

JAN M. FLORY
Attorney at Law
1400 Brea Boulevard
Fullerton, California 92835

(714) 525-9998
FAX (714) 525-9970

January 27, 2015

Board of Directors, OCWD
Property Management Committee

Dear Colleagues:

On February 13, 2015, Bill Hunt took me on a tour of the Raahauge leased property in Prado Basin. It was an eye opener and raised many issues for me.

As you are no doubt aware, the Raahauge Family has been in control of the property since 1971 when OCWD first leased 773 acres to Linc Raahauge for 10 years with two 5-year options. See 6-page attachment that memorializes the leases to the Raahauge Family or related entities. It appears that a second lease for an additional 600 acres was extended to Linc in 1982. This lease was for 10 years with two 5-year options. Both of these leases were assigned to Mike and Betty Raahauge in 1983. By agreement in November 1994, both of these leases were to terminate by November 1995.

In February 1995, Mike Raahauge leased 135 acres on the North Bluff at Prado Basin for 10 years expiring in 2005. In 2005, the lease was extended for another 5-year period at a monthly rent of \$7,400 with annual 9% rent increases. In 2010, the lease was extended for another 5 years to December 31, 2015.

There are many other adjustments to the leases described in the attached chronology; however, the gist of the chronology is that OCWD has leased property to the Raahauge Family since 1971,-- more than 43 years.

In December 2014, the OCWD Board directed staff to begin negotiations with the Raahauges to extend the lease once again. At the Property Management Committee meeting on Dec. 12, 2014, the committee was presented with a letter from the Raahauges asking for a 20-year extension of the lease with rents to remain fixed for 5 years.

Before the Board entertains an extension of the lease, I believe that it is essential that the following information be obtained:

1. A description of the leased property as it relates to the entire OCWD holdings in or adjacent to Prado Basin.
2. An inventory (with descriptive map) of all activity areas and structures (including offices, gun bays, shooting ranges and area, residences, storage buildings, etc.) on the property.
3. An assessment of any and all contaminants on the property. This would pertain to all shooting areas, past and present, and should include all areas in which shooting presently occurs or has occurred. To the Raahauges' credit, the latest proposal to extend the lease includes an offer to

create a joint fund with OCWD for lead removal maintenance; however, such a joint fund is meaningless in the absence of valid data verifying the extent of the problem.

4. An inventory of all subleases on the property including revenues generated thereon for the past five years.
5. An historical audit of all receipts received by the Raahauges from April 2000, and a description of how receipts are tracked or accounted for.
6. An audit of all OCWD expenses, if any, related to the property leased by the Raahauges for the past 10 years.
7. A description of regulatory agencies, if any, that regulate any of the activities that the Raahauges conduct on the leased property. If so, do the Raahauge-sponsored activities comply with all regulations?
8. In the absence of any such regulatory agency, is there any association pertaining to gun ranges, shooting clubs, etc. that has promulgated best practices, and are such best practices employed by the Raahauge enterprises? This is particularly important where OCWD may be potentially liable for accidents that occur on the property if it does not properly oversee what are inherently dangerous activities. Just last month a shooter shot himself in the leg when he dropped his firearm. I'm not certain that an indemnification clause in the lease would protect the district against an aggressive plaintiff's attorney hot to assign liability against the district (i.e., the "deep pocket").

In past board discussions, regarding the Raahauge lease, it has been opined that issuing an RFP for lease of the property would be futile in that no other prospective lessee would be willing to take on the liability of past contamination of the property. The question to be asked is does it make sense to lease the property for another 20 years to the very enterprise that caused the contamination to begin with? Addressing those issues set forth above, will provide the Board with the information it needs before it makes a decision regarding the lease of the subject property.

Sincerely,

Jan M. Flory
Enclosure