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PRESS ★

**REVIEW OF OPERATIONS AND
MANAGEMENT OF THE CALIFORNIA
STATE EXPOSITION AND FAIR**

PART II

**HEARING
BEFORE THE
COMMITTEE ON
EFFICIENCY
AND
COST CONTROL**



**ECC 72-5
MAY 1, 1972**

CALIFORNIA STATE ASSEMBLY

COMMITTEE ON EFFICIENCY
and
COST CONTROL

ASSEMBLYMAN MIKE CULLEN, CHAIRMAN

ASSEMBLYMAN ERNEST MOBLEY, VICE CHAIRMAN

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JUDY CHAIX, RESEARCH ASSISTANT

DEAN CROMWELL, LEGISLATIVE INTERN

MARGARET CUMMINGS, COMMITTEE SECRETARY

TERRY STATHOS, STAFF SECRETARY

STATEMENT OF PURPOSE

The Assembly Committee on Efficiency and Cost Control shall exercise general legislative oversight in order to determine the extent to which programs, policies and actions of government fall within and adhere to the expressed intent of the Legislature, including but not limited to the:

- I. Determination of programs which duplicate or overlap other programs in existence; the
- II. Determination of programs which no longer fulfill an intended or necessary need; the
- III. Determination of agencies which are conducting programs or functions not within the intent of the Legislature; and the
- IV. Determination of agencies failing to conduct programs or functions intended by the Legislature.

LETTER OF TRANSMITTAL


State Capitol
Sacramento, California
May 1, 1972

The Honorable Robert Moretti
Speaker of the California Assembly
State Capitol
Sacramento, California 95814

Dear Mr. Speaker:

Your Committee on Efficiency and Cost Control hereby
transmits its second hearing record on the subject of
the California State Exposition and Fair.

Respectfully,

A handwritten signature in dark ink, appearing to read "Mike Cullen", written in a cursive style.

MIKE CULLEN
Chairman

CONTENTS

Hearing on Tuesday, January 18, 1972	Page 1
Statement of Clifford, Jack, Member, California State Exposition and Fair Executive Committee	 43
Nissen, Ralph, Chairman, California State Exposition and Fair Executive Committee; accompanied by Mr. Thomas Bair, Manager, California State Exposition and Fair, Mr. Dave Kelts, Controller, California State Exposition and Fair, and Dr. H. C. Sanderson, Member, California State Exposition and Fair Executive Committee	 49
Payne, William, Executive Officer, Public Employees' Retirement System; accompanied by Mr. Stan Fowler, President, Board of Administration, Public Emp- loyees' Retirement System, and Mr. Carl Halterman, Mortgage Loan Officer, Public Employees' Retire- ment System	 1
Robinson, Lawrence, Jr., Director, Department of General Services; accompanied by Mr. Arthur Collins, Assistant Director, Department of General Services, and Mr. Emil Relat, Chief Counsel, Department of General Services	 65
Hearing on Tuesday, February 1, 1972	82
Statement of Melarkey, Dr. Pat, Chairman of the Sacramento County Board of Supervisors	 82

APPENDICES

Appendix A -- Property Acquisition Division, Depart- ment of General Services, Appraisal Report - Point West, January 2, 1968; John E. Day, Property Ac- quisition Division, Preliminary Estimate of Value - Point West, December 12, 1969; Stanley Goode, Goode and Goode Real Estate Appraisers, Consulting Ap- praisers Report - Point West, January 2, 1968	96
---	----

Appendix B -- Development Research Associates, Recommended Marketing Program for the old fair site and Point West Subdivision	97
Appendix C -- Department of General Services, Appraisal Review Point West Subdivision, January 8, 1968; Property Acquisition Division, Department of General Services, Valuation Review, Point West, November 13, 1970	98
Appendix D -- Statement of Dr. Pat Melarkey, Chairman of the Sacramento County Board of Supervisors	104

Tuesday, January 18, 1972

The Committee met at 2:00 p.m. in Room 6028, State Capitol, Chairman Cullen presiding.

Present: Assemblymen Mike Cullen, Raymond Seeley, and Vincent Thomas.

Staff Present: John Billett, Senior Consultant, Jan Sharpless, Associate Consultant, and Dean Cromwell, Staff.

Also Present: Senator Albert Rodda, Don Benedict, Principal Program Analyst, Office of the Legislative Analyst, Jerry Bassett, Deputy Legislative Counsel, Office of the Legislative Counsel, Walter Quinn, Manager, Office of the Auditor General, and Jack Watson, Administrative Assistant to Senator Albert Rodda.

CHAIRMAN CULLEN: We will commence the hearing now, our third in this Committee's review of the operations, management and future outlook for the California State Exposition and Fair. Today we requested the attendance of two witnesses from the Public Employees' Retirement System on the subject of the disposal of real property at Cal Expo commonly known as Point West. So if Mr. Fowler and Mr. Payne would come to the witness table with anyone else that you may have with you, we will proceed.

APPEARANCE OF MR. WILLIAM PAYNE, EXECUTIVE OFFICER, PUBLIC EMPLOYEES' RETIREMENT SYSTEM; ACCOMPANIED BY MR. STAN FOWLER, PRESIDENT, BOARD OF ADMINISTRATION, PUBLIC EMPLOYEES' RETIREMENT SYSTEM, AND MR. CARL HALTERMAN, MORTGAGE LOAN OFFICER, PUBLIC EMPLOYEES' RETIREMENT SYSTEM.

CHAIRMAN CULLEN: Last week the testimony turned to the transaction whereby 230 acres at Point West are now held by a partnership known as Kaiser-Aetna a general partnership, and during the course of the hearing it was established that this title had been passed to the Public Employees' Retirement System Board from the State in return for a sum of money to be used in the capital construction of Cal Expo, and that the -- the agreement of conveyance vested in the State a ten-year option for repurchase and established the repurchase price. Subsequently the property was reconveyed to the State by Grant Deed and then by the State to Kaiser-Aetna by way of Quitclaim, a Quitclaim Deed. The legal effect of a Quitclaim Deed is that there are no restrictions contained in it. The State surrendered any interest that it might have in the property. Overriding the transaction are two statutes one which authorizes the Director of General Services to dispose of surplus lands for commercial and industrial purposes, and the other authorizes your Board, or the Director to utilize by way of lease or sale in conformance with the master plan --

Now, what piqued the interest of the members of the Committee and prompted Mr. Thomas to ask for your attendance today is that, after these legal papers were executed and the title to the property had passed, two things were significantly missing when compared to the prior status of the property. One, the holder of a promissory note did not have any collateral as your Board had when you loaned

money to the -- to the State. And the other -- the other thing escapes me, that's --

ASSEMBLYMAN THOMAS: What's that?

CHAIRMAN CULLEN: What was the other thing? No, the other question was whether or not it is in accordance with your established practices to invest money or loan money without having any collateral or any security interest in any property. So would you care to respond to that, either of you?

MR. WILLIAM PAYNE: I'm quite willing to start. Mr. Cullen, I'm William A. Payne, Executive Officer of the Public Employees' Retirement System. I'm sorry I wasn't here at the other meeting. Pretty much all I know about it is what I read in the press and some conversations from people who were here. I think we have to examine, and I'm sure you know what a promissory note is, I think we have to examine a note situation, and the security that goes behind the note.

Now, notes in the particular industry that we are examining are not uncommon, they are frequently used. Notes which are by definition, I guess, unsecured, although the unsecured is sort of redundant, are customarily used in the financial industry. I call your attention to the fact that such organizations as IT&T, Standard Oil, Shell, and others use notes as long-term investments and they are -- and they are used extensively. And I would note that a debenture, incidentally, is a -- is a form of a note in that it is

not -- it is not secured by a mortgage on specific property, but it is really in the area of a promise to pay and generally the -- a debenture has -- has a rate funding situation, it may stand in priority to other debt securities. But essentially it is a note.

Now, to answer your question specifically, then the -- the Board does have authority to invest in notes and has invested in notes of -- of such organizations as this. Now, this is not to necessarily compare IT&T and Standard Oil and Shell with the Kaiser-Aetna partnership that -- I'm not trying to make that comparison but only to point out that notes are customarily a form of paper for investment purposes. And in developing an opinion as to whether or not a note provides adequate security for the investment, you have to look at other things, just as you would have to look at a bond, which is a form of a mortgage. Incidentally, you have to look at other areas to determine your security. In the case of -- in the case of the Kaiser-Aetna note, which I grant you came about under unusual circumstances, in the case of the Kaiser-Aetna note, looking at it from the staff position now, and looking at the long period of negotiations that we had with Kaiser-Aetna, and they were quite extensive and occurred over a period of quite a number of months, we -- we first looked for security at the partners, recognizing that the partnership agreement had provisions which made it impossible or difficult, if not impossible, to have each of the partners on the hook directly, which we wanted. But

you have to first look at the -- at the stature of the partners of Kaiser-Aetna Life Insurance Company, which we did. I don't think you have to look at them very long because they are well established corporations -- companies with a good credit rating. It was our conclusion that -- at the start of this negotiation that despite the other circumstances we looked first to Kaiser-Aetna because we recognized what they were doing with the -- with the Kaiser-Aetna partnership, what their objectives were, what their purpose was. We recognized that Kaiser-Aetna partnership was for a profit motive and that these companies were going to be involved with the -- with the sponsorship of Kaiser-Aetna -- Kaiser and Aetna and that we were involved with what appeared to be and certainly is a long-term association with an objective of becoming a leader in the land development operation. And from that you look at the -- at the assets of the partnership then to determine whether or not you feel that the assets of the partnership are going to be -- and the credit rating of the partnership, but particularly the assets are going to be adequate to meet the -- to meet a realistic investment.

Our conclusion was that this was true, Kaiser-Aetna was a good concern, and that we had no great concern about using a note as an investment medium with Kaiser-Aetna.

ASSEMBLYMAN THOMAS: May I ask a question first? I think --

CHAIRMAN CULLEN: Before you ask -- before we get too far in

the transcript, I want to make a correction. I said two elements were significantly missing from the new arrangement and the second one failed me for a moment, and that is the -- the restriction of the use of the Point West to commercial and industrial was missing or omitted. Mr. Thomas.

ASSEMBLYMAN THOMAS: Before we go into the note, and the Kaiser-Aetna partnership, let's go back first, when this 230 acres of land was declared surplus, who declared it as surplus property and let's take it from step to step. First --

MR. PAYNE: Okay.

ASSEMBLYMAN THOMAS: Who declared it as surplus property?

MR. PAYNE: I would rather have somebody else answer that.

ASSEMBLYMAN THOMAS: Mr. Fowler.

MR. STAN FOWLER: Mr. Thomas, I'm -- I can say this from casual knowledge, but I think you need to have the officials of the Department of General Services or the Executive Committee tell you the steps that way.

ASSEMBLYMAN THOMAS: First of all, you are President of the PERS Board?

MR. FOWLER: Maybe for the record -- it depends on what point in time you want to talk. As I am sitting here today, I'm an Assistant Director, Civil Service, of the Department of General Services. I'm an elected member of the Public Employees' Retirement System.

ASSEMBLYMAN THOMAS: And you are a member of the Board, the Committee?

MR. FOWLER: I'm President of the Board, elected by the members as I sit here today.

ASSEMBLYMAN THOMAS: Then you are on the Executive Committee of the Cal Expo.

MR. FOWLER: Now, backing up --

CHAIRMAN CULLEN: Is that right, Mr. Fowler?

MR. FOWLER: Yes.

CHAIRMAN CULLEN: You are on the Executive Committee, which is the --

MR. FOWLER: No.

CHAIRMAN CULLEN: You've never been on the Executive Committee of Cal Expo?

MR. FOWLER: I've never been on the Executive Committee of Cal Expo -- Exposition and Fair. I was Executive Officer of that Committee prior to the time that Governor Reagan was elected.

ASSEMBLYMAN THOMAS: My point is, let's start from the beginning, step by step. Tell us what happened. Who sold the property? Does General Services under the statute have the right to sell all surplus property?

MR. FOWLER: Well, you better ask the Director of General Services, because I never acted in any capacity selling the property. I'm an Assistant Director of General Services, and as I understand,

you have the Director and his staff coming up later on. And I don't like to get out of my sphere now because if I'm -- Mr. Thomas, if I'm going to talk from my capacity on my positions in this, but I do not intend to get into somebody else's field.

ASSEMBLYMAN THOMAS: All right. Now --

CHAIRMAN CULLEN: What is your sphere, sir, in the Department of General Services?

MR. FOWLER: I'm an Assistant Director of the Department of General Services.

CHAIRMAN CULLEN: As an Assistant Director do you handle procurement or operations or --

MR. FOWLER: I don't have anything to do with this side of the field you are talking about.

CHAIRMAN CULLEN: What do you have to do with?

MR. FOWLER: I have the State Printing Plant reporting to me. I have the Communications Division reporting to me. I have the Transportation Division reporting to me, and what we call Off Services.

CHAIRMAN CULLEN: Okay, Mr. Thomas.

ASSEMBLYMAN THOMAS: Were you President of the Board when the transaction, this 230 acres too -- all right, came about?

MR. FOWLER: Yes, sir.

ASSEMBLYMAN THOMAS: How did the PERS Board get into this, could you tell us, as President? How did you get involved in this

230 acres?

MR. FOWLER: Well, first of all, the legislative branch of government passed enabling law that made it possible for PERS to get into it.

ASSEMBLYMAN THOMAS: But tell us who made the approach? Who asked you -- did you buy this property?

MR. FOWLER: Oh --

ASSEMBLYMAN THOMAS: Did the PERS buy --

MR. FOWLER: I think Mr. Payne can tell you about the sequence of that.

MR. PAYNE: Factually, yes, Mr. Thomas.

ASSEMBLYMAN THOMAS: Okay.

MR. PAYNE: PERS bought the property.

ASSEMBLYMAN THOMAS: You had title?

MR. PAYNE: Had title.

ASSEMBLYMAN THOMAS: Wait a while, just go slowly.

MR. PAYNE: Right.

ASSEMBLYMAN THOMAS: What did you do after you took possession of the property?

CHAIRMAN CULLEN: Excuse me, if I may interrupt. Once again, Mr. Thomas, you asked Mr. Fowler how PERS became interested or the owner of this property. Mr. Fowler responded to you that there was enabling legislation. You asked another question and he referred you to Mr. Payne. Now, I'm advised that Mr. Fowler requested

Senator Rodda to introduce that enabling legislation, is that correct, Mr. Fowler?

MR. FOWLER: Yes.

CHAIRMAN CULLEN: Then would you be more responsive to Mr. Thomas when he asks you a question as to how your Board became interested in the acquisition of this property?

MR. FOWLER: Let's say I wasn't acting in the respect of being a Board member.

CHAIRMAN CULLEN: But you were on the Board?

MR. FOWLER: Yes.

CHAIRMAN CULLEN: All right. And Mr. Thomas is asking you why the Board became interested.

MR. FOWLER: The PERS Board had nothing to do with the conversation that I had with Mr. Rodda with respect to getting the legislation, at all.

CHAIRMAN CULLEN: That clarifies the answer.

MR. FOWLER: As far as -- let me say this very clearly. At the time I went and talked to Senator Rodda about the legislation there was no member of the staff of PERS that I knew of that even had any idea that this was even contemplated at that point in time.

ASSEMBLYMAN THOMAS: Let's make it simple then. How did the PERS Board become the owners of this property? How did you purchase it? Tell us the background. Who approached you to buy it and how did you become the holder of the title of this 230 acres? Who

negotiated the deal? The purchase deal?

MR. PAYNE: Would you like to have me try, Mr. Thomas?

ASSEMBLYMAN THOMAS: Yes, I know --

MR. PAYNE: I'm not sure I can, you know, give you the full information, but let me try by noting that the legislation was passed and was signed into law. And let me note that there was a substantial -- substantial interest in -- at that point in time, in the Retirement utilizing this -- this permissive legislation to make an investment into property. And that the reasons that were advanced are many fold, including the general belief that Cal Expo was going to be a great success, and from everything that we looked at, this was supposedly going to occur. And that thus the property would enhance in value.

So, after the legislation was developed, I reviewed the legislation with the Board of Administration, noting that it was permissive and noting that -- I think you have a lot of the documents that we have there, noting it was an unusual transaction, noting that -- that if the Board wished to pursue the matter that it was essential that an agreement be reached with the Director of the General Services and the Department of Finance which in -- at least my opinion, protected the integrity of the Retirement System's investments. We noted that the legislation called for \$13.5 million as a maximum investment and quite a number of other things. The Board directed me to negotiate with the Director of General

Services or his representative to ascertain if an agreement could be reached which would reasonably protect the System and the investment.

Now, in that context, I negotiated and worked with people from General Services, particularly Mr. Relat, and particularly an attorney in General Services whose name escapes me right now, but he was also directed to participate in the negotiation. We started out on the premise, as far as I was concerned, that one, we had to have a realistic appraisal of the property.

ASSEMBLYMAN THOMAS: Was the appraisal made --

MR. PAYNE: Well, the appraisals that were alluded to were made by -- by a concern that indicated that the net worth of the combined properties, the old State Fair and Point West, was a value of something like \$13.5 million.

ASSEMBLYMAN THOMAS: Was that Coldwell Banker, the banker corporation? Was that the name?

MR. PAYNE: Perhaps, I think so, but we felt, Mr. Thomas, that in order to get a base to start from you had to have a valid appraisal. Not an estimate, but a valid appraisal.

ASSEMBLYMAN THOMAS: Who made the appraisal?

MR. PAYNE: We also felt -- and we felt that we weren't willing to rely upon staff appraisal of General Services, not because we doubted their integrity or their ability, but because we felt that there had to be two separate appraisers functioning

together -- we felt that there had to be a fee appraiser because it is my experience that there is more reliance placed in a fee appraiser than in a staff or a State appraiser. And so that appraisal was conducted.

ASSEMBLYMAN THOMAS: Who was the appraiser?

MR. PAYNE: A gentleman by the name of Goode, as I recall. And he was with -- you mind if I ask Carl Halterman -- Carl, was it Coldwell Banker? No, Mr. Goode --

MR. CARL HALTERMAN: No, Mr. Goode is a private appraiser, M.A.I.

MR. PAYNE: Yes, a private M.A.I. appraiser. Incidentally, we are involved with mortgage investments and we have appraisers on our staff.

ASSEMBLYMAN THOMAS: How many appraisals were made, I'm trying to slowly --

MR. PAYNE: At that point in time and the only ones that we were interested in, Mr. Thomas, were the appraisers -- appraisals made by General Services and by Mr. Goode. And they were made concurrently, incidentally.

ASSEMBLYMAN THOMAS: Did this Coldwell Banker make an appraisal of the property?

MR. PAYNE: I don't recall that they did. They could have. But we had looked at -- at estimates of \$13.5 million and we felt that we had to have something that was in the form of appraisals

conducted by well recognized fee appraisers.

ASSEMBLYMAN THOMAS: All right, to make the thing short, because it is not going to be a long meeting today on this subject, how many bids were offered for the purchase of this property from you? Who bid? Who bid the purchase of the property?

MR. PAYNE: Well, I thought you wanted to explore the conditions of the --

ASSEMBLYMAN THOMAS: I know --

MR. PAYNE: -- of the purchase of the property. Presumably you know.

ASSEMBLYMAN THOMAS: But you are missing a lot of points there. I can't understand -- you had title to the property.

MR. PAYNE: Oh -- oh, I --

ASSEMBLYMAN THOMAS: I want to know, how did you sell it? How did you become -- how many bids did you get?

MR. PAYNE: I was going back to the original purchase of the property.

CHAIRMAN CULLEN: I'm going to depart from that. Mr. Thomas, if we can hold that question just for a moment and pick up when you required independent appraisals of the property in order to protect the interests of the fund administered by your Board, is that what you said?

MR. PAYNE: Yes, I did say that.

CHAIRMAN CULLEN: All right, and in deliberating on whether

or not to -- to make this investment, who were you making the investment with? What party, what entity?

MR. PAYNE: Well, specifically the Department of General Services, its Director and the Department of Finance and its Director.

CHAIRMAN CULLEN: I see. Now, what happens when you make an investment or a loan to a public entity and they default on the loan? Then what does the Board do? Do they proceed against the public entity for payment?

MR. PAYNE: Well, if it is your employer it is a little difficult, Mr. Cullen. I was trying to note that we started out insisting that we wouldn't loan more than 60 percent of appraised value and we swapped that for 70 percent of the appraised value plus an agreement on the part of the Directors that once the accumulated loan, which included the interest, got to 90 percent, that they would keep the loan to 90 percent of appraised value. We relied upon the Directors.

CHAIRMAN CULLEN: Why did you require a security interest in making a loan to the State of California?

MR. PAYNE: Why did we --

CHAIRMAN CULLEN: Yes.

MR. PAYNE: Well, I think we can start out by noting that the terms of the law and the agreement gave the State, through the Directors, an option to repurchase within a ten year period. We had no rights to sell the property ourselves and never did have

until the ten year period had elapsed. We were trying to keep the value of the property in some relationship to the appraisal of the property and that's specifically what we were doing.

CHAIRMAN CULLEN: Well, earlier, Mr. Payne, you told Mr. Thomas that taking an unsecured note from highly reputable private corporations is not uncommon because you can always look to them for repayment. Yet with respect to the State of California, which someone has told me is the sixth largest corporation in the world, you advised the Board, in order to protect the fund, that the legislation ought to provide for a security interest in this property, is that correct?

MR. PAYNE: That's correct, except that I didn't get to finish my statement to Mr. Thomas.

CHAIRMAN CULLEN: Go ahead.

MR. PAYNE: Because I was noting that a note has recourse to the assets, the total assets of the company. That's what I was trying to note, as opposed to a mortgage which might have only recourse to a specific piece of property or a defined piece of property. I was trying to illustrate that a note can be as highly secured and many instances more secure than a mortgage.

CHAIRMAN CULLEN: Yes, it can be, but we are not talking about a mortgage here. The State of California by Grant Deed conveyed 230 acres to your fund. There wasn't any mortgage, there was a conveyance of title.

MR. PAYNE: That's right.

CHAIRMAN CULLEN: Now, I assume that there was an agreement that accompanied this conveyance.

MR. PAYNE: Yes.

CHAIRMAN CULLEN: This deed. There was an agreement describing this conveyance as a security interest?

MR. PAYNE: Correct.

CHAIRMAN CULLEN: And describing a sum of money?

MR. PAYNE: Correct.

CHAIRMAN CULLEN: That was passed from the Board to the State of California?

MR. PAYNE: Right.

CHAIRMAN CULLEN: All right. So is that by way of a note? Was there an agreement that the State of California would repay this money?

MR. PAYNE: No, these were conditions surrounding the purchase of the property, Mr. Cullen. And the conditions were -- placed there -- I grant you that the -- that the security was in the property because the Board had title to the property, I grant that. But in order to make certain that we were going to come out whole, I felt that these -- that this kind of an agreement was necessary to protect the System and that the Directors would make certain to the extent of their ability to maintain our -- our purchase price, because we had no right to sell the property at any time, the law didn't give us that -- if we had had the absolute right to sell the property at any time without just sitting there and holding it, I wouldn't have felt so concerned about it, but we never had that right.

ASSEMBLYMAN THOMAS: May I ask a question?

CHAIRMAN CULLEN: Mr. Thomas.

ASSEMBLYMAN THOMAS: Who sold the property to Kaiser-Aetna?

MR. PAYNE: The State did, sir, through the Department of General Services.

ASSEMBLYMAN THOMAS: And did the PERS sign an unsecured note with Kaiser-Aetna?

MR. PAYNE: Yes, we -- we took an unsecured note from Kaiser-Aetna.

ASSEMBLYMAN THOMAS: And wait -- wait now. Isn't it true that in that note you waived all liability?

MR. PAYNE: No.

ASSEMBLYMAN THOMAS: Even if a default -- even if there was a default?

MR. PAYNE: No, the note gives recourse by its very nature, Mr. Thomas, to the assets of the corporation if there is a default.

ASSEMBLYMAN THOMAS: No, to the partnership.

MR. PAYNE: The partnership, the company.

ASSEMBLYMAN THOMAS: You mentioned a corporation all the time.

MR. PAYNE: The partnership, the note gives --

ASSEMBLYMAN THOMAS: What assets did they have, the partnership?

MR. PAYNE: Well, our --

ASSEMBLYMAN THOMAS: You couldn't go to the corporation and hold them liable.

MR. PAYNE: No.

ASSEMBLYMAN THOMAS: You couldn't go to Aetna Insurance, you couldn't go to Kaiser for any kind of recourse. The only recourse

you had in that note was against the partnership assets, and what assets did they have?

MR. PAYNE: Well, our -- our review was that they had something in excess of \$200 million in assets.

ASSEMBLYMAN THOMAS: In the partnership?

MR. PAYNE: In the partnership.

ASSEMBLYMAN THOMAS: Is that evidenced in the note that you signed?

MR. PAYNE: No, but it is evidenced in the -- in the statement that was provided by -- by Kaiser-Aetna, certified to by Haskins and Sells.

ASSEMBLYMAN THOMAS: Yes, but you waived all liability against those corporations in your note.

MR. PAYNE: Our problem was that --

ASSEMBLYMAN THOMAS: It is clear as -- you want to read the note? I think you should read that.

MR. PAYNE: No, Mr. Thomas, I concur with your statement. I was -- I was at one point noting that we wanted each of the partners and the several partners on the hook. I was noting that the -- that the partnership agreement precluded this. I was noting that it was our understanding that Aetna Life Insurance Company could not go this route because they were a life insurance company. I was noting that I felt that then -- and we felt then that the -- that the fact that Kaiser Industries and Aetna were good partners and the fact that the partnership had more than adequate assets to protect our investment --

ASSEMBLYMAN THOMAS: I have a Legislative Counsel's opinion,

and I'm not going to present it today, it will be presented next week. The Legislative Counsel held that the PERS Board actually waived all action or all liability against anyone. Have you got that opinion?

MR. JERRY BASSETT: No, I don't have a copy with me, sir, but that's a correct statement.

ASSEMBLYMAN THOMAS: Is that a correct statement?

MR. BASSETT: Against the partners as individuals.

MR. PAYNE: Against individuals, yes, but not against the partnership, right. Okay, but not against the partnership. And we felt that the extent of our note, which, if you -- if you look at it, is a five year note deliberately developed as a five year note because we wanted to shorten the --

ASSEMBLYMAN THOMAS: Why was the property sold to Kaiser-Aetna? I can't get these answers from anyone. I can't get them from General Services. I can't get them from you. I can't get them from the Executive Committee of Cal Expo.

MR. PAYNE: Let me answer --

ASSEMBLYMAN THOMAS: Why was it sold and how many bids were offered and were there any bids turned down for the same piece of property? These are the questions we can't get answered. Now, where would I go to get that answer?

MR. PAYNE: Not from me, sir. We had no authority to sell the property. And we could not sell the property.

MR. FOWLER: Mr. Thomas, we had no -- or we weren't out selling the property. You need to talk to the Director of General Services who is the agent.

ASSEMBLYMAN THOMAS: Did you have anything in this -- did you have anything to do in this transaction?

MR. FOWLER: No, sir.

ASSEMBLYMAN THOMAS: Who did? Who were the persons involved? There were eight people that handled this piece of property, who were they?

MR. FOWLER: To be honest with you --

ASSEMBLYMAN THOMAS: You don't know?

MR. FOWLER: I frankly don't know. I can say who the Chiefs -- the Director of General Services at that time, who he was, and who the Assistant Director and also on that line, but as far as the individuals, you are going to have to ask the Director of General Services.

ASSEMBLYMAN THOMAS: You don't know?

MR. FOWLER: No, sir.

ASSEMBLYMAN THOMAS: You haven't corresponded by letters?

CHAIRMAN CULLEN: If I may interrupt once again, Mr. Fowler, are you a member of the Board?

MR. FOWLER: Of which Board?

CHAIRMAN CULLEN: The PERS.

MR. FOWLER: Yes, sir.

CHAIRMAN CULLEN: How long have you been a member?

MR. FOWLER: Well, I guess 17 years.

CHAIRMAN CULLEN: Are you President now?

MR. FOWLER: Yes.

CHAIRMAN CULLEN: Do you attend all the meetings?

MR. FOWLER: Yes.

CHAIRMAN CULLEN: And at any of the meetings did you ever discover or discuss the Kaiser-Aetna proposal to purchase this land?

MR. FOWLER: Oh, yes, we have public Board meetings, Mr. Cullen. We -- the Board doesn't do anything in a vacuum. When we bought the land from the State and enabling legislation of Mr. Rodda, we had public meetings and discussions and we had at that time on the Board, which you'll find in the transcript at the time of purchase, a very eminent attorney by the name of Joe Wyatt, and Joe was a very active participant in all the determinations of the Board, with a public setting with a hundred odd people in attendance, all the rest, just like you have here.

CHAIRMAN CULLEN: In 1970-71 did your Board discuss the Kaiser note?

MR. FOWLER: Yes, sir.

CHAIRMAN CULLEN: And the Aetna note?

MR. FOWLER: Yes, sir.

CHAIRMAN CULLEN: At any time during these meetings were there any discussions of a security interest as collateral for the investment of \$7.3 million?

MR. FOWLER: Oh, yes, I think that there were some people -- some members of the Board that raised questions as to the kind of paper -- you might say -- no question, no different than others that we have had before, who -- that don't technically fit the run-of-the-mill investment setting. It is like Mr. Payne said, we have got others of similar nature.

CHAIRMAN CULLEN: Did Kaiser-Aetna approach you before the

Department of General Services published their public invitation to bid on Point West?

MR. FOWLER: I don't know that.

MR. PAYNE: You are talking about the Department of General Services?

ASSEMBLYMAN CULLEN: I'm talking about Kaiser-Aetna coming before your Board or submitting a proposal.

MR. FOWLER: I don't know when they went to General Services.

MR. PAYNE: I can partially respond, Mr. Cullen.

CHAIRMAN CULLEN: Mr. Payne. May I point out, Mr. Fowler, that contrary to what you told Assemblyman Thomas, you know a great deal about Kaiser-Aetna and Point West because of your membership on the Board.

MR. FOWLER: Oh, there is no question, and all the meetings with respect to the Retirement Board -- all these discussions, I was present.

CHAIRMAN CULLEN: That's true, but your statement that only the Department of General Services has this knowledge is not factual.

MR. FOWLER: No, as far as discussions of the Board, I have complete knowledge. I was there and all, if that's what you are talking about. I misunderstood because I thought, Mr. Cullen, you were talking about Department of General Services.

CHAIRMAN CULLEN: Well, Mr. Payne, the question is, was the Board through you or any of its members approached by Kaiser-Aetna to discuss a loan of perhaps in excess of \$6 million prior to the public invitation to bid published by the Department of General Services?

MR. PAYNE: The answer is yes. Even before we were aware that a bid was going to go out.

CHAIRMAN CULLEN: All right, were you approached by any other people interested in --

MR. PAYNE: In this process?

CHAIRMAN CULLEN: -- a similar loan?

MR. PAYNE: In this process?

CHAIRMAN CULLEN: Yes, sir, in a similar loan.

MR. PAYNE: In the same kind of a loan, yes.

CHAIRMAN CULLEN: Did Kaiser-Aetna mention the purpose of the -- of the \$6 million loan?

MR. PAYNE: In general terms they wished to purchase it in connection with the objectives of Kaiser-Aetna for development purposes.

CHAIRMAN CULLEN: They described Point West, is that right?

MR. PAYNE: Yes.

ASSEMBLYMAN CULLEN: Is that right?

MR. PAYNE: Yes.

CHAIRMAN CULLEN: Did the Board reject proposals from any other corporation, partnership or business company?

MR. PAYNE: No. No, factually, different groups in pursuing their interest in purchasing the property usually went to the Director of General Services because he had the authority to make the decision to sell. And usually in one way or another it came to us because all of them were interested in financing. It is the name of the game, to finance this kind of purchase rather than to use capital in most instances. Kaiser-Aetna approached us through

Coldwell Banker quite early in the game. They had discussions with us after having discussed it with the Director of General Services -- they approached us to ascertain if we would be interested in developing some sort of an investment so that we could finance it and be what -- be secure in our investment.

CHAIRMAN CULLEN: What was the name of the party contacting you from Coldwell Banker?

MR. PAYNE: It was Mr. Didion at the outset.

CHAIRMAN CULLEN: Didion or Gideon?

MR. PAYNE: Didion. Didion is right, isn't it?

CHAIRMAN CULLEN: Didion.

MR. PAYNE: Didion with a "D". At the outset I even was skeptical that he was representing Kaiser-Aetna, but subsequent events indicated that he was. Our initial exploration with Kaiser-Aetna then was to develop negotiated terms of a note -- to participate in order to have Kaiser-Aetna have financing for the property. We were quite willing to do this if the terms of the note were such that we felt secure with it, and we indicated that. There was a process of negotiation that started before -- before I felt that the property was going to be placed up to bid. As you will recall, the previous Director had invited proposals. I felt that the Director could sell the property without the bid process. I didn't think it was necessary, but that perhaps was my error. We negotiated prior to and all the way through the process with Kaiser-Aetna. We were quite willing to negotiate with any substantial concern that we felt secure with insofar as the investment was concerned.

CHAIRMAN CULLEN: And this was Mr. Didion with whom you were having these negotiations?

MR. PAYNE: Initially, yes, but subsequently we began negotiating directly with Kaiser-Aetna.

CHAIRMAN CULLEN: What was the amount of the note or loan sought by Kaiser-Aetna?

MR. PAYNE: Initially it was, as I recall, \$6.5 million, but we -- we were never willing to participate in approving a sale. We had the authority to approve a sale, Mr. Cullen, if we couldn't get our investment back on the proceeds of the sale. We also had the authority to approve segmented portions of the sale. We had no authority to sell. The initial --

CHAIRMAN CULLEN: Now, you said previously that the Rodda bill didn't permit you to sell.

MR. PAYNE: That's right.

CHAIRMAN CULLEN: And now you said you had authority to sell.

MR. PAYNE: No. No, I'm saying that we had authority to approve the sale of portions of the property. The reason for that was quite obvious. We didn't want portions of the property sold off at less than realistic market value and leave us holding a portion which we couldn't come out whole on.

ASSEMBLYMAN THOMAS: May I ask a question at this point?

MR. PAYNE: Nor did we want --

CHAIRMAN CULLEN: Mr. Thomas.

ASSEMBLYMAN THOMAS: Mr. Fowler, Mr. Payne seems to be doing all the talking. Is he the only one that knows anything about this property? You are the President of the Board. Now tell us

your story. What did you do in this transaction?

MR. FOWLER: Well, let me say this. There is no question that anyone in the City of Sacramento in a variety of places didn't know that as far as my relationship with the -- with the Executive Committee, and the Retirement Board, and that I probably was an individual every day trying to find somebody to buy it, regardless of where they -- you know what.

ASSEMBLYMAN THOMAS: What offers did you get?

MR. FOWLER: Well, I never got any. Anybody I could ever get I sent over to the staff of the Retirement Board to do the work. I don't -- if I can stir up an interested party, take it over to Bill and the staff to do the --

ASSEMBLYMAN THOMAS: Well did E. F. Hutton Company make a bid?

MR. FOWLER: Who?

ASSEMBLYMAN THOMAS: E. F. Hutton.

MR. FOWLER: I never talked to anybody of E. F. Hutton Company.

CHAIRMAN CULLEN: Who did you talk with, Mr. Fowler?

MR. FOWLER: Oh, there's a man by the name of Shack from up in Washington and -- I don't know who he was related to.

CHAIRMAN CULLEN: Did he mention the --

MR. FOWLER: I also talked to the --

CHAIRMAN CULLEN: Did he mention a purchase price or just --

MR. FOWLER: No, interest. Also talked to the President of Kaiser Realty Company who came out here and Bill and I went out and wandered through the land to try to see whether they would be

interested in it.

ASSEMBLYMAN THOMAS: Wait a while, I want to pursue this, Mr. Chairman.

CHAIRMAN CULLEN: Mr. Thomas.

ASSEMBLYMAN THOMAS: Did Chrysler Corporation file a bid?

MR. FOWLER: Not to my knowledge, when the bids were up.

ASSEMBLYMAN THOMAS: You never heard of it?

MR. FOWLER: No, not -- not to my knowledge.

ASSEMBLYMAN THOMAS: And, Mr. Payne, you don't know whether E. F. Hutton Company filed a bid?

MR. PAYNE: No, I don't -- I don't think so.

ASSEMBLYMAN THOMAS: So the only person that you knew that was interested is Kaiser-Aetna?

MR. PAYNE: Well, I thought that the two gentlemen from the Chrysler Realty Corporation, a subsidiary of Chrysler, were tremendously interested. They spent a whole day and a half a day with me.

ASSEMBLYMAN THOMAS: Did they make a bid?

MR. PAYNE: No, no, I think finally the decision was not to.

ASSEMBLYMAN THOMAS: Now, prior to this time, the brochure that went out by the General Services called for a cash sale, am I right?

MR. PAYNE: That's right.

ASSEMBLYMAN THOMAS: Did the other bidders know that a transaction could be made on an unsecured note or any other deal or any other terms?

MR. PAYNE: The individuals that came to us did. This included

Chrysler. This included --

ASSEMBLYMAN THOMAS: They knew this?

MR. PAYNE: Yes. They knew this, if we could work out the proper arrangement and they were willing to negotiate those if they got to the point of making a bid, yes.

CHAIRMAN CULLEN: At what purchase price?

MR. PAYNE: Because we had respect for Chrysler.

CHAIRMAN CULLEN: At what purchase price?

MR. PAYNE: Our interest was not to determine the purchase price, but to state that the purchase price had to be -- because we had approval of the purchase price, if it didn't bail us out, to state that the purchase price had to be at least enough to bail out the Retirement System. And that was our only voice in the purchase price, sir. We couldn't set the price, but we could approve it if it didn't bail us out and that's all we ever said. We had no interest in -- well, we had an interest, but no particular interest in having the purchase price in excess of what would bail us out in the sense that -- that we would disapprove it if it bailed us out, because our agreement was we could approve -- we could only disapprove if we didn't come out whole.

CHAIRMAN CULLEN: Did Mr. Didion ever say to you that he thought that he could purchase the property for approximately \$7 million?

MR. PAYNE: Well, I can't recall. I can say that I would have said to him that we wouldn't approve a purchase price unless it was at least enough to get us out.

CHAIRMAN CULLEN: But Mr. Didion conveyed a proposal to your

Board for a loan. What was the amount of that loan?

MR. PAYNE: Well, the eventual amount was \$6.8 million.

CHAIRMAN CULLEN: All right, \$6.8 million.

MR. PAYNE: Plus money put up to make up the difference.

CHAIRMAN CULLEN: All right. Did Mr. Didion ever convey to you in any manner that he had been told that the property could be acquired for \$7.3 million or any figure close to that?

MR. PAYNE: Oh, I don't know whether he conveyed it. I think he was confident that a price of this amount would be satisfactory. It would certainly have been satisfactory to us for the reasons that I indicated. We wanted to get out whole.

ASSEMBLYMAN THOMAS: May I ask just one question?

CHAIRMAN CULLEN: Mr. Thomas.

ASSEMBLYMAN THOMAS: Was anyone in the Governor's Office involved in this sale of this 230 acres to your knowledge?

MR. PAYNE: Not to my knowledge, sir.

SENATOR ALBERT RODDA: Could I ask a question?

CHAIRMAN CULLEN: Yes, Senator Rodda.

SENATOR RODDA: I'm trying to refresh my memory and maybe Mr. Fowler can respond. As I recall, subsequent to the passage of legislation which authorized this loan, is it not true that you did budget \$7.5 million to pick up that loan? Did the State not budget that amount and was it not vetoed?

MR. FOWLER: Well, yes.

SENATOR RODDA: Or am I talking about the same --

MR. FOWLER: No, you are talking about the same piece of property.

SENATOR RODDA: And so conse--

MR. FOWLER: It was in pre-conference that they put the sum of money in for -- which would have paid for what the Retirement System had in plus the interest up to June 30th because that's when it was. And the item was vetoed by the Governor.

SENATOR RODDA: Was that the year that we had the surplus, 1968?

MR. FOWLER: It was the year after, Senator Rodda -- after the transaction that this took place.

SENATOR RODDA: So that put you back in the position that you had been when the loan was eventually negotiated because the State had refused to pick up the loan. All right, thank you.

ASSEMBLYMAN THOMAS: Just one more question.

CHAIRMAN CULLEN: Mr. Thomas.

ASSEMBLYMAN THOMAS: PERS had title to this property, didn't they? You had fee simple title.

MR. PAYNE: We had title to it, yes, sir.

ASSEMBLYMAN THOMAS: And you couldn't sell the property?

MR. PAYNE: No, sir.

ASSEMBLYMAN THOMAS: Would you say that whatever property is owned by PERS is State property -- who does all that belong to, the members or the State?

MR. PAYNE: Well, it is my reaction that it is a trust account representing not only the State but the hundreds of contract agencies and thousands of employees.

MR. FOWLER: I'm sure we feel that way, as you know, Senator -- I mean Assemblyman Thomas. The PERS owns these new office

buildings such as this one down here at 9th and O Streets, and San Francisco, Oakland, Fresno, Bakersfield, San Diego and Los Angeles. And the State is paying those off by rent. And in that instance, why, if the State doesn't pay the bill, why it will probably be very tedious to foreclose on those office buildings. But nevertheless, that's the factual situation.

ASSEMBLYMAN THOMAS: You had title, but you didn't sell to Kaiser-Aetna, am I right?

MR. PAYNE: That's right, we had no authority to sell, sir.

ASSEMBLYMAN THOMAS: You had the title to the property, though?

MR. PAYNE: That's right.

ASSEMBLYMAN THOMAS: Why did you sell to Kaiser-Aetna under that kind of a note?

MR. PAYNE: Well, we --

ASSEMBLYMAN THOMAS: Who asked you to?

MR. PAYNE: We didn't sell. The Director of General Services conducted the sale. We transferred title to him because -- to the State because he had the only authority to sell.

ASSEMBLYMAN THOMAS: Now, you said that the Standard Oil makes similar deals on unsecured notes.

MR. PAYNE: No, I said that various corporations issue notes and notes by definition are secured not by specific property but by assets.

ASSEMBLYMAN THOMAS: This is public property you are selling, you are not selling private property, so forget what Standard Oil does. This is State property, and the only thing that our Committee

is interested in is why did the PERS make such an agreement with General Services and we will read the agreement next week.

MR. PAYNE: Yes.

ASSEMBLYMAN THOMAS: It is in our documents, but I'm just trying to find out why you would make that kind of an unsecured loan without any liability whatsoever, according to the Legislative Counsel.

MR. PAYNE: Can I --

ASSEMBLYMAN THOMAS: Even in the case of a default --

MR. PAYNE: Can I answer?

ASSEMBLYMAN THOMAS: Yes.

MR. PAYNE: To begin with, from my point of view, Mr. Thomas, I was getting uncomfortable with the property. I was eager to see the Director of General Services negotiate a sale that would bail us out, for a variety of reasons which I don't need to necessarily --

ASSEMBLYMAN THOMAS: Were you interested in the -- in the other bids, too, that were made?

MR. PAYNE: I was over there to see what they were. None of the bids that were made would have helped us and I suspect that the Board, at least if they followed my advice, would not have approved the other bids because it left us hanging.

ASSEMBLYMAN THOMAS: Getting back to the question I asked a half hour ago, were any bids rejected?

CHAIRMAN CULLEN: Any proposals.

ASSEMBLYMAN THOMAS: Any proposals rejected by your Board?

MR. PAYNE: No other proposals were rejected by our Board because we never got to the point of developing a proposal with

any of the interested parties that we thought would be valid.

ASSEMBLYMAN THOMAS: Were the --

MR. PAYNE: Factually, Chrysler did.

ASSEMBLYMAN THOMAS: Were these proposals made to the Board?

MR. PAYNE: Well, I think the investment -- I'm not sure on the - on this. Let me point out that Chrysler never came down to making a proposal, Mr. Thomas. Chrysler expressed its interest, spent a whole day, indicated that they were very much interested in the property. They had some other things they wanted to do, incidentally.

ASSEMBLYMAN THOMAS: Were they aware that any -- some other deal would be made besides paying cash?

MR. PAYNE: Chrysler, this was part of their interest, sir. I might note that -- that in this connection, and it is hard to recall -- the thickness of the file, I quit dictating memos because the file was getting so thick.

ASSEMBLYMAN THOMAS: Yes, that's why we are going to read documents next week. Next week will be a reading seminar.

MR. PAYNE: Let me suggest that the one gentleman that we felt was perhaps most likely to produce -- approach was Mr. Wallace Dunn who had his own consulting corporation and who developed proposals for corporations as a part of his business. He was formerly with Dillingham Corporation, formerly with an investment banker who was starting a land development proposal. Mr. Dunn spent a great deal of time with us. Actually sent out a big brochure to all of the firms that he thought would be interested, which --

CHAIRMAN CULLEN: Excuse me.

MR. PAYNE: -- which tended to disturb us because, as I recall, his brochure indicated that he had almost an exclusive and that we would finance and we called him up short on this because we felt that we had to select the company that we would be willing to enter into a financial arrangement with in order to have the kind of security we wanted.

CHAIRMAN CULLEN: You mentioned, Mr. Payne, the companies with national reputations and that's why you feel comfortable with Kaiser-Aetna. Let me ask, Mr. Fowler, as President of the Board, would you similarly feel comfortable with Pennsylvania Central or Lockheed or would you ask for a security interest before you'd loan money? The Board, I'm talking about.

MR. FOWLER: Well, let me say the record will show that Penn Central we ceased any interest in a long time before the rest of the public became aware of their difficulty.

CHAIRMAN CULLEN: Yes.

MR. FOWLER: And that's because as far as I'm concerned we have a very fine intellectual investment staff. And our staff is way far ahead of a lot of people in the world.

CHAIRMAN CULLEN: How did you find out the value of Kaiser-Aetna then?

MR. FOWLER: You mean as far as -- before the Board -- what the staff presented to us for all the Board members to agree on this?

CHAIRMAN CULLEN: Yes, before you approved the unsecured note.

MR. FOWLER: Well, the staff developed a body of material

which they presented to the Investment Committee, first in relation to the two firms and what the details of the companies were and their operating arrangement. And based from there, then it went on to the Board at the next public meeting that the Board had, with respect to this kind of presentation in detail.

CHAIRMAN CULLEN: And were you advised that the aggregate worth of the partnership was in excess of \$200 million?

MR. FOWLER: Well, yes, and as I recall --

CHAIRMAN CULLEN: Then why did you require a statement from Kaiser-Aetna that they were worth in excess of \$100 million if your staff had already told you that they were worth in excess of \$200 million?

MR. FOWLER: Yes, the staff came and developed this program, they developed a program that if the -- if these firms fell below, then we had a callable interest with them. That's the kind of agreement, as I understand it, we have with the corporation, which means obviously you've got to keep track of what their over-all operation is worth.

CHAIRMAN CULLEN: How much is it worth this month?

MR. FOWLER: I don't know, we will meet --

CHAIRMAN CULLEN: Anybody know?

MR. FOWLER: -- in two days and we will know, but --

CHAIRMAN CULLEN: How do you find out?

MR. PAYNE: Mr. Cullen, whether a statement -- a financial statement is inflated --

CHAIRMAN CULLEN: How do you find out if their home office is in New York or Philadelphia? Do you send people there to audit

their books?

MR. PAYNE: No, sir, we do not. Any more than we would send statements on any of the other investments we have. We ask -- that Kaiser-Aetna provide us with an annual statement certified by Haskins and Sells or similar -- similar firm. Now, the reason for the \$100 million, Mr. Cullen, is to provide some additional security. We have an acceleration clause in the -- in the agreement which says that if their net asset value ever drops below \$100 million we have the immediate right to accelerate the loan and demand full payment of the balance of the loan, and that's the reason for the \$100 million. Now, in order to be sure reasonably of that, we ask for a quarterly statement by an official of Kaiser-Aetna certifying the fact that their net asset values are ahead of \$100 million. If they drop below, we may accelerate the loan. We also have an acceleration clause in there which is more standard and that is that if they -- if they are in arrears as much as 30 days on any quarterly payment, we then again have the right to accelerate the loan and demand full payment of the loan.

CHAIRMAN CULLEN: What happens if five or six partners decide to dissolve the partnership and the week before dissolution they dispose of all their holdings to third parties, then where is your security?

MR. PAYNE: Oh, our security is always to go to the assets of the partnership in a case of dissolution and I suspect that --

CHAIRMAN CULLEN: If they dispose --

MR. PAYNE: -- any such disposal would be not too difficult to overcome in a legal process.

ASSEMBLYMAN THOMAS: May I ask a question?

CHAIRMAN CULLEN: Mr. Thomas.

ASSEMBLYMAN THOMAS: So you did have legal recourse against Kaiser-Aetna under the agreement?

MR. PAYNE: Under the -- oh, yes, I think so.

ASSEMBLYMAN THOMAS: Let me read the Legislative Counsel's opinion and for your information you can discuss this with your attorney.

MR. PAYNE: Okay.

MR. FOWLER: Will we get a copy of this?

ASSEMBLYMAN THOMAS: You'll get a copy of everything. "We think that in the event of any actual or alleged failure, breach or default under the note by Kaiser, PERS would have no recourse or remedy against any of the partners individually or any non-partnership property owned by them individually." This is the last -- this is the thing that you should remember, this comes from the Legislative Counsel as to the note which you signed: "In view of our opinion, number one, and our analysis, we think that in the event of any actual or alleged failure, breach or default of the loan agreement by Kaiser, PERS has effectively waived its rights to proceed against the partners individually with respect to any obligation or liability accruing emanating from the note."

MR. PAYNE: May I ask, Mr. Thomas, if he concludes that we couldn't proceed against the assets of the partnership, because I think we can.

CHAIRMAN CULLEN: Yes, he -- Mr. Thomas heard the question,

but I already pointed that out, the assets are gone, without consulting with you. There is no obligation on the part of the partnership in this agreement to consult with you before disposing of a hundred percent of their assets.

MR. PAYNE: Does it -- does the Legislative Counsel believe that the partnership could by, you might say, almost fraud dispose of the assets and dispose of the partnership, I think that's -- without our having recourse?

CHAIRMAN CULLEN: Mr. Bassett, Legislative Counsel.

MR. BASSETT: We were not asked to consider that question. But without putting in the fraud element, which of course would go to the basis of the whole contract, I don't see anything in the agreement that would prohibit them from dissolving the partnership.

MR. PAYNE: No, I don't either.

MR. BASSETT: Or disposing of assets.

MR. PAYNE: Or changing --

CHAIRMAN CULLEN: So that you find yourself standing at the door to an empty office, and all the furniture has been sold to satisfy partnership liabilities and they are not bankrupt, so they are not defrauding, they are only just dissolved.

MR. PAYNE: Well --

CHAIRMAN CULLEN: That's Mr. Thomas' point.

MR. PAYNE: Well, Mr. Thomas -- I personally don't concur with it. It is a legal matter, I agree with you.

ASSEMBLYMAN SEELEY: Mr. Chairman, may I ask a question here?

CHAIRMAN CULLEN: Mr. Seeley.

ASSEMBLYMAN SEELEY: I really don't know what the purpose of

this hearing is, it's never been described to me of what we are trying to point out. Kaiser-Aetna is a fairly large company, their assets are good and their ability to repay any notes that they might make I think is good. You have an opinion from a member of the Legislative Counsel. I would assure you that if you go down and ask a half a dozen others you can probably get a half a dozen other opinions. You are not citing any instances on which this opinion was based. Now, what are we doing here bickering back and forth? Is there a possibility that Kaiser-Aetna is not going to pay off their note, is that the purpose. I would just like to be briefed a little bit as to what we are doing.

ASSEMBLYMAN THOMAS: May I ask a question.

CHAIRMAN CULLEN: Mr. Thomas.

ASSEMBLYMAN THOMAS: It is not Kaiser-Aetna, separate corporations, that purchased this property. They formed a partnership to purchase this 230 acres. So when they did that the PERS waived that no partner of Kaiser-Aetna shall be sued, named, or anything. The corporations are out of it completely. It is this little partnership we are talking about, and in this partnership they waived all liability for default, everything. And here's the agreement. Would you like to see the agreement?

ASSEMBLYMAN SEELEY: No, not necessarily, I don't belong to PERS. If I did, I'd have a little more of an interest in it, but I think these people probably have an interest and I don't quite --

ASSEMBLYMAN THOMAS: Mr. Seeley, we have been working on this for six months and if you didn't hear the arguments last week, we tried to point out this is not against Aetna or Kaiser Corporation.

It is -- we are not dealing with them as a corporation. They formed a special partnership to purchase this one piece of property and when they sell it they can sell it for residential purposes contrary to the proposed plan of industrial -- and what's the other?

CHAIRMAN CULLEN: Commercial.

ASSEMBLYMAN THOMAS: Commercial.

MR. PAYNE: Mr. Thomas, could I make a comment?

CHAIRMAN CULLEN: Mr. Payne.

MR. PAYNE: Kaiser-Aetna partnership -- partnership of Aetna and Kaiser Industries were in existence before this property was purchased. This is their business. They didn't form it specifically to purchase this property.

ASSEMBLYMAN THOMAS: Would you say this is a good agreement for some security note?

MR. PAYNE: Yes.

ASSEMBLYMAN THOMAS: It is?

MR. PAYNE: Yes, indeed.

ASSEMBLYMAN THOMAS: Why did you waive all of your rights?

MR. PAYNE: I tried to explain why, sir. The reason we started out trying to insist that we had the two major partners on the hook. Their partnership agreement precludes this and my understanding is that Aetna can't enter into this situation. Aetna can't. However, we felt and do feel and do believe that Kaiser and Aetna as partners are reliable partners and that you start right there with your security.

ASSEMBLYMAN THOMAS: Yes, but you have excluded every other proposal that came before your board, and we are going to introduce

documents to show much more than what you are telling us. Now, the only reason that we are having this preliminary meeting is, before we introduce the evidence, we want you to know we want to hear your story. Was this a conspiracy just to sell to one buyer?

MR. PAYNE: No.

ASSEMBLYMAN THOMAS: It wasn't?

MR. PAYNE: Absolutely not.

ASSEMBLYMAN THOMAS: Were the other proposals considered?

MR. PAYNE: Not from our standpoint. We had no -- we never had a valid proposal presented to us that we rejected.

ASSEMBLYMAN THOMAS: Well, how did you happen to sell to Kaiser-Aetna?

MR. PAYNE: In the first place, we didn't sell. We entered into an agreement to finance. Simply because Kaiser-Aetna was the only valid firm that was willing to meet reasonable conditions and meet the purchase price that would bail us out. Kaiser-Aetna was the only one to come forth to us.

ASSEMBLYMAN THOMAS: I think we should continue our meeting till we get our witnesses, I suppose.

CHAIRMAN CULLEN: All right. All right, gentlemen. Thank you for appearing. As you may know, we have subpoenaed the escrow records of this transaction from Transamerica Title Insurance Company. We have gathered information through General Services, your system and other State agencies. So I would -- I wish to announce that I have appointed a subcommittee to pursue the Point West transaction separately from the future of Cal Expo.

Assemblyman Thomas will chair the subcommittee and the membership

will comprise the other members of the full Committee. I've already discussed this with Assemblyman Thomas and he's convening his first meeting at 1:30 next Tuesday afternoon. I'm sure you will all receive letters so that you may be present, observe the documents and respond to questions from his subcommittee at that time. Thank you very much.

MR. PAYNE: Thank you.

MR. FOWLER: Thank you.

CHAIRMAN CULLEN: We will recess for ten minutes.

RE C E S S

CHAIRMAN CULLEN: All right. Gentlemen, before I take questions from the Committee, is there anyone who wishes to respond or say anything relevant to the hearing of last week? Mr. Clifford.

APPEARANCE OF MR. JACK CLIFFORD, MEMBER, CALIFORNIA STATE EXPOSITION AND FAIR EXECUTIVE COMMITTEE:

MR. JACK CLIFFORD: I was -- I'd just like to make a statement. It is kind of to let you know how I feel about it.

CHAIRMAN CULLEN: All right, Mr. Clifford is a member of the Executive Committee of Cal Expo, is that right?

MR. CLIFFORD: Yes, sir. I came on the Committee in 1968 shortly before the vote was taken on termination of the Corporation and I forget now whether the vote was yes or no, but I voted to do away with the Corporation mainly because, as I understood it, and correct me if I'm wrong, when I went on the Executive Committee, the Corporation was more or less running things at Cal Expo and the Executive Committee had the veto power over the Corporation. General Lolli, then head of General Services, had the veto power

over the Executive Committee. General Lolli served on the Corporation Board of Directors, he served on the Executive Committee and to me it looked like an unworkable situation. Of course, I come from a small County where there's about 17 percent unemployment, Lake County. It is better now. And the payroll at that time, at the Cal Expo, I believe, was \$80,000 a month which I thought was excessive. And I discussed it at length with Cap Weinberger who was then --

CHAIRMAN CULLEN: Director of Finance.

MR. CLIFFORD: -- on Governor Reagan's staff, Director of Finance, I believe, and he was in favor of doing away with the Corporation Board, because he said that they were out of money and as he explained it to me, if I remember correctly, it was hard for any Board like the Corporation to run on State money and seeing it become more or less not a political football, but a political subject in town because unfortunately for Cal Expo, I think that it wasn't completed before we had a change of administrations. I think it was hard for a new Governor to come in and a lot of his people were a little conservative, more on the conservative side, and I remember there was quite an uproar among the people in agriculture when Cal Expo was first being -- was first started out there, that they were being left out of the picture. And that's why I voted to -- against the Board, and I had some good friends on the Board, this is one of those things where -- where you -- whichever way you go you are going to lose a pal, you know.

CHAIRMAN CULLEN: You mean vote against the Board, you mean

in favor of terminating the Corporation?

MR. CLIFFORD: I don't remember how the vote was worded. I don't know, we voted no or yes -- I remember General Lolli abstained.

CHAIRMAN CULLEN: The Board of Directors is what you were referring to when you say Board?

MR. CLIFFORD. Yes, I don't mean to blame General Lolli for anything, although as a former PFC in the Marines I had a tough time warming up to him. And I think that in my opinion, and this is just my opinion, I don't believe that this State should be in the amusement business. You know, I don't -- I think if -- if we are going to have a Disneyland North, I'd like to see Disneyland do it. Of course, I realize we have started this now and I think it is a beautiful plan, I really enjoy myself out there, but if I had my way there would be something like a nonprofit organization or some other type of board that would run the California State Fair and Exposition and our Board would be a Fair Board. We can still have a State Fair, and I think we do have a good Fair Board. And I think that when the Governor made the appointments on this Board, he made it as a Fair Board. Now, he never told me that, that's just my opinion. You know, as a Fair Board, we can run a good race meet and keep the lawns green and keep the drunks off the ferris wheel, and stuff like that. But when it comes down to a -- as the original concept of the State Fair -- Cal Expo, I think we are a little overmatched. I don't mean that as a detrimental statement against anybody. Some men can do some things other men can't do.

I had a good friend on the Corporation Board, Pat Hyland. He and I are still good friends and he never got out of grammar school -- but he's Executive Vice-President of Hughes Tool Company -- Hughes Aircraft in the State of California and he's one of the men that invented radar, and I think if this thing ever goes back to its original concept, it is men like Mr. Hyland that should be running it. Not men like myself. I think I'm a good Fair Director, but not a good Cal Expo Director. I can't think of anything else I could add to this.

CHAIRMAN CULLEN: Thank you, Mr. Clifford.

MR. CLIFFORD: Unless there are any questions, I'll try to answer them as straight as I can.

CHAIRMAN CULLEN: I recall that the testimony last week by some of the gentlemen present was to the effect that the original objectives to what you just stated you'd like to go back to, are still the goals of this administration and that the Executive Committee working toward the fulfillment of these objectives. Would you comment on that statement?

MR. CLIFFORD: Well, you mean the --

CHAIRMAN CULLEN: The fulfillment of the original plan. Yes, is the Executive Committee or has the Executive Committee been moving toward the fulfillment of the objectives of the original plan as modified by the --

MR. CLIFFORD: Not in my opinion. Not in my opinion, but I went -- I will speak for only myself, I'd like to make that clear. You know, we only meet once every two months and the committees don't really meet all that much. We get pretty busy

before Fair time and I think it is an impossibility for our Board as it is set up now with the schedule that it has to -- we are all busy men, you know, doing something else, and my answer to that is no.

CHAIRMAN CULLEN: Well, then who in your view -- what persons constitute management out there, of the Exposition grounds?

MR. CLIFFORD: I didn't quite understand you. You mean like the manager?

CHAIRMAN CULLEN: Who is running that operation out there except for the State Fair Executive Committee? Who runs it the rest of the year?

MR. CLIFFORD: I think Mr. Bair does and I think under the circumstances he does a fine job, really. He has to -- he gets the -- the administration demands excellence of him. He tries to fulfill that, I'm sure, at the same time trying to pacify a board that I'm sure on occasions has him stymied.

CHAIRMAN CULLEN: Have you been given a copy of this year's report of the Executive Committee to the Legislature yet?

MR. CLIFFORD: Yes, sir.

CHAIRMAN CULLEN: Have you any comments on that?

MR. CLIFFORD: No, because I really didn't study it. I didn't do my homework, I just read it very briefly and --

CHAIRMAN CULLEN: Any questions of Mr. Clifford which --

ASSEMBLYMAN THOMAS: I would just like to ask --

CHAIRMAN CULLEN: Mr. Thomas.

ASSEMBLYMAN THOMAS: I don't know too much about the Cal Expo, but would you recommend abolishing it?

MR. CLIFFORD: No, sir, I think that when you get stuck with a lemon you ought to try to make lemonade out of it and I hope that some day this thing can go, but I just don't think that appointees of the -- of any Governor, who are honorable men, you know, we are -- we are dumb but honest, you know, out there. I just don't feel that we are equipped to go ahead with that having to -- go ahead, Mr. Thomas, I didn't mean to interrupt.

ASSEMBLYMAN THOMAS: In other words, you are trying to say you haven't got the talent?

MR. CLIFFORD: I think that's true.

ASSEMBLYMAN THOMAS: You haven't got the talent to carry out the original purpose.

MR. CLIFFORD: Nor the money. But it takes both. Money without talent is a waste.

ASSEMBLYMAN THOMAS: Has any effort been made to get new talent, I mean real talent to carry on this Cal Expo?

MR. CLIFFORD: Not in my opinion. But I feel that -- because I feel that it's been -- it's been projected as a Fair, a Fair Board. And I think we ought to have the greatest State Fair in the country. You know, not too many years ago we had a real State Fair in this State and now -- now places like Dallas, Texas, and Pennsylvania and Illinois and -- I could name several more if I thought, have surpassed us and I think this is too bad. I think that California should have a great showplace for its -- not only its agriculture but its industry, its people, black culture, every kind of culture. We are a partisan Fair Board, and I think that if you are going to go into a bigger concept that you need something

besides a partisan Fair Board. I think we do a good job as far as the Fair is concerned, I didn't mean to suggest that.

ASSEMBLYMAN THOMAS: Well, would you abolish -- just keep the Fair -- would you state the best avenue to follow is just the Fair and develop it to what it was on the old site? I attended the Fair there many times.

MR. CLIFFORD: I enjoyed it very much.

ASSEMBLYMAN THOMAS: I thought it was tremendous.

MR. CLIFFORD: Yes, sir. No, I would -- I would never want to do away with the State Fair. In fact, I would like to see the State Fair really blossom to where it is once again mentioned with places like Dallas and Illinois.

CHAIRMAN CULLEN: All right, sir. Any other statements before we resume the hearing? Did you have to leave?

MR. CLIFFORD: We are kind of working at the ranch and it is good weather, I'm taking advantage of the good weather and if it is all right --

CHAIRMAN CULLEN: I have no objection if there are no other questions.

ASSEMBLYMAN THOMAS: You call this fog good weather?

MR. CLIFFORD: We don't have fog in Lake County. No smog, fog or parking meters. Three things we don't have.

CHAIRMAN CULLEN: Thank you very much.

MR. CLIFFORD: Thank you.

CHAIRMAN CULLEN: Mr. Nissen, last week --

APPEARANCE OF MR. RALPH NISSEN, CHAIRMAN, CALIFORNIA STATE EXPOSITION AND FAIR EXECUTIVE COMMITTEE; ACCOMPANIED BY MR. THOMAS BAIR, MANAGER, CALIFORNIA STATE EXPOSITION AND FAIR, MR. DAVE KELTS,

CONTROLLER, CALIFORNIA STATE EXPOSITION AND FAIR, AND DR. H. C. SANDERSON, MEMBER, CALIFORNIA STATE EXPOSITION AND FAIR EXECUTIVE COMMITTEE.

MR. RALPH NISSEN: Mr. Cullen, could I ask you to ask him to remain, please? I think this is one of the problems. Some of our Board members, if they attended the entire Board meetings we wouldn't have some of these problems. Would you please request Jack to be here.

MR. CLIFFORD: I'll be here, I don't think I ever missed a meeting.

CHAIRMAN CULLEN: Mr. Nissen, last week I read the 1963 statute which requires the Executive Committee to submit a report to the Legislature and the Governor during the first 30 days of each General Session. You may recall, you thought it read that the Chairman of the Committee --

MR. NISSEN: Yes, sir.

CHAIRMAN CULLEN: -- should submit a report. Now, one of the reasons given for terminating the Corporation was it was -- was that the Executive Committee determined that it was not as efficient as was desired by the Executive Committee and we asked Mr. Bair for copies of the reports of the last several years sent over to the Legislature pursuant to law. We have the latest one here addressed to the Honorable Robert Moretti, describing it as a fourth report that you had the honor and responsibility to make. We also -- Mr. Bair was unable to locate, and we have been unable to locate, the report submitted to the Governor and the Legislature in 1968.

Now, when you say the fourth report, that's 1969, 1970, 1971,

and 1972. Weren't you the President -- or is it the Chairman of the Committee in 1968?

MR. NISSEN: I think I went on -- I would have gone on in the -- I believe in February of 1968.

CHAIRMAN CULLEN: All right.

MR. NISSEN: So, in other words, it would be the termination of Bob Setrakion's year.

CHAIRMAN CULLEN: All right, who constructs this report for you?

MR. NISSEN: Well, it's been a combination of the Manager and I together that have worked up this report.

CHAIRMAN CULLEN: And you are pretty familiar with this report that was just submitted to the Legislature?

MR. NISSEN: Yes.

CHAIRMAN CULLEN: It is fresh in your mind? Let me ask you a question here. In addressing Bob Moretti, you say, "However, your appointees to the Executive Committee feel it is their responsibility to present their recommendations for your review".

MR. NISSEN: Sir --

CHAIRMAN CULLEN: Yes.

MR. NISSEN: May I clear one thought. What these are, they were the -- they were actually the copies to the Governor and there is an editing mistake in that. This is -- in other words, it is an exact copy of the report that went to the Governor with the difference -- the only difference in the change was on the heading.

CHAIRMAN CULLEN: I hope -- hope the Speaker realizes that. And I suppose then that the earlier reports, none of which Mr. Bair

is able to give us any copies of anything addressed to the Legislature, but he gave us --

MR. NISSEN: You are talking -- you said 1968 now.

CHAIRMAN CULLEN: For 1969, 1970 and 1971, he gave us copies of the letter to the Governor. So that can I presume that copies were sent to the Legislature?

MR. TOM BAIR: Yes, that's true. It just happened to be the ones that I pulled out of the file. We have copies to all three of the people who have received this in the file, but the ones I pulled out to be photocopied for you just happened to be those. They are all identical.

CHAIRMAN CULLEN: So you conclude this report, in which you are required to report the financial condition, present operations and future planned activities of the Exposition with this paragraph: "The Executive Committee looks forward to further exploration in alternatives in presenting a better State Exposition and Fair and we hope and believe we will eventually have the finest event in the nation."

What event is that?

MR. NISSEN: Finest Fair, I would say.

CHAIRMAN CULLEN: Are you talking about a two week period?

MR. NISSEN: No, I -- for the present.

CHAIRMAN CULLEN: Or 21 day period?

MR. NISSEN: 20 days, whatever it may be presently, yes, but I certainly --

CHAIRMAN CULLEN: Well, is Mr. Clifford perhaps correct in his view that the Executive Committee preoccupies itself with

21 days in the year?

MR. NISSEN: I have to very violently disagree with that statement and that's the one reason I wanted him to sit here, so he could hear my remarks.

CHAIRMAN CULLEN: Let's hear your rebuttal.

MR. NISSEN: Personally, my feeling on the thing is that I, as the Chairman, put in a lot of time down here on this thing and the Management Subcommittee, which is equivalent to what would normally be a -- an Executive Committee of any other organization, probably -- properly named, puts in considerable time and we do not get into management. My feeling is we hire a manager, we hire management to take care of the actual management. Our decisions are in directing him, not in getting into day to day management and I don't think that you or anybody in the State would expect us to be in the actual management of the organization. We just, as members of the Executive Committee --

CHAIRMAN CULLEN: You are putting words in my mouth. It is that a Board of Directors generally requires management to do what the Board of Directors wants done.

MR. NISSEN: Right.

CHAIRMAN CULLEN: And if the Executive Committee, for some reason, is satisfied that there is insufficient planning or inadequate documentation for judgment decisions by the Board, then the management is going to hear about it.

MR. NISSEN: That's right. And he has.

CHAIRMAN CULLEN: All right. Now, returning again to the statute, the report respecting the financial condition of Cal Expo.