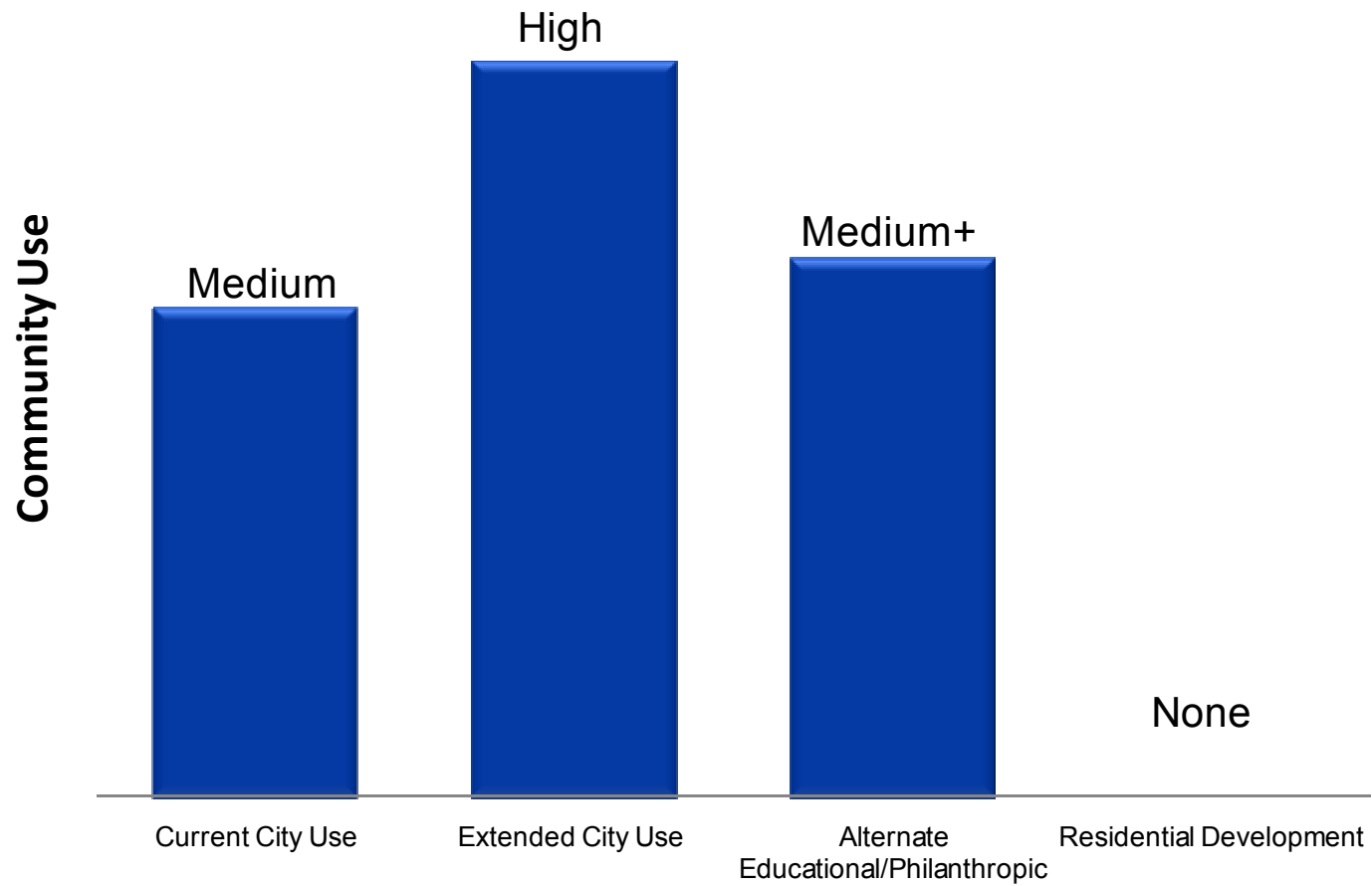
- ▶ Best course of action for the School District rests largely on need and timeframe
- ▶ Status quo represents a below market return on investment to the School District
- ▶ Desire for Stoneman site to remain as community asset even if the school District needs to sell the property
- ▶ Preferred buyer/long term Lessee is the City of San Marino as long as they provide a reasonable price or return
- ▶ The sale of the property to a residential developer is an option that is achievable.
- ▶ While other more community oriented solutions like selling to a philanthropic or educational entity may be appealing, they likely will fall outside the time frame required by the School District.
- ▶ If there is a desire to stay “invested” in real estate, then exchange for other higher income producing real estate should be considered.
  - ▶ Properties outside of San Marino would likely have the highest return

# Sustainable Income



**Note:** The above is only a representation of on-going (sustainable) income and assumes that any sale proceeds are deposited in an interest bearing account. However, the generation of \$7M to \$8M of capital funds provides far greater flexibility than the above chart indicates.

# Community Use



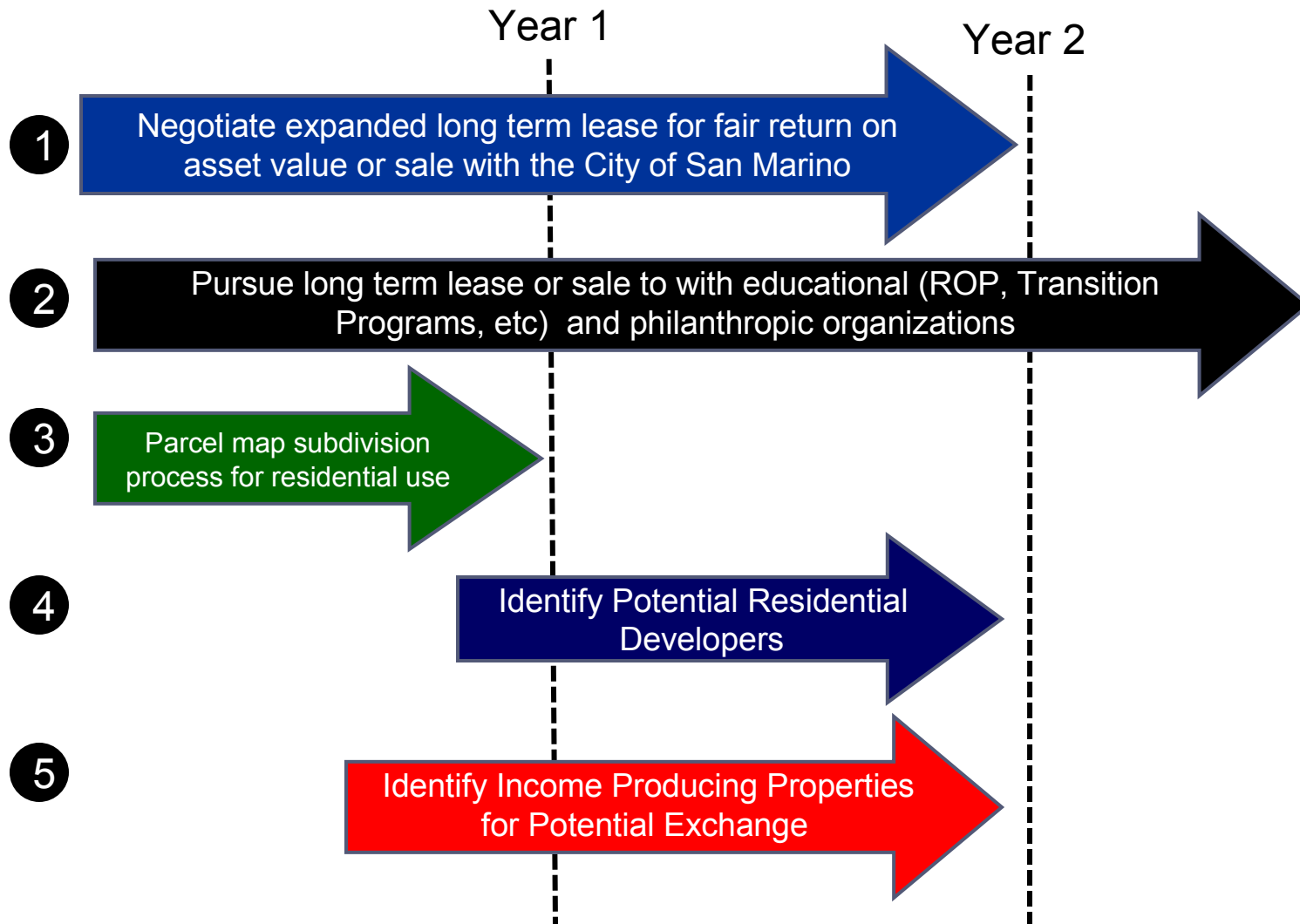
# Recommendation for Stoneman Site

**To best balance the need to generate funds and the desire to maximize use of this valuable community asset, the District should:**

- 1. Attempt to generate more favorable returns on the site by negotiating long-term leases with the City of San Marino, other 3<sup>rd</sup> parties, or philanthropic/educational institutes.**
  - ▶ The threshold level of “favorable “ returns to be determined by the School Board but would approach a current market rate of \$500-550k/year.
  - ▶ Special consideration could be given to establishing a regional center (ROP), should an adequate business plan be advanced.
- 2. Simultaneously begin process of parcel map subdivision for residential use and of identifying income-producing properties for potential exchange.**
  - ▶ Neither of these activities lock the district into a decision, but would lay the ground work for fallback plans.
- 3. Should the district be unable to secure a long-term lessee at an acceptable rate, it should seek to sell the property at an acceptable price within the required timeframe**
  - ▶ City of San Marino is the preferred buyer.
  - ▶ Other philanthropic or educational institutes should be considered if timeframe is acceptable
  - ▶ A Residential developer
- 4. Proceeds from a sale could be invested (3% return) or property could be exchanged to provide a higher return.**
  - ▶ Properties outside of San Marino would likely have the highest return
  - ▶ Remaining invested in real estate is higher risk (same capital investment risk as Stoneman) but provides longer term appreciation.

# Recommendation Timeline

The District should pursue the following paths in parallel:



Concluding remarks.....