

Investors Say Calif. Breached Property Sale Deal

By **Hilary Russ**

Law360, New York (March 11, 2011, 7:36 PM EST) -- An investor group is suing the state of California for allegedly reneging on a hard-won deal in which it agreed to sell off 11 publicly owned properties for \$2.3 billion amid the state's fiscal crisis.

California First LP launched its suit Thursday in the Superior Court of the State of California, County of Los Angeles, claiming that it had already made a \$55 million cash deposit toward the purchase agreement and seeking a ruling forcing the state to fulfill the terms of the contract.

Facing an ever-worsening budget shortfall that has now reached at least \$25 billion, California lawmakers authorized the state to sell the buildings it owned in order to raise money, according to the complaint.

More than 300 bids flooded in, and in late 2010, the California Department of General Services signed a binding agreement to sell the properties to the investor group for \$2.3 billion, California First says.

The 31-page contract, inked while then-Gov. Arnold Schwarzenegger was still in office, called for the investor group to then lease the properties back to the state.

But months later and without warning, newly-elected Gov. Jerry Brown "in a sudden and unprovoked turn of position" declared at a Feb. 9 press conference that the deal was dead and that the state would not go through with the contract, the suit says.

"No matter what political motivations inspired Gov. Brown to repudiate the contract, a deal is a deal and defendants bear the legal obligation to remediate the harm caused to California First," the suit said.

At the time, Brown said his decision to cancel the sale of the state properties would save taxpayers in the state \$6 billion over the next 35 years.

"The sale and leaseback proposal was shortsighted and would have cost taxpayers billions of dollars in the long-run," Brown said in a Feb. 9 statement.

Eric Lamoureux, spokesman for DGS, called the suit frivolous and wholly without merit.

"We are confident we will prevail when the facts surrounding California First's actions under the

purchase and sale agreement are brought out in court," Lamoureux said.

The investor group's breach of contract suit said that if the court won't force the state to go through with the deal, it should award general and compensatory damages, legal costs, pre-judgment interests and other relief.

The announcement of the sale prompted a lawsuit in November by two former members of the Los Angeles State Building Authority Governing Board who claimed the deal was illegal.

California First is represented by Stuart A. Liner, Angela C. Agrusa and Kim Zeldin of Liner Grode Stein Yankelevitz Sunshine Regenstreif & Taylor LLP.

The case is California First LP v. California Department of General Services et al., case number BC457070, in the Superior Court of the State of California, County of Los Angeles.

--Editing by Andrew Park.