

# Coto Equestrian Preserve

## Questions & Answers

Q. Did SBC ever consider half the Equestrian Center to be developed with homes?

A. Back in 2013, the majority of SBC Board Members that supported Senior Assisted Living at Merryhill property entered into a listing to sell half of the Equestrian Center to a homebuilder. Oak Grove LLC made a tender offer for SBC shares in 2014 and acquired majority control of SBC, elected a new Board majority, cancelled the listing of Coto Equestrian Center, stopped self-dealing that squandered \$10 Million of SBC's money over the years, sold Coto Valley Country Club to Kenny Paul with the covenant that he had to preserve it as a club, got Grand Slam Tennis as the Tenant/Operator of Coto Tennis Club and pledged to preserve and enhance the Equestrian Preserve.

Q. What is the plan to enhance the Equestrian Center?

A. Plans are complete for all-weather natural-appearing decomposed granite roads and parking, state of the art Plaza Barn with two high profile trainer offices, 38 very large covered stalls, 2 tack rooms, 32 tack lockers, 2 horse washing stations, new Hay Barn, the Hunt & Saddle Lounge, new Equestrian Office, new roof for the Upper Barn & Covered Arena, extensive new landscaping and hardscaping, new signage and extensive storm drain improvements to stop the extensive flooding of the equestrian area during rainstorms. Coto Equestrian Preserve will be one of the finest equestrian facilities in California and return to a beautiful and proud place for those that love horses.

Q. Why the name change from 'Center' to 'Preserve'?

A. To recognize that the 24.1 acres have been preserved for equestrian use for future generations and to counter the misinformation campaign that the equestrian use was going away at the 24.1 acres.

Q. Can Silver-Bronze Corporation (SBC) unilaterally terminate the Use Preservation Easement?

A. No. It is not possible for SBC or the County or California State Horsemen's Association, who are the named "beneficiaries," to unilaterally terminate the Use Preservation Easement.

Q. Does the Use Preservation Easement have an expiration date?

A. No. It is recorded against the 24.1 acre Coto Equestrian Preserve and runs with the land in perpetuity.

Q. Why was the Coto Equestrian Use Preservation Easement given to the California State Horsemen's Association & the County of Orange?

A. California State Horsemen's Association is California's oldest and largest horsemen's association with over 20,000 members, and one of its missions is to promote equestrian recreation and rights in the state of California.

Q. Has the California State Horsemen's Association and/or the County of Orange accepted the Use Preservation Easement?

A. California State Horsemen's Association, which is a 501(c)3 non-profit organization, accepted the Use Preservation Easement; however, the County has not yet accepted the Equestrian Use Preserve Easement which is not unusual for governmental agency.

Q. Can the County still enforce the Equestrian Use Preserve Easement?

A. Yes. A prominent real estate lawyer and a senior title officer at Fidelity Title both confirmed that both or either Beneficiary of the easement can enforce the recorded restriction.

Q. Why was CZ Master not named as a beneficiary of the easement?

A. CZ Master is not a 501c and therefore does not qualify for a tax deductible gift under IRS rules. Only government agencies and 501c non-profits are allowed

Q. Does the lack of County acceptance of the gifted easement matter?

A. No. Acceptance of the Use Preservation Easement gift by a 501(c)3 is needed per the tax deductible guidelines of the Internal Revenue Service and the California State Horsemen's Association acceptance accomplished that requirement. The beneficiaries of the easement may enforce the requirements of the Use Preservation Easement restriction. From a practical standpoint, it would be virtually impossible to get a permit from the County for another use due to the Use Preservation Easement and impossible to get title insurance necessary to finance or sell the Coto Equestrian Preserve for another use with the Equestrian Use Preservation Easement on title.

Q. What was the appraised value of the Use Preservation Easement gifted by SBC?

A. \$15.66 Million by Colliers MAI.

Q. What is Oak Grove?

A. Oak Grove is the 5.1 acre site jointly owned by Oak Grove LLC and SBC. SBC and Oak Grove LLC are currently processing an application with the county of Orange to down-zone the

5.1 acres (2.9 acres of the long abandoned Merryhill School site & 2.2 acres from SBC) from Community Center Commercial (which allows several commercial uses such as self-storage or an assisted living center) to Low-Density Residential. The residential site will contain 13 lots ranging in size from 12,000 – 20,000 sf.

Q. Does the Tenant at Coto Equestrian Preserve support Oak Grove?

A. Yes, Cinnabar Equestrian Operations, who is the Tenant, support Oak Grove because upon sale of Oak Grove to a merchant homebuilder, SBC receives a 43.2% share of all the proceeds which will provide the money to do the \$1.6 Million+ of improvements to Coto Equestrian Preserve.

Q. What improvements are planned for Coto Equestrian Preserve?

A. Extensive storm drain improvements to stop the extensive flooding of the equestrian area during rainstorms, all-weather natural-appearing decomposed granite roads and parking, state of the art Plaza Barn with two high profile trainer offices, 38 very large covered stalls, 2 tack rooms, 32 tack lockers, 2 horse washing stations, new Hay Barn, the Hunt & Saddle Lounge, new Equestrian Office, new roof for the Upper Barn & Covered Arena, extensive new landscaping and hardscaping, and new signage.

Q. Will there be less riding arenas?

A. No. The Upper Arena, Grand Prix Arena, Middle Arena, Dressage Arena, Covered Arena and Lower Arena are all preserved and will be improved, including new footing, when SBC receives its share of the Oak Grove Sale.

Q. Will there be less horse stalls?

A. No. Upon completion of the state-of-the-art Plaza Barn, for which the architectural construction documents are complete & construction contract awarded, Coto Equestrian Preserve can board the same number of horses in superior conditions.

Q. When will installation of the Plaza Barn & the other improvements begin?

A. First, SBC needs to receive its 43.2% of the Oak Grove sales proceeds in order to pay for the planned improvements. Next, SBC will need to process a Site Improvement Plan through the county to get a building permit issued. As soon as Oak Grove is approved, we hope it will take no more than 6 months to get the Site Improvement Plan approved.

Q. Why was the lower barn torn down?

A. The Master Plan calls for combining the 2.2 acres (7%) of the Coto Equestrian Center with the adjacent abandoned Merryhill School property to create Oak Grove. The County required

the demolition of the lower barn because it crossed the newly created property line before allowing the recordation of Lot Line Adjustment 2015-018, SBC needed the Lot Line Adjustment to record before year end 2016 to honor two contractual obligations and to create a legal parcel, combining its 2.2 acres with Merryhill's 2.9 acres to create the 5.1 acre Oak Grove parcel, for title and sale purposes. In addition, while the iconic Upper Barn and the Covered Area are in good condition and are being preserved, the Low Barn was half empty because it had numerous issues including serious structural and electrical issues, bat infestation and unfortunately there are a record number of vacant stalls so early demolition of the Lower Barn to honor SBC's contractual obligations did not affect stall occupancy and eliminated a health and safety problem.

Q. What will happen to Oak Grove?

Oak Grove will be sold to a homebuilder for 13 low-density residential homes which results in less traffic than any financially viable commercial use, is better for adjacent home values and preserves all of the beautiful Heritage Oak trees. SBC will use its 43.2% of the sale proceeds from the Oak Grove sale to construct over \$1.6 Million of improvements on the 24.1 acre Coto Equestrian Preserve, including the new state-of-the-art Plaza Barn, the Hunt & Saddle Lounge, decomposed granite roads and parking, extensive landscaping, and a badly needed storm drain system to prevent the unsafe flooding of most of the Equestrian Preserve during heavy winter rain and to make Coto Equestrian Preserve one of the finest equestrian facilities in California.

Q. Has Lot Line 2015-018 been recorded?

A. Yes. Oak Grove is a legal Parcel and so is the 24.1 acre Coto Equestrian Preserve.

Q. Why has the abandoned Merryhill School building, which is a health and safety hazard, not been torn down?

A. Several fires have been started in these abandoned buildings by homeless (*yes, homeless in Coto*) presumably to stay warm in the winter. We have boarded up all the doors and windows and put an expensive chain-link fence around the Oak Grove property and the cost of demoing the Merryhill buildings is approximately \$100,000. The cost estimates that were used for the homebuilder bidding process and SBC and Merryhill LLC desire that the Purchase and Sale Agreement entered into with Trumark Homes has homebuilder bearing expense of the demolition of the abandoned Merryhill buildings. The cost of relocating the electrical transformer and switching equipment, which are located within Merryhill and serve Coto Equestrian Preserve, is over \$100,000 including design and SBC needs funds from the sale of Oak Grove to pay the more than \$100,000 to relocate the electrical transformer and switching equipment, the \$100,000± to demolish the abandoned Merryhill buildings, and the \$1.6 Million of Coto Equestrian Preserve improvements. SBC cannot afford these costs until Oak Grove is sold, however, when the Oak Grove downzoning is approved by the OC Board of Supervisors and the homebuilder's non-refundable deposit is received, Oak Grove LLC and SBC will demolish the Merryhill building prior to the sale escrow closing.

Q. Why did CZ Master support Senior Assisted Living for Merryhill?

A. The facts and writing are clear regarding past CZ Master Board's support for Senior Assisted Living. However, we hope the current CZ Master Board will show deference to the unanimous wishes of Rancho Colinas Board of Directors and the Coto Equestrian Preserve Tenant, which are both adjacent to Merryhill and are opposed to Senior Assisted Living and support the downzoning of Oak Grove to low-density residential.

Q. Why did the Use Preserve Easement not have CZ Master as a beneficiary?

A. CZ Master is not a 501c non-profit or a governmental agency required for a tax deductible gift. Also, Coto Equestrian Preserve is not part of CZ Master Association.