SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 1594 (Harabedian) - Surplus nonresidential property: sales by the Department of Transportation: net equity

Version: July 2, 2026
Urgency: No
Hearing Date: August 3, 2026
Policy Vote: TRANS. 12 - 0
Mandate: No
Consultant: Mark McKenzie

Bill Summary: AB 1594 would exempt a qualifying nonprofit organization that purchased a surplus nonresidential property in the State Route (SR) 710 corridor from requirements to pay the Department of Transportation (Caltrans) any owed net equity or other amounts, regardless of any contractual obligations to pay those amounts, as specified.

Fiscal Impact:
- Caltrans indicates that this bill would result in foregone future revenue gains of approximately $7.3 million. Specifically, the bill would defer Caltrans' collection of approximately $7.3 million in net equity associated with a specified nonprofit entity's (Ronald McDonald House's) purchase of three surplus SR 710 properties. The bill would remove the requirement for payment of the net equity at the end of the applicable 30-year period as long as the properties remain in the qualifying use. (State Highway Account or General Fund)

Background: Under existing law, whenever Caltrans determines that real property acquired for highway purposes is no longer necessary, that property may be sold or exchanged upon terms, standards, and conditions established by the California Transportation Commission. If a proposed state highway route location is rescinded, existing law requires Caltrans to sell any excess real property acquired for the rescinded route location and use the proceeds to fund the state highway project that is proposed as the alternative to the rescinded route. Proceeds from the sales of Caltrans surplus property are currently dedicated to transportation-related debt service, partially offsetting General Fund payments.

Caltrans currently owns numerous residential and nonresidential properties that were originally purchased in the SR 710 corridor beginning in 1953 with the intent to eventually remove the structures and construct an extension to the existing SR 710 freeway to close 4.5 mile unconstructed gap between SR 10 in Los Angeles to SR 210 in Pasadena, but the project was mired in considerable controversy over the years and was never built.

Existing law, the Roberti Act, establishes priorities, procedures, and special considerations for the disposition of surplus residential properties in the SR 710 corridor. Caltrans has been disposing of properties pursuant to numerous bills enacted over the past decade. The Roberti Act also specifies procedures for the sale of nonresidential surplus properties in the SR 710 corridor. Specifically, a tenant in good standing of nonresidential properties must be given priority to purchase, at fair market value, the property they rent, lease, or otherwise legally occupy. If the tenant is a city or qualified nonprofit organization, they must be given priority to purchase a nonresidential property at the lesser of fair market value or "value in use" (the value assuming a specific use, that may or may not be the property's highest and best use). Caltrans must not sell a nonresidential property to a city or nonprofit entity tenant at a value below the "minimum sales price," which is defined in regulations as the amount paid by Caltrans to purchase the property, not adjusted for inflation. If a nonresidential property is offered at a price that is less than fair market value, the selling agency must impose appropriate terms, conditions, and restrictions.

The Roberti Act allows for nonresidential properties to be sold for less than fair market value to certain individuals and entities in good standing and contingent on their income levels or based on the services provided on the property. One tool used by Caltrans to ensure the state remains in compliance with Article 19 of the Constitution, which requires motor vehicle fuel tax proceeds to be spent on specified public street and highway purposes, is including a requirement that the potential owner must pay Caltrans the "net equity" (the difference between fair market value and the sales price) sometime in the future (typically 30 years). Currently there are several public entities and nonprofit organizations engaging with Caltrans to purchase nonresidential properties for below fair market value where net equity is also being discussed.

Proposed Law: AB 1594 would exempt a "qualified tenant" from paying any owed net equity or other amounts owed to Caltrans that are specified in a contract to purchase surplus nonresidential property in the SR 710 corridor, regardless of any contractual obligations to pay those amounts. However, a qualifying nonprofit entity must repay any amounts not repaid under the bill upon either the sale of the property or if the qualified tenant no longer qualifies as a nonprofit organization. The bill further specifies that these provisions are retroactive and apply to any contracts entered into between Caltrans and a qualified tenant.

AB 1594 defines "net equity" as the difference between the fair market value at time of purchase and the price paid for the surplus nonresidential property. The bill also defines "qualified tenant" as a tax-exempt nonprofit organization that operates multiple residential structures primarily for the purposes of familial habitation during medical treatment and related administrative activities.

Related Legislation: AB 2329 (Fong), which is currently pending in this Committee, would make specified changes to the Roberti Act to further facilitate the sale of surplus residential property in the SR 710 corridor. Specifically, the bill would require sales prices to be based upon "conditional fair market value" that reflect the value as of 2019, adjusted to reflect the "as is" condition of the property and amounts needed to repair the property, as specified.

AB 1038 (Fong), Chap. 347/2024, revised the regarding the terms and conditions for acquiring surplus property from Caltrans in the City of South Pasadena, and required that the proceeds from the subsequent sale of those properties be used for affordable housing purposes, as specified.

SB 959 (Portantino), Chap. 668/2022, made specified changes to the Roberti Act, including authorizing the sale of properties to the City of Pasadena at original purchase price, without inflation adjustment, if those properties are used for low- and moderate-income housing, as specified.

SB 51 (Durazo), Chap. 130/2021, included the following changes to the Roberti Act: revised the priorities and procedures governing the sales of SR 710 properties within the City of Los Angeles; required properties sold to housing-related entities in Los Angeles to be offered in as-is condition at Caltrans original purchase price, not adjusted for inflation; and required Caltrans to adopt emergency regulations.

SB 7 (Portantino), Chap. 835/2019, among other things, required Caltrans to offer surplus nonresidential property it owns in the SR 710 corridor at fair market value based on its current use, if it is sold to a city or nonprofit organization.

SB 580 (Liu), Chap. 709/2016, made specified changes to the Roberti Act governing the sale of surplus residential properties in the SR 710 corridor to specify procedures for the sale of historic homes, and to allow for the resale of certain properties purchased by a public housing entity, under specified circumstances.

SB 416 (Liu), Chap. 468/2013, made numerous changes to the Roberti Act, including a requirement that properties sold at fair market value be offered in as-is condition, and requiring proceeds from residential property sales be deposited into the SR 710 Rehabilitation Account and State Highway Account for SR 710 property rehabilitation purposes and local transportation projects, as specified.

Staff Comments: According to the Senate Transportation Committee's analysis:

> The provisions specified in this bill exempt one nonprofit organization currently engaging / negotiating with Caltrans to purchase three properties on the SR 710 corridor from being obligated to pay any additional dollar amount beyond the determined "value in use" price which is notably less than the FMV price. The nonprofit, the Ronald McDonald House, uses these properties to both house families that have children with serious medical conditions that are locally hospitalized and also for organizational / administrative functions. The net equity on these combined properties is approximately $7.3 million. If this bill was enacted, the Constitutional impacts are unclear should these funds not ultimately be required to be paid back to the Highway Users Tax Account. Moreover, while there is no question that the services provided by the Ronald McDonald House are honorable and significant, an exemption for one organization is unclear as multiple other nonprofit organizations, several cities, and qualified low-income individuals will continue to be held to net equity requirements when purchasing properties on the SR 710 corridor.

Staff notes that the potential future revenue losses related to this bill could result in an impact to the General Fund, rather than the State Highway Account. Specifically, proceeds from the sale of excess Caltrans properties are currently being used to offset General Fund payments for transportation-related debt service, so any future revenue losses attributable to the bill could result in a commensurate increase in General Fund expenditures.

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