

Orange Unified School District Statement Regarding the Walnut Property

Orange Unified School District provides the background information and context regarding the District's Walnut Property located adjacent to Santiago Middle School. The District currently owns approximately 9.77 acres of land located adjacent to Santiago Middle School on N. Rancho Santiago Blvd., in Orange, California 92869, known as the "Walnut Site". A portion of the Walnut Site has been leased to Burl Gregory for uses limited to a palm tree farm. The Palm Farm Lease was entered into July 1, 1993 between the District and Burl Gregory, doing business as Gregory Palm Farm, ("Gregory") and includes a provision that allows the District to terminate the Lease with 180-days written notice to Gregory.

Like many school districts in California, the District has had to contend with budget and monetary concerns. In an effort to ensure the District is doing all it can to make the best use of its resources, the District formed an Advisory Committee, pursuant to the California Education Code, to assess the District's property. On July 24, 2008, the District Advisory Committee submitted a report to the Board concluding that the Walnut Site was not needed to house District students and was not necessary for school purposes. The District passed a resolution to declare the Walnut Site surplus property and authorize the sale of the Walnut Site. Thus, the District initiated the surplus property sale procedure set forth in the Education Code to find parties interested in purchasing the Walnut Site. Specifically, the Education Code requires the District to conduct a public bid hearing where interested parties can submit bids and the District selects the highest bidder. The District issued notices to the public of its intent to sell the Walnut Site and held a bid hearing on September 10, 2014.

Shopoff Realty Investments

At the bid hearing, Shopoff Realty Investments ("Shopoff") submitted the highest written bid at \$20,000,000. The next highest bidder was D.R. Horton, Inc. with a bid of \$14,500,000.00. Although oral bidding was opened at the public, the Education Code requires that the first oral bid must be 5% higher than the highest written bid. No bidders were willing to start the oral bidding at 5% higher than Shopoff's \$20,000,000 written bid. Thus, the District accepted Shopoff's bid and the parties entered into a Purchase and Sale Agreement on September 16, 2014 for the bid price offered by Shopoff. The Purchase and Sale Agreement established a due diligence period during which time Shopoff reviewed the Walnut Site and could terminate the Purchase and Sale Agreement.

Shopoff's proposed plan was to develop the Property in a manner that required two access points instead of a single access point as provided by the lot line adjustment included in the bid package. Based on information provided to the District, the District believes the Walnut Site can be developed with a single access point. Development decisions by Shopoff are outside of the District's control. During the due diligence period, the District learned that Shopoff and Gregory entered into separate discussions regarding the Walnut Site to provide for a second access point that Shopoff desired and which crossed through a portion of the Gregory's property in exchange for Shopoff giving the Gregory's a portion of the Walnut Site to use for parking for their wedding business. The District was not part of these discussions and had no involvement in the negotiations between Gregory and Shopoff. Shopoff asked the District to rescind the District notice of termination of the Palm Farm Lease to allow for Shopoff to continue negotiating with Gregory. The District complied with the request and rescinded the Lease termination notice on March 13, 2015.

On August 17, 2015, Shopoff sent the District a notice of disapproval of due diligence for the Walnut Site and termination of the Purchase and Sale Agreement. This was a unilateral action by Shopoff over which the District had no control. In September 2015, Shopoff asked the District to "reinstate" the Purchase and Sale Agreement with revised terms including a reduction of the purchase price from \$20,000,000 to \$16,500,000. The Board was not willing to consider reinstatement of the Purchase and Sale Agreement with price reduction requested by Shopoff. Since the District was no longer under a contract with Shopoff for the sale of the Walnut Site, the Board gave direction in September to issue a Notice of Cancellation to Gregory in accordance with the terms of the Lease. The Notice of Cancellation was sent to Gregory on September 16, 2015 with the Lease now scheduled to terminate on March 15, 2016.

Shopoff has more recently asked the District to restate the Purchase and Sale Agreement but with a further reduction in the purchase price to \$16,000,000 with the potential for the price to be reduced even further to \$15,000,000 under certain conditions. Shopoff's proposal was presented to the Board. However, the Board was not willing to consider reinstatement of the Purchase and Sale Agreement with the requested price reduction. When selling surplus property, the District has a duty to obtain the best possible price and terms to benefit the District and its students. The District notified Shopoff that its proposal would not be considered but invited Shopoff to submit another bid if the District holds a future bid hearing.

Gregory Palm Farm and Jones Victorian Estate

Concurrent with Shopoff's recent request for the District to reinstate the Purchase and Sale Agreement, Gregory has requested an extension to the Palm Farm Lease. The District understands from Gregory that the request for the extension was prompted largely because the Jones Victorian Estate wedding business has apparently been using a portion of the Walnut Site for parking for the past twenty years and they wanted to continue this use. The Jones Victorian Estate wedding business is not authorized under the Palm Farm Lease to use the Walnut Site for parking purposes. Moreover, Jones Victorian Estate has never provided compensation of any sort to the District for this unauthorized use of District owned property.

Although, the District is not willing to extend the Palm Farm Lease due to its continued desire to sell the Walnut Site, the District was willing to discuss a one-year license arrangement that would allow the Jones Victorian Estate wedding business to use a portion the Walnut Site for parking and which could have included the possibility for the license to extend beyond the one-year term if both parties agreed. The District was willing to accept an easement over the Gregory's property in lieu of payment for the past twenty years of unauthorized use by Jones Victorian Estate as well as future use under a license agreement. However, the Gregorlys have indicated they are not interested in discussing a license arrangement.

The District has an obligation to manage District assets in its best interests. While we can sympathize with the Gregory's desire to use the Walnut Site for its wedding business, without a contract to allow the Jones Victorian Estate wedding business to use District Property for parking, the District cannot allow this use to continue.

Date: February 22, 2016