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**ENDORSED
FILED**
San Francisco Court
NOV 18 2010
CLERK OF THE COURT
BY: CHRISTLE D. ARRIOLA
Deputy Clerk

6 *Attorneys for Petitioners/Plaintiffs*

7
8 **IN THE SUPERIOR COURT OF CALIFORNIA**
9 **IN AND FOR THE COUNTY OF SAN FRANCISCO**

11 **JERRY B. EPSTEIN, individually,**)
and as a taxpayer; and,)
12 **A. REDMOND DOMS, individually,**)
and as a taxpayer,)

CASE NO. **CEC-10-505436**

14 **Petitioners/ Plaintiffs,**)

**DECLARATION OF
JERRY B. EPSTEIN IN SUPPORT OF:**

15 **vs.**)

1. **PETITION FOR WRIT OF
MANDATE; AND**
2. **COMPLAINT FOR INJUNCTIVE
AND DECLARATORY RELIEF**

16 **ARNOLD SCHWARZENEGGER,**)
Governor of the State of California,)
17 **sued in his official capacity;**)
18 **RON DIEDRICH, Acting Director of**)
the Department of General Services,)
19 **sued in his official capacity;**)
20 **DEPARTMENT OF GENERAL**)
SERVICES; and DOES 1 through 50,)
21 **inclusive,**)

22 **Respondents/Defendants.**)

COPY

1 I, **Jerry B. Epstein**, declare:

2 1. I am a Petitioner/Plaintiff in this matter and I make this declaration in
3 support of the Petition for Writ of Mandate and Complaint for Injunctive and Declaratory
4 Relief regarding the planned sale of eleven state-owned office building complexes.

5 2. I am a taxpayer of the state of California, and a resident of Los Angeles
6 County. I have paid taxes in the state of California for many years, and certainly in
7 excess of the one year required by Code of Civil Procedure § 526a.

8 3. Beginning in 1983, I served on the Los Angeles State Building Authority
9 (the "Authority") – a three-person body established to plan, finance and oversee the
10 construction and management of state office facilities in downtown Los Angeles. Two
11 members of the authority are appointed by the governor; the third is appointed by the Los
12 Angeles Community Redevelopment Agency. There are similar entities in other
13 California cities.

14 4. Until March 17, 2010 I served as the President of the Los Angeles State
15 Building Authority.

16 5. Neither I nor my colleagues were consulted prior to passage of ABX4 22,
17 despite the fact that the legislation directly affects government office buildings in Los
18 Angeles that fall under the jurisdiction of the Authority. Upon information and belief,
19 none of the other building authorities (such as in San Francisco and Oakland) were
20 consulted either.

21 6. On February 27, 2010, at my direction, Mr. Arlen R. Gunner, Esq., as
22 counsel to the Authority, asked the Department of General Services ("DGS") to provide a
23 market study and to clarify the terms proposed by the Schwarzenegger administration for
24 the sale of the eleven properties. The Authority asked for a comparison of the projected
25 net proceeds from the sale and the projected rental and other costs associated with a
26 20-year leaseback of the same buildings. The Authorities' letter to DGS made it clear
27 that the Authority has a fiduciary responsibility to the bondholders as well as to the
28 taxpayers of the state and that no formal decision by the authority would be made until it

1 could hear testimony about the proposed sale, thereby ensuring that the benefits and costs
2 of the proposed transaction had been fully vetted. Attached hereto as Exhibit A is a true
3 and correct copy of Mr. Gunner's February 27, 2010 correspondence to Mr. Doug Button
4 of the DGS.

5 6. Three weeks after the inquiry I received a terse two-sentence letter signed
6 by Ronald Diedrich, the Acting Director of the DGS, which stated: "This is to formally
7 advise you that as of March 17, 2010, I have appointed new members to the governing
8 board of the Los Angeles State Building Authority and decided not to reappoint you.
9 Your prior services have been greatly appreciated." I was summarily dismissed after
10 serving on the authority for nearly thirty years and the DGS refused the Authority's
11 request for information -- in fact, it even refused to disclose the location of the escrow.

12 7. Attached as Exhibit B is a true and correct copy of an article that I wrote for
13 the Los Angeles Times, dated April 6, 2010, which discusses the proposed fire sale of
14 state buildings.

15 I declare under penalty of perjury under the laws of the State of California that the
16 foregoing is true and correct, and that this declaration was executed in Marina Del Rey
17 California on November 15, 2010

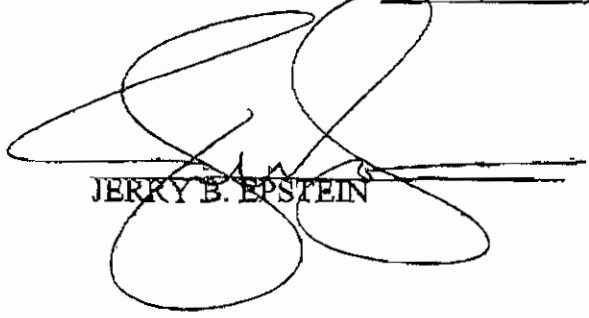
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JERRY B. EPSTEIN

Exhibit 1



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Suite 1100
Los Angeles, CA 90067
(310) 277-8011 **PHONE**
(310) 277-1706 **FAX**
www.vrmlaw.com

Via Fax

February 27, 2010

Mr. Doug Button
Real Estate Services Division
Department of General Services
State of California
707 3rd Street, 5th Floor
West Sacramento, CA 95605

Re: Proposed Sale of Ronald Reagan and Junipero Serra Buildings

Dear Mr. Button:

Thank you for meeting with Jerry Epstein, David O. Levine (of Mr. Epstein's personal staff), and me on February 3, 2010, at Mr. Epstein's office. At that time you requested Mr. Epstein to convene a meeting of the Los Angeles State Building Authority ("Authority") for the purpose of retaining bond counsel with the intent to authorize the sale of the above referenced office building in the near future.

As we discussed, prior to convening such a meeting, it is Mr. Epstein's request, on behalf of the Authority which he chairs, that the Department of General Services prepare and provide to the Authority (and interested members of the public) a complete economic analysis of the pros and cons of the proposed sale of each of the above referenced buildings.

I would like to point out that the original Joint Exchange of Powers Agreement which created the Authority required the Authority to determine that the financing, construction, and long-term ownership of these buildings by the Authority (and ultimately the State) were economically feasible. The members found it was in the best long-term interest of the State to own, rather than to lease, and, consequently the buildings were completed and leased to the the State of California.

It is my understanding that the bonds which encumber the Ronald Reagan State Office Building are scheduled to be paid off in May 2011. Given the history surrounding the creation of the Authority, it is both logical and appropriate for the Authority to take part in a transparent process which reviews the short-term and long time implications of a proposed sale of either or both of the above referenced buildings prior to any irrevocable decision by the Authority and the Department of General Services.



In your analysis, as we discussed, Mr. Epstein trusts the Department of General Services will provide a "market study" which delineates the projected effective rent and other provisions of the State's proposed lease for each building and which compares such lease terms with the current "market" for prime office space in downtown Los Angeles. For example, such study should address for each building:

- the amount of rent the State is willing to pay, and the current rent for specific comparable properties in downtown Los Angeles;
- whether the proposed lease will be a "triple net" lease;
- whether rent the State is prepared to commit to pay will be based on usable or rentable square feet;
- which party will be responsible for maintenance and capital improvements, and the proposed standards for repair or replacement; and
- any allowance for tenant improvements as the needs of various state of agency occupants in these buildings change over the life of the lease.

The Authority expects that the Department will also provide a comparison of the projected net proceeds from the sale of each of these buildings and the projected rental and other costs associated with a 20-year lease of each of these same buildings.

Given the fact that after all of the bonds that currently encumber the Ronald Reagan State Office Building are paid in full, title to that building will vest in the State "rent-free" during the 2010-2011 fiscal year, we request an analysis as to the impact of the proposed sale on both the State's deficit level of indebtedness, as well as, on the State's future operating expenses. This analysis should be measured and weighted in light of the size of the current and projected State budget deficits.

It would also be helpful if the State provided the Authority with a discussion of the contemplated sale process. Please define the compensation, role, and responsibilities of CB Richard Ellis. Please address the question of whether the State will establish a minimum acceptable sales price for each of these two buildings.

Finally, as you are aware, the meeting you have requested is subject to the Ralph M. Brown Act and must be publicly noticed, and the requested study be made available as part of the Authority's agenda. You are also aware that the Authority is still waiting for confirmation of the appointment of the third member of the Authority who is appointed by the Community Redevelopment Agency of the City of Los Angeles. Please let me know when you believe the foregoing appointment is made and when the requested information will be ready for distribution, so that we can proceed with scheduling the meeting of the Authority.



As an Authority member, Mr. Epstein has a special obligation, not only to the bondholders, but to the State and its citizens to take actions that are in the best economic interest of the public. Thus, as time is of the essence, please complete an accurate analysis of the foregoing within five business days of your receipt of this letter. Thank you for your cooperation in this matter.

Very truly yours,

A handwritten signature in cursive script that reads 'Arlen R. Gunner'.

Arlen R. Gunner, Esq.

Counsel to the Los Angeles State Board Authority

Cc: All Members

Exhibit 2

← Back to Original Article
Opinion

State should keep ownership of its buildings

Its plan to sell office buildings and then rent space in them -- a decision made without public hearings or expert advice -- is yet another accounting gimmick that will cost taxpayers in the end.

April 06, 2010 | By Jerry B. Epstein

Imagine you are deeply in debt. But you are also less than a year away from paying off the mortgage on a nice home that you want to continue living in. Someone comes in and offers you enough money to pay off a small portion of your outstanding bills if you will sell them your house. As part of the deal, you would have to live in the house for 20 years, paying rent to the new owners that would amount to many times what you were paid for the house. Would you do it? Not likely.

Yet, late last summer, with little study and without public hearings or input from the real estate experts who serve on the relevant state building authorities, Gov. Arnold Schwarzenegger and the Legislature agreed to sell 11 state office building complexes, including the Ronald Reagan and Junipero Serra state buildings in downtown Los Angeles. The decision was made as part of a deal to close the state's \$20-billion 2009-10 budget deficit. Today this fire sale is moving forward, common sense notwithstanding, and it's happening at a time when prices for commercial real estate are in a severe slump.

For 30 years, under Democratic and Republican governors, the state has lowered the cost of office space for its courts, employees and agencies by constructing state-owned buildings. Most of the buildings on the "for sale" list are paid off or nearly paid off. By selling off and then leasing back these state office buildings, California is obligating itself to pay market rent for the next 20 years, with no anticipated new revenue to pay for it.

Worse still, even if the state gets the price it's hoping for on the buildings, the estimated net proceeds of about \$650 million will be enough to cover only a few years' worth of future rent payments. And getting a good price is a big if. California's recent attempt to sell the Orange County Fairgrounds fell apart last month when the state rejected the highest bid it got -- \$56.5 million. The bid was much lower than the state's estimated value of the property, which was between \$96 million and \$180 million.

I have a personal stake in seeing this foolish plan tabled. Since 1983, the first year of George Deukmejian's two terms as governor, I have served on the Los Angeles State Building Authority, a three-person body established to plan, finance and oversee the construction and management of state office facilities in downtown Los Angeles. Two members of the authority are appointed by the governor; the third is appointed by the Los Angeles Community Redevelopment Agency. There are similar entities in other California cities.

These joint powers authorities were established for many reasons, not the least of which is that the state thought it made good sense to have people with practical experience overseeing the design, financing, construction and management of large state buildings.

For nearly three decades, the authority has carried out its mission, completing two state office buildings. Before construction of the Ronald Reagan and the Junipero Serra buildings, the state was paying more than 75 landlords all across Los Angeles County millions of dollars in rent. The construction of the buildings reduced costs and greatly increased efficiency, since more than 50 state agencies could now be housed just a few blocks apart. The buildings also served as a catalyst for the renaissance of downtown Los Angeles.

To finance construction, the state issued lease revenue bonds, so that once the bonds are paid off, the state will own the buildings free and clear. In May 2011, the bonds that financed the Ronald Reagan State Building are scheduled to be paid off.

Neither my colleagues on the authority nor I were consulted before this dubious scheme was hatched, though the authority's cooperation is necessary for the execution of the sale of the Reagan and Serra buildings. In late February, at my direction, counsel to the Los Angeles State Building Authority asked the Department of General Services to provide a market study and to clarify the terms proposed by the Schwarzenegger administration. We asked for a comparison of the projected net proceeds from the sale and the projected rental and other costs associated with a 20-year leaseback of these same buildings. Our letter made it clear that the authority has a fiduciary responsibility to the bondholders as well as to the taxpayers of the state, and that no formal decision by the authority would be made until it could hear testimony about the proposed sale, thereby ensuring that the benefits and costs of the proposed transaction had been fully vetted.

Three weeks later, I got my response in a terse two-sentence letter signed by Ronald Diedrich, acting director of the state Department of General Services: "This is to formally advise you that as of March 17, 2010, I have appointed new members to the governing board of the Los Angeles State Building Authority and decided not to reappoint you. Your prior services have been greatly appreciated." Earlier in March the governor-appointed members of the San Francisco State Building Authority were also summarily dismissed. They, too, were skeptical of Schwarzenegger's plan.

At 86 years old, I am not personally concerned about having been fired. I have served on the authority for nearly 30 years and never received a penny for my services and time.

But I am concerned that we taxpayers may have no refuge from the poor judgment and dysfunction of our state government. Short-term solutions and accounting gimmicks like the proposed sale of state buildings have long-term consequences. The governor and legislators should fix the state's budget problems we face through thoughtful, structural solutions, not carelessly conceived, short-term political fixes that will cost us all more in the long run.

Jerry B. Epstein is the former president of the Los Angeles State Building Authority and a developer in Marina del Rey. He has also served as president of the

Los Angeles Board of Airport Commissioners and chairman of the California Transportation Commission.

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