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SCHOOL FINANCE - CALIFORNIA

Davis v. Fresno Unified School District

Supreme Court of California - April 27, 2023 - P.3d - 2023 WL 3107288

Taxpayer brought action against school district and contractor alleging that a lease-leaseback agreement for construction of new middle school, which was financed through bond proceeds, violated competitive bidding requirements, rules governing conflicts of interest, and education statutes.

The Superior Court sustained defendants' demurrer and the Court of Appeal reversed in part. On remand, the Superior Court granted defendants' motion for judgment on the pleadings. Taxpayer appealed. The Court of Appeal reversed. Defendants petitioned for review, which was granted.

The Supreme Court held that lease-leaseback arrangement was not a local agency "contract" subject to statutory validation as being inextricably bound to government indebtedness or debt financing; disapproving *McGee v. Balfour Beatty Construction, LLC*, 247 Cal.App.4th 235, 202 Cal.Rptr.3d 251.

A local agency contract is subject to validation under statute providing for an action to determine the validity of a local agency's bonds, warrants, contracts, obligations, or evidences of indebtedness if the contract is inextricably bound up with government indebtedness or with debt financing guaranteed by the agency, and to satisfy this standard, the contract must be one on which the debt financing of the project directly depends.

A lease-leaseback arrangement between school district and contractor for construction of new middle school was not a local agency "contract" subject to statutory validation as being inextricably bound up with government indebtedness or debt financing guaranteed by the agency, where underlying project was fully funded by district's prior sale of general obligation bonds, payment of debt service on bonds was from ad valorem property taxes, nothing in documents that were connected to approval and sale of bonds suggested any link to or dependence upon validity of lease-leaseback arrangement, and nothing in lease-leaseback documentation was concerned with project financing; disapproving *McGee v. Balfour Beatty Construction*, LLC, 247 Cal.App.4th 235, 202 Cal.Rptr.3d 251.

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