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7 Attorneys for Debtor
 City of Stockton

9 UNITED STATES BANKRUPTCY COURT
 10 EASTERN DISTRICT OF CALIFORNIA
 11 SACRAMENTO DIVISION

13 In re:
 14 CITY OF STOCKTON, CALIFORNIA,
 15 Debtor.

Case No. 2012-32118
 D.C. No. OHS-15
 Chapter 9
 Adv. No. 13-02315

16 WELLS FARGO BANK, NATIONAL
 17 ASSOCIATION, FRANKLIN HIGH
 18 YIELD TAX-FREE INCOME FUND,
 19 AND FRANKLIN CALIFORNIA
 HIGH YIELD MUNICIPAL FUND,

20 Plaintiffs,

21 v.

22 CITY OF STOCKTON, CALIFORNIA,
 23 Defendant.

**DIRECT TESTIMONY
 DECLARATION OF RAY SMITH IN
 SUPPORT OF CITY'S
 CONFIRMATION OF FIRST
 AMENDED PLAN FOR THE
 ADJUSTMENT OF DEBTS OF CITY
 OF STOCKTON, CALIFORNIA
 (NOVEMBER 15, 2013)¹**

Date: May 12, 2014
 Time: 9:30 a.m.
 Dept: Courtroom 35
 Judge: Hon. Christopher M. Klein

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 28 ¹ Out of an abundance of caution, and because the evidentiary hearing on Plan confirmation and the trial in the adversary proceeding share common issues, it is being filed in both the main case and the adversary proceeding.

1 I, Ray Smith, hereby declare:

2 1. I am the Principal and co-founder of The Bramwell-Smith Company, which
3 specializes in property appraisals, consulting, and litigation support. I have over 35 years of
4 experience as an appraiser and have been an MAI member of the Appraisal Institute since 1995. I
5 have been involved in hundreds of real estate appraisals throughout California. I have been
6 engaged by the City of Stockton's counsel, Orrick, Herrington & Sutcliffe LLP, to assess the
7 analysis, opinions, and conclusions set forth in the Expert Report of Frederick E. Chin (the "Chin
8 Report") submitted by Franklin High Yield Tax-Free Income Fund and Franklin California High
9 Yield Municipal Fund (together, "Franklin"), and to provide my opinions regarding the Chin
10 Report, as well as any declarations or testimony offered by Mr. Chin.

11 2. In addition to appraising more traditional properties, I have extensive experience
12 in appraising the fair market value of interests in a wide variety of specialized use properties. By
13 way of example, I have appraised the fair market value of interests in limited market industrial
14 properties, churches, gas station/convenience stores, a YMCA building, a quick lube facility, a
15 golf course, a veterinary hospital, a car wash, vineyards, shopping centers, a marina, subdivisions,
16 and fast-food restaurants. My practice has included the valuation of fee simple, leased fee,
17 leasehold, and easement property interests. For each appraisal, I took it upon myself to become
18 knowledgeable about the appropriate methodology for that type of specialized use property, by,
19 among other things, interviewing market participants and researching publications of other
20 experts.

21 3. I have reviewed the Chin Report. I believe that the analyses, opinions, and
22 conclusions in the Chin Report suffer from significant problems and are inherently unreliable.
23 The Chin Report contains numerous flaws, including opinions and conclusions based on
24 inadequate information, improper assumptions, insufficient consideration of critical factors (such
25 as negative cash flow), and poor methodologies. My analyses and conclusions as to the Chin
26 Report are more fully explained in my rebuttal report ("Rebuttal Report"), a true and correct copy
27 of which is attached hereto as Exhibit A.

28

1 4. Following the submission of the Rebuttal Report on April 7, 2014, I continued to
2 gather information relevant to the value of Swenson Park golf course, Van Buskirk golf course,
3 and Oak Park. Primarily, I interviewed several persons with knowledge of these properties or
4 with considerable knowledge of appraisal principles and practices. I also reviewed additional
5 texts on appraisal methodology. My additional research reaffirms the conclusions in the Rebuttal
6 Report that the Chin Report's valuation of these properties is seriously flawed.

7 5. Subsequent to the submission of the Rebuttal Report, I met and spoke by telephone
8 with Tom Nelson of KemperSports, Inc. Mr. Nelson is the General Manager of Swenson Park
9 and Van Buskirk golf courses (together, the "Courses"). During my in-person meeting with Mr.
10 Nelson, I visited and examined both of the Courses. The purpose of my communications with
11 Mr. Nelson was to, among other things, supplement my understanding of the current state of the
12 Courses, their competitive challenges, and the need for (and projected cost of) capital
13 improvements and deferred maintenance.

14 6. As I described in the Rebuttal Report, the Chin Report fails to account for nearly
15 \$9 million in remaining necessary capital improvements and deferred maintenance at the Courses.
16 Rebuttal Report, Ex. A (March 2010 Community Services Department Summary of Golf Course
17 Capital Improvement Program Needs). Mr. Nelson confirmed to me that without these and other
18 improvements and maintenance, the Courses will struggle to turn a profit. Mr. Nelson provided
19 me with an explanation of the capital improvements and deferred maintenance needed at the
20 Courses, which include the installation of cart paths, new irrigation systems, dredging of the
21 existing ponds that provide water for the irrigation systems, tee, bunker and greens renovation,
22 extensive tree-trimming and landscaping, and repaving of the parking lots, among other items.
23 The full extent of capital improvements and deferred maintenance needed at the Courses is
24 described in detail in the Direct Testimony Declaration Of Tom Nelson Rebutting Expert Report
25 Of Frederick E. Chin, which is being submitted concurrently. According to Mr. Nelson, the
26 projected costs for such maintenance, repair, and capital improvements total approximately \$6
27 million to more than \$8 million.
28

1 7. Subsequent to the submission of the Rebuttal Report, I spoke on the phone with
2 Michael Cera, who is the General Manager of SMG Stockton and who is responsible for the
3 management and operation of the Oak Park Ice Arena (the “Ice Arena”). The purpose of my
4 communications with Mr. Cera was to supplement my understanding of the physical and financial
5 condition of the Ice Arena, including the need for, and projected cost of, capital improvements
6 and deferred maintenance at the Ice Arena.

7 8. The Chin Report states that the Ice Arena is the only portion of Oak Park that
8 “contributes material value to the property.” Chin Report, at 43. However, in addition to
9 improperly separating the valuation of the Ice Arena from the value of other parts of Oak Park
10 (and treating the value of the Ice Arena as essentially equivalent to the value of Oak Park), the
11 Chin Report also ignores the substantial capital improvements and maintenance required at the
12 Ice Arena. My conversations with Mr. Cera revealed that such improvements and maintenance
13 include replacing the outdated ice floor, replacing leaking pipes, replacing the ice plant and a
14 portion of the chillers, repairing chipped and damaged walls, repairing the lobby and restrooms,
15 and installing a ventilation system in the locker rooms. The full extent of capital improvements
16 and deferred maintenance needed at the Ice Arena is described in detail in the Direct Testimony
17 Declaration Of Michael Cera Rebutting Expert Report Of Frederick E. Chin, which is being
18 submitted concurrently. Mr. Cera estimated that the costs for such maintenance, repair, and
19 capital improvements would be over \$2 million.

20 9. Subsequent to the submission of the Rebuttal Report, I spoke by phone with Ken
21 Hopper, MAI, an established and well-respected golf course appraiser. Mr. Hopper has been a
22 golf course appraiser since 1974, and has completed over 60 golf course valuations in the Central
23 Valley and Northern California. The purpose of my communications with Mr. Hopper was to
24 gain the benefit of his experience and insight with regard to golf course appraisals generally, and
25 the Chin Report specifically.

26 10. Mr. Hopper’s analysis of the Chin Report confirmed my own. Specifically, Mr.
27 Hopper concluded that the Chin Report failed to give sufficient weight to the fact that the Courses
28 regularly experienced negative cash flows. Mr. Hopper also concluded that the Chin Report

1 applies an inflated gross income multiplier (“GIM”) to an inadequately supported increase in
2 gross revenue, while not properly considering deferred maintenance and capital improvements, as
3 further discussed below. Mr. Hopper’s input supported my conclusions regarding the
4 inadequacies of the Chin Report.

5 11. I attended Mr. Chin’s deposition on April 18, 2014. Mr. Chin’s deposition
6 testimony highlighted several deficiencies in the Chin Report, the foremost of which are
7 discussed below.

8 12. Mr. Chin admitted during his deposition that he did not quantify the capital
9 improvements needed at the Courses and Oak Park, and that his valuation is of the properties in
10 an “as is” state (i.e., with capital improvements yet to be made). Transcript of April 18, 2014
11 Deposition of Frederick Chin, (*Rough*) (“Chin”), 54:15-61:02, 95:9-96:20; 97:18-98:7; 114:12-
12 115:7; 137:5-138:12. My communications and site visits with Mr. Nelson and my
13 communications with Mr. Cera reinforce my conclusion that the Chin Report’s failure to account
14 for necessary maintenance and capital improvements at the Courses and Oak Park, among other
15 considerations, renders his valuation of these properties unreliable.

16 13. In addition to ignoring the perennial losses incurred by the Courses, Mr. Chin’s
17 valuation gives no weight to the fact that a new owner or lessee would have to spend millions of
18 dollars immediately and/or in the near future on necessary deferred maintenance and
19 infrastructure, and then only with the possibility of turning around the financial performance of
20 the Courses at some point in the future. Mr. Chin has not attempted to determine when or if any
21 such turnaround could occur, and has not formed an opinion on whether such a turnaround would
22 justify the expenditure of millions of dollars on deferred maintenance and capital improvements.

23 14. Any prudent investor considering the purchase of a leasehold or fee simple interest
24 in a property would attempt to quantify the amount of necessary maintenance, repair, and capital
25 improvements. As an experienced investor who acknowledges in his report the importance of
26 capital improvements, Mr. Chin should have attempted to quantify and account for these expenses
27 in his analysis of the value of the Courses and Oak Park. Mr. Chin testified that he did not
28 contact any personnel at either the Courses or Oak Park to inquire about this or any other issue,

1 though he admitted during his deposition that Franklin did not instruct him not to do so.² Chin,
2 pp. 66:6-67:13; 76:5-9.

3 15. Based on this and other flaws, the Chin Report's conclusion as to the value of
4 either a leasehold or fee simple interest in the Courses is substantially overstated.

5 16. As explained in the Rebuttal Report, the method that best reflects investor thinking
6 in the appraisal of a possessory interest in property is the discounted cash flow analysis. An
7 investor buying a possessory interest in real property is buying the right to receive an expected
8 net cash flow from the property. In preparing an appraisal, the appraiser must put himself in the
9 shoes of the typical investor and consider the factors important to that investor, most importantly
10 net cash flow. As a result, a discounted cash flow analysis is an essential part of an accurate
11 appraisal.

12 17. Mr. Chin's deposition testimony confirmed that he did not perform a discounted
13 cash flow analysis of the Courses and Oak Park. Chin, pp. 126:21-127:15. The Chin Report does
14 not sufficiently explain why it does not use a cash flow analysis. A reliable appraisal must
15 include sufficient explanation for the reader to understand why the appraisal makes the
16 assumptions that it does.

17 18. Mr. Chin made clear in his deposition that, as a manager and equity owner of three
18 golf courses in Nevada, he evaluated all aspects of cash flow, including gross revenue, cost of
19 goods sold, and operational expenses. Chin, pp. 19:20-21:08. He was thus fully aware of the
20 appropriate analyses of golf course investors. Reflecting typical investor thinking, a careful
21 appraisal must also consider expected future cash flow, which considers all components of gross
22 income, as well as the expenditures necessary to generate that cash flow. Although appraisers
23 may sometimes have access only to the information necessary for a GIM analysis, an actual
24 investor contemplating the purchase of a property would demand a more thorough analysis that
25 considers discounted cash flow. Relying solely on the GIM method, particularly one that uses
26

27 ² Mr. Chin testified in his deposition that he visited the Courses and Oak Park on three occasions but did not have any
28 substantive discussion with KemperSports or SMG. Chin, pp. 47:05-49:14. He also testified that his associates also
visited the Courses to gather information, but admitted that he didn't know if they had any substantive discussions
either. *Id.*, pp. 49:22-50:8, 51:8-54:14.

1 only national survey data rather than local data, without performing a discounted cash flow
2 analysis, reduces the credibility of the Chin Report's conclusions as to the market value of the fee
3 simple interest in the Courses. This limited emphasis reflects a superficial analysis that could not
4 be relied on without further analyses of net cash flow.

5 19. The Chin Report does not sufficiently explain its application of the GIM method.
6 Despite stating that a GIM of .9 to 1.3 is appropriate for golf courses that, like Swenson, have
7 nominal or negative net margins (let alone overdue maintenance and capital improvements
8 totaling in the millions of dollars), the Chin Report uses a GIM range above that indicated, of 1.3
9 to 1.5 for Swenson. Chin Report, at 38-39. Mr. Chin was unable to explain during his deposition
10 why he used the 1.3 to 1.5 GIM range, despite the Chin Report's conclusion that a .9 to 1.3 range
11 would be more appropriate, other than to state that he believed that Swenson had better prospects
12 for a financial turnaround. Chin, pp. 118:16-119:19.

13 20. Mr. Chin's use of such a high GIM range is particularly questionable because of
14 the Chin Report's inflated revenue projections for the Courses. The Chin Report projects an
15 immediate 13%-15% increase in revenues for the Courses in one year without making any capital
16 improvements or correcting deferred maintenance. This is despite Mr. Chin's acknowledgement
17 of the market being "quite competitive" (Chin, pp. 128:23-129:11), and despite the ongoing
18 operating losses of the Courses. Mr. Chin testified that he was not aware of the Courses ever
19 before achieving such a year over year increase in revenues. Chin, pp. 116:15-117:22.

20 21. Mr. Chin testified during his deposition that he is aware of an established market
21 for the sale of possessory interests in golf courses. Chin, pp. 36:6-38:20. Despite this, there is no
22 discussion in the Chin Report of comparable sales of possessory interests. Nor is there an
23 explanation of why the Chin Report does not consider such sales.

24 22. The Chin Report employs a methodology of applying discounts to the fee simple
25 market value—a 5%-10% discount for Swenson Park, and a 14%-20% discount for Van
26 Buskirk—to arrive at possessory interest market values, without explaining his methodology,
27 presenting supporting data, or summarizing his analyses or conclusions. At his deposition, Mr.
28 Chin testified that he used this approach because it was the most appropriate one based on *his*

1 experience. Chin, pp. 104:6-107:8. When asked whether such an approach to possessory interest
2 valuation was generally recognized in the industry, Mr. Chin declared that other people are
3 “entitled to their opinions,” and confessed not only that industry literature suggests different
4 approaches, but also that the discounting approach “may not be a widely known or standard
5 approach.” *Id.*, pp. 111:6-22. Partnership re-sale discount data are intended to value non-
6 controlling fractional and tenant-in-common interests in real estate. These data are not intended
7 for the valuation of a possessory interest in a leasehold estate.

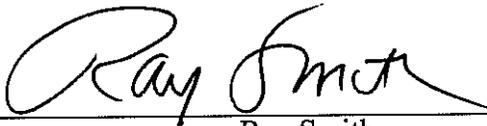
8 23. Mr. Chin admitted in his deposition that the Chin Report did not include any
9 functional obsolescence in its valuation of the Van Buskirk Community Center. Chin, pp. 97:6-
10 17. Functional obsolescence reflects impairment of the functional capacity of a property
11 according to market tastes and standards. Mr. Chin’s analysis as to the functionality of the
12 property was inadequate. Mr. Chin also did not evaluate external obsolescence, which is a
13 diminution in value involving negative characteristics outside of the property, such as a rundown
14 neighborhood or recessionary economic conditions. A market analysis evaluating the supply and
15 demand for community centers, in the context of specific functional issues, would have provided
16 a foundation for functional and external obsolescence conclusions. Comparison analysis of sales
17 of community centers would also have provided that foundation. Mr. Chin acknowledged he did
18 not use comparable sales in his appraisal. Chin, 99:24-100:1. Such analyses are essential to
19 determining an accurate value for properties that, like the Community Center, have a very limited
20 market due to its specialized use.

21 *Review Of Additional Texts On Appraisal Methodology*

22 24. Both before and after the submission of the Rebuttal Report, I reviewed two
23 authoritative texts that discuss the methodology of valuing a possessory or leasehold interest in
24 real property: The Appraisal Process by George L. Schmutz, and Golf Courses and Country
25 Clubs: A Guide to Appraisal, Market Analysis, Development, and Financing, by Arthur E.
26 Gimmy and Martin E. Benson. These texts documented the importance of the discounted cash
27 flow analysis technique in the valuation of leasehold interests. Also, subsequent to the
28 submission of the Rebuttal Report, I reviewed an article titled Golf Courses Valuation and

1 Evaluation, by Lawrence A. Hirsh, which confirmed the importance of discounted cash flow
2 analysis for golf course appraisals. These resources supplemented and reaffirmed the conclusions
3 in the Rebuttal Report.

4
5 Executed this 21st day of April 2014, at Stockton, California. I declare under
6 penalty of perjury under the laws of the State of California and the United States of America that
7 the foregoing is true and correct.

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10 _____
11 Ray Smith

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Exhibit A

THE BRAMWELL - SMITH COMPANY
Real Estate Appraisal, Consultation and Litigation Support

Raymond F. Smith, MAI

H. Rich Bramwell, MAI
(1927 - 2002)

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April 4, 2014

Marc A. Levinson
Orrick, Herrington & Sutcliffe LLP
400 Capitol Mall, Suite 3000
Sacramento, CA 95814-4497

Re: **Review of Frederick Chin Appraisal Report of Swenson Golf Course, Van Buskirk Golf Course,
Van Buskirk Community Center and Oak Park, Stockton, California**

Dear Mr. Levinson:

According to our mutual agreement, I have completed a review of the March 26, 2014 appraisal of the above referenced properties prepared by Frederick Chin, MAI and submit my findings in the attached report.

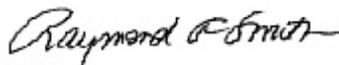
My report and all matters contained therein were prepared solely for use by Orrick, Herrington & Sutcliffe LLP on behalf of the City of Stockton in the City of Stockton's Chapter 9 case, including the litigation matter entitled Wells Fargo et al v. City of Stockton, California. No responsibility is assumed for possession, use, or reliance on either the factual data or conclusions of my report by anyone else or for any other purpose. The report is to be employed only in its entirety.

Your attention is specifically directed to the "Limiting Conditions and Assumptions" and "Certification" located at the end of my report.

My hourly rate is \$250.

If you should have any questions, please give me a call so that I can be of further assistance.

Respectfully,



Raymond F. Smith, MAI
CA State Certification General #AG005994

Review of Frederick Chin Appraisal of Real Property in Stockton, California

Qualifications

My Curriculum Vitae and a listing of the cases in which I have testified or been deposed during the last four years are attached collectively as Exhibit 1.

Facts or Data Reviewed

Exhibit 2 lists the documents and data I reviewed in preparing this Review.

Reviewer's Client and Intended User of Review Report

Orrick, Herrington & Sutcliffe LLP

Intended Use of Review Report

City of Stockton Chapter 9 case, including the litigation matter entitled Wells Fargo et al v. City of Stockton, California.

Purpose of the Review Assignment

To develop and report a credible opinion as to the quality of the referenced appraisal report.

Effective Date of Reviewer's Opinions and Conclusions

April 4, 2014

Reviewer's Scope of Work

A desk review of the referenced appraisal report including, but not limited to, the following:

- Developing an opinion as to whether the analyses are appropriate in the context of the requirements applicable for that work, whether the opinions and conclusions are credible within the context of the requirements applicable for that work, and reasons for any disagreement.
- Develop an opinion as to whether the report is appropriate and not misleading within the context of the requirements applicable for that work, and reasons for any disagreement.

Subject of Appraisal under Review

- Swenson Golf Course, 6803 Alexandria Place, Stockton, California
- Van Buskirk Golf Course, 1740 Houston Avenue, Stockton, California
- Van Buskirk Community Center, 714 Houston Avenue, Stockton, California
- Oak Park, located within the blocks bounded by Alpine Avenue, Fulton Street, Sutter Street and the Union Pacific Railroad, Stockton, California

Property Interest of Appraisal under Review

Fee simple interest and possessory interest¹

Valuation Date of Appraisal under Review

March 26, 2014

¹The term possessory interest referenced in the Chin appraisal was considered synonymous with the term leasehold interest herein.

Review of Frederick Chin Appraisal of Real Property in Stockton, California

Report Date of Appraisal under Review

March 26, 2014

Appraiser(s) Who Completed Appraisal under Review

Fredrick Chin, MAI

Rebuttal to Foundations of Mr. Chin's Appraisal

Mr. Chin correctly identifies that the component parts of the appraised property are together subject to a common lease agreement between the City of Stockton and the Stockton Public Financing Authority not to extend beyond September 1, 2048, with a single rental amount that is not segregated or allocated between the parts (page 23). Mr. Chin also identifies the property interest to be appraised as a possessory interest, a broader term inclusive of a leasehold interest. A fee simple interest analysis was also sometimes completed as a preliminary step to a possessory interest conclusion. Mr. Chin further references that his value conclusions are to reflect the fair market value of these property interests.

An appraisal of the fair market value of the possessory (leasehold) interest in the subject property must by definition consider the most probable price that this interest should sell for as of a specified date, in a competitive market, after reasonable exposure, with cash or cash equivalent terms, and assuming the buyer and seller are each acting prudently, knowledgeably, in self interest and without duress. Because a knowledgeable buyer of a possessory interest in the subject would be buying the right to receive an expected net cash flow from the property, an appraisal by necessity must evaluate the net income which would be derived from this interest, as well as any capital expenditures necessary to achieve this income. The method which best reflects investor thinking in this kind of appraisal assignment, and therefore the generally accepted method in appraisal practice, is discounted cash flow analysis. Sales of possessory interests in similar properties would also by their nature incorporate these critical bottom line issues, if such sales could be confirmed.

Significantly, counter to the existing lease agreement for the appraised property, and counter to the typical methodology of knowledgeable sellers and buyers, Mr. Chin:

- segregated the four parts of the appraised property for individual valuation;
- provided value conclusions assuming term extensions beyond September 1, 2048;
- did not evaluate and capitalize the net cash flow that a potential buyer would expect to receive over the remaining term of the subject lease; and
- did not account for capital expenditures necessary to achieve expected net income.

Rebuttal to Mr. Chin's Golf Course Valuation (pages 35-42)

- This rebuttal is separate from overriding concerns presented in the previous "Rebuttal to Foundations of Mr. Chin's Appraisal" section.
- Income Approach - Fee Simple Interest
 - Gross income multiplier (GIM) was the only unit of comparison employed by Mr. Chin in his Income Approach for the golf courses. Careful application of the GIM method is necessary in appraisal work, as GIM's can vary depending on the mix of department revenues and relative profitability of each income source, and how GIM's are derived from the sales data. If information about profitability is

Review of Frederick Chin Appraisal of Real Property in Stockton, California

lacking or uneven, or the method of derivation is not known, this method can become unreliable. Capitalization of expected net income better accounts for variances in department revenues and profitability.

- Mr. Chin projected significantly higher revenue for both golf courses than historically substantiated, under the assumption that capital expenditures would be required to maximize value. While projected higher revenue is possible, Mr. Chin did not analyze what capital improvements would be necessary to achieve this revenue increase, or make any deductions to account for the cost of such improvements in his valuation.
- Sales Comparison - Fee Simple Interest
 - The average price/round for the Swenson Golf Course was projected by Mr. Chin at \$25-\$31², which was at the bottom of the range in relation to the comparable data. This low ranking was consistent with the course ratings for Swenson. In contrast to these rankings, Mr. Chin's concluded units of value for Swenson were from the middle rather than the lower end of the \$72,222 to \$150,222 per hole range (page 41). This contradiction was not explained in Mr. Chin's report.
 - The reasoning for Mr. Chin's value conclusion for the Van Buskirk Golf Course was entirely lacking in this approach, with no analysis presented.
 - As with the Income Approach, Mr. Chin did not analyze what capital improvements would be necessary to achieve the concluded value.
- Mr. Chin's methodology and conclusions relative to discounting a fee simple value in order to conclude possessory interest value were unsupported (pages 41-42).
- Exhibit A to this review report summarizes necessary capital improvement projects for the two subject golf courses for the 2011-2015 year period, with a total projected cost of \$9,001,900. Exhibit B shows that, of this amount, \$386,236 has been expended to-date, leaving a remaining balance of ±\$8,615,000. This capital improvement figure provided strong evidence that Mr. Chin's estimate of the fair market value of the fee simple interest in the two golf courses (\$2,850,000) was unwarranted, in light of a capital cost that is more than triple the concluded value.

Rebuttal to Mr. Chin's Oak Park Valuation (pages 43-45)

- This rebuttal is separate from overriding concerns presented in the previous "Rebuttal to Foundations of Mr. Chin's Appraisal" section.
- Mr. Chin inappropriately divorced the Oak Park Ice Arena from rest of Oak Park, appraising the Ice Arena as if it were a separate legal parcel and not giving any consideration to the value impact of the remainder of the property. Notably, Mr. Chin reported (page 9) that Oak Park improvements were old and suffered from significant deferred maintenance. Further, he reported that the park had suffered an aggregate operating deficit of ±\$843,000 over the three previous years. No analysis was presented by Mr. Chin to suggest that the park as a whole could achieve a positive cash flow, with or without capital improvement expenditures.
- Mr. Chin's estimate of the fair market value of the fee simple interest in the Ice Arena via the sales comparison approach was entirely unjustified in light of his exclusion of the rest of the park which, as a

²Notably, the average price for Swenson on the previous page was inconsistently projected at \$24, purportedly reflecting Chin-confirmed enhancements that would increase per round revenue from the \$19.10 to \$21.49 range experienced over the previous five years.

Review of Frederick Chin Appraisal of Real Property in Stockton, California

whole, has experienced a substantial operating loss in recent years.

- As a side note, as with his golf course valuation, Mr. Chin's possessory interest discount methodology and conclusion were unsupported.

Rebuttal to Mr. Chin's Community Center Valuation (pages 46-47)

- This rebuttal is separate from overriding concerns presented in the previous "Rebuttal to Foundations of Mr. Chin's Appraisal" section.
- Mr. Chin's Cost Approach for the Van Buskirk Community Center did not give consideration to external obsolescence. This absence gave rise to the question whether Mr. Chin actually estimated the "fair market value" or the "use value" of the community center, the latter of which would disregard the highest and best use of the improvements as well as monetary amount that might be realized from a sale. As the community center is not revenue generating (page 10), and lacking analysis of market demand for the improvements or analysis of sales of similar community centers, Mr. Chin's analysis was insufficient to give a reader confidence in his opinions and conclusions. Mr. Chin's remarks in the "Appraisal Comments" section of his report (page 56, last paragraph) indicates that he was aware of the relevant appraisal principles in the valuation of the community center, although his Cost Approach narrative was wanting as to the application of these principles.

Rebuttal to Mr. Chin's Valuation Assuming Possessory Interest Perpetually (page 48-49)

- This rebuttal is separate from overriding concerns presented in the previous "Rebuttal to Foundations of Mr. Chin's Appraisal" section.
- Mr. Chin assumed, but did not properly analyze and support, the reasonable probability of changes to general plan and zoning designations of the appraised property to allow "residential, commercial or mixed uses" (page 48). Further, Mr. Chin's unsubstantiated assumption (page 12) that the City of Stockton would want to maximize taxes and other revenues by converting the subject park and recreation properties to residential, commercial or industrial use failed when tested. Were this assumption correct, it would be the City's goal to convert all such properties to for-profit ventures to maximize taxes and revenues. Mr. Chin's assumption ignores one of the main functions of a city - to create and maintain community facilities for the common good of its citizenry. Thus, while Mr. Chin's assumption about general plan and zoning changes may be possible in theory, it was not supported as reasonably probable in his report. Significantly, Mr. Chin's comments regarding the June 3, 2008 American Appraisal (page 57, first paragraph) indicate he was aware that his general plan and zoning change assumption was improper by criticizing the land values in the American Appraisal for being based on residential zoned sales, when the subject property was not residentially zoned.
- Mr. Chin did not consider the deed restrictions in place for the Van Buskirk Golf Course and Community Center (page 20) which limits use of this part of the appraised property to public recreation and public park purposes.
- Apart from these foundational concerns, Mr. Chin's presentation and analysis of sales data in this part of his report was insufficient to allow a reader to have confidence in his value conclusions.

Conclusion as to Appropriateness of Analysis

- The overriding concern about the appropriateness of Mr. Chin's analysis is that:
 - counter to the existing lease agreement in place for the appraised property, Mr. Chin segregated the

Review of Frederick Chin Appraisal of Real Property in Stockton, California

four parts of the property for individual valuation, and provided value conclusions assuming term extensions beyond the maximum September 1, 2048 date; and,

- counter to the typical methodology of knowledgeable sellers and buyers, Mr. Chin did not evaluate and capitalize the net cash flow that a potential buyer would expect to receive over the remaining term of the subject lease, and did not account for capital expenditures necessary to achieve expected net income.
- Other significant concerns about the appropriateness of Mr. Chin's analysis are documented in preceding sections of this review report.

Conclusion as to Credibility of Opinions and Conclusions

The credibility of Mr. Chin's opinions and conclusions are brought into serious question, first, in light of overriding problems with the foundation of his analysis as just discussed, and second, in context of many other deficiencies in the application of appraisal principles and appraisal practice as expressed herein.

Conclusion as to Appropriateness of Appraisal Report

Concerns about the appropriateness of Mr. Chin's analysis, and the credibility of his opinions and conclusions, are compounded in many parts of the appraisal by insufficient information about sales data, and insufficient explanation concerning his rationale for value conclusions. These concerns and inadequacies, taken as a whole, bring into question the appropriateness of his appraisal report, which has an appearance of being misleading.

Limiting Conditions and Assumptions of Review Report

This appraisal review and the conclusions presented herein are expressly subject to the following conditions and assumptions:

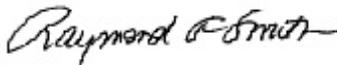
- This desk review did **not** include a field inspection of the subject property or other properties referred to in the appraisal.
- This review constitutes a limited assignment and should not be construed as an appraisal of the subject property.

Review of Frederick Chin Appraisal of Real Property in Stockton, California

Certification

I certify that, to the best of my knowledge and belief:

- *The statements of fact contained in this report are true and correct.*
- *The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial and unbiased professional analyses, opinions and conclusions.*
- *I have no present or prospective interest in the property that is the subject of the work under review and no personal interest with respect to the parties involved.*
- *I have no bias with respect to the property that is the subject of the work under review or to the parties involved with this assignment.*
- *My engagement for this assignment was not contingent upon developing or reporting predetermined results.*
- *My compensation for completing this assignment is not contingent upon the development or reporting of predetermined assignment results or assignment results that favor the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal review.*
- *My compensation is not contingent on an action or event resulting from the analysis, opinions or conclusions in this review or from its use.*
- *My analyses, opinions, and conclusions were developed, and this review report was prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.*
- *Apart from serving as a consultant to Seevers Jordan Ziegenmeyer in 2013, I have performed no services as an appraiser or in any other capacity regarding the property that is the subject of the work under review within the three-year period immediately preceding acceptance of this assignment.*
- *I did not make a personal inspection of the subject of the work under review.*
- *No one provided significant assistance to the person signing this certification.*
- *The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.*
- *As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.*



Raymond F. Smith, MAI
State Certificate General AG005994

Exhibit 1

THE BRAMWELL-SMITH COMPANY

Real Estate Appraisal, Consultation and Litigation Support

Raymond F. Smith, MAI

*H. Rich Bramwell, MAI
(1927 - 2002)*

3781 Hatchers Circle

Stockton, CA 95219

Office: 209-478-5422

Cell: 209-401-7552

raymondsmith@bramwell-smith.com

www.bramwell-smith.com

PROFESSIONAL QUALIFICATIONS

RAYMOND F. SMITH, MAI

California State Certified General Appraiser

EDUCATION:

California State University, Fresno - B.A. (English major/Business minor), 1976

Appraisal Institute (qualifying courses for MAI designation):

Real Estate Appraisal Principles - 1986

Basic Valuation Procedures - 1986

Standards of Professional Practice - 1987, 1994

Capitalization Theory and Techniques, Part A - 1987

Capitalization Theory and Techniques, Part B - 1988

Case Studies in Real Estate Valuation - 1989

Report Writing and Valuation Analysis - 1989

PROFESSIONAL AFFILIATIONS:

MAI Member of Appraisal Institute

APPRAISAL EXPERIENCE:

1997- Principal, The Bramwell-Smith Company, Stockton, California
present

1986- Staff Appraiser, The Bramwell Company, Stockton, California
1996

1985- Staff Appraiser, American Real Estate Group, Stockton, California
1986

1981- Property Tax Appraiser, San Joaquin County Assessor, Stockton, California
1985

1978- Staff Appraiser, First Savings and Loan Association, Fresno & Stockton, California
1981

1978- Property Tax Appraiser, Fresno County Assessor, Fresno, California
1978

PROFESSIONAL QUALIFICATIONS

RAYMOND F. SMITH, MAI

(Continued)

SPECIALIZED EXPERIENCE:

Consultation/appraisal work with potential or expected litigation:

- Commercial property in Stockton, California (Partnership dispute/2012-1025)
- Transitional land near Ceres, California (Eminent domain/2011-1021)
- Industrial property near Stockton, California (Eminent domain/2011-1020)
- Commercial property in Escalon, California (Eminent domain/2011-1019)
- Industrial property near Stockton, California (Eminent domain/2011-1018)
- Residential property near Stockton, California (Eminent domain/2011-1015)
- Transitional property near Lodi, California (Contract dispute/2011-1012)
- Transitional property near Modesto, California (Eminent domain/2011-1007)
- Industrial property in Stockton, California (Eminent domain/2010-1001)
- Transitional property in Terminous, California (Eminent domain/2010-995)
- Transitional property near Tracy, California (Eminent domain/2010/994)
- Agricultural property near Stockton, California (Contract dispute/2010-992)
- Agricultural property near Riverbank, California (Contract dispute/2009-990)
- Commercial property near Stockton, California (Eminent domain/2009-988)
- Agricultural property near Flag City, California (Eminent domain/2009-983)
- Residential properties in Stockton, California (Contract dispute/2009-981)
- Agricultural property near Tracy, California (Eminent domain/2009-980)
- Residential lots in Thornton, California (Parcel split dispute/2009-979)
- Agricultural land in San Joaquin County (Eminent domain/2009-974)
- Development land in Stockton, California (Eminent domain/2009-968, 976 & 977)

PROFESSIONAL QUALIFICATIONS

RAYMOND F. SMITH, MAI

(Continued)

PARTIAL CLIENT LIST:

- Allison Cherry Lafferty of Kroloff, Belcher, Perry & Christopherson
- Bank of Agriculture and Commerce
- Bank of Stockton
- Bradford J. Dozier
- Carl Thompson
- Centro Mart
- Ceres Unified School District
- City of Lathrop
- City of Lodi
- City of Stockton
- Downey Brand
- Ericksen Arbuthnot
- Gary Funamura of Trainor Fairbrook
- Goodwill Industries
- Grupe Company
- Jeanne M. Zolezzi of Herum Crabtree Brown
- John L. Cammack of Michael and Cammack
- Joseph H. Fagundes of Cassel Malm Fagundes
- KB Homes
- Krider Construction
- Larry C. Larsen, Law Office of Gregory D. Thatch
- Libhart, Cook and Rosek
- Mark Adams of Mayall, Hurley, Knutsen, Smith & Green
- Michael D. Hakeem of Hakeem Ellis and Marengo
- Michael Thornton & F. Gale Connor of Nossaman LLP
- National Covenant Properties
- Neumiller and Beardslee
- Orrick, Herrington & Sutcliffe
- Rishwain and Rishwain
- San Joaquin County Public Works Department
- Steven D. Klein
- Stockton East Water District
- Stockton Unified School District
- Terry Allen of Berliner-Cohen
- Thomas H. Terpstra
- Todd A. Amspoker of Price, Postel & Parma
- Tri-Counties Bank
- Unigard Insurance
- Wendel, Rosen, Black & Dean
- William T. Lappas

SUMMARY OF TESTIMONY EXPERIENCE (SINCE 2010)
Raymond F. Smith, MAI

Property Identification	Parties	Case	Court or Arbitrator	Date Testified	Action #	Comments
Agricultural property in San Joaquin County (990)	Rivertree v. Reed Leasing Group	Contract dispute	San Joaquin Superior Court	2010 & 2011	184356	Deposition & trial
Agricultural property in San Joaquin County (1009)	R. Lawson Enterprises v. Dole Fresh Vegetables	Contract dispute	San Joaquin Superior Court	2011	31798	Deposition
Commercial property in San Joaquin County (954)	BAPH3 v. Mila Padilla	Contract dispute	San Joaquin Superior Court	2011	32859	Deposition & trial
Transitional property in San Joaquin County (1012)	Lodi Victor Ventures v. SJ Delta College	Contract dispute	San Joaquin Superior Court	2011	230949	Deposition
Transitional property in San Joaquin County (995)	State of California v. Paul Johnson	Eminent domain (road construction)	San Joaquin Superior Court	2012	262897	Deposition
Transitional property in Stanislaus County (1007)	State of California v. HAJ Ranch	Eminent domain (road construction)	Stanislaus Superior Court	2012	655665	Deposition & trial
Residential property in San Joaquin County (1026)	Coca v. Adams	Property line dispute	San Joaquin Superior Court	2012 & 2014	258341	Deposition
Church property in San Joaquin County (1041)	State of California v. 1 st Thessalonians Church	Eminent domain (road construction)	San Joaquin Superior Court	2013	274032	Deposition

Exhibit 2

Documents Considered

- Expert Report of Frederick E. Chin, MAI, CRE.
- Golf Fund 5-Year Financial Projections (CTY251982).
- Golf Course Capital Improvement Needs (CTY251983).
- Memorandum from Susan Wren to Ken Hopper, Val Toppenberg, and Laurie Montes, Subject: Golf Program Information, dated August 28, 2013 (CTY257951-CTY257977).
- Memorandum from Susan Wren to Laurie Montes and Adolfo Cruz, Subject: Golf Program White Paper, dated March 26, 2013 (CTY257909-CTY257918).
- Lease Agreement dated September 1, 2009 by and between the Stockton Public Financing Authority and the City of Stockton.
- City of Stockton – Community Services – Recreation Oak Park Financial Summary for fiscal years ending June 30, 2010, 2011, 2012, 2013 (CTY251202).
- Oak Park Activities spreadsheet prepared by K. Beltz dated 9/24/13 (CTY251200-CTY251201).
- Land Comps 100+ Acres with the caption Land Advisors Organization (FRK-FC0000001-FC0000002).
- A Practical Tool to Assist in Analyzing Risk Associated with Income Capitalization Approach Valuation or Investment Analysis by William Weaver, Phd and Stuart Michelson, Phd, The Appraisal Journal, October 2003.
- Valuation of a Leased Fee Interest by Thomas Rodgers, MAI, The Appraisal Journal, January 1989.
- Investor's Perspective on Single-Tenant Net Lease Transactions by John W. Lammert, MAI, RM, The Appraisal Journal, July 1997.

Exhibit A

EXHIBIT 6: GOLF COURSE CAPITAL IMPROVEMENT PROGRAM NEEDS

COMMUNITY SERVICES DEPARTMENT
 Updated Summary of Capital Improvement Projects
 2010-2015
 March, 2010

Div	Account	GOLF	2011	2012	2013	2014	2015	Totals	COMMENTS
GOLF	000-0000	Golf Course Pro-Shop & Clubhouse Repair	\$ -	\$ 103,000	\$ 93,000	\$ 92,000	\$ -	\$ 288,000	Updated PW estimates 3/1/2010
GOLF	000-0000	Golf Course Pro-Shop & Clubhouse Roof Repair	\$ 374,000	\$ -	\$ -	\$ -	\$ -	\$ 374,000	Updated PW estimates 3/1/2010
GOLF	000-0000	Swenson Golf Course Cart Path Installation	\$ -	\$ -	\$ 146,800	\$ 2,250,200	\$ -	\$ 2,397,000	Updated PW estimates 3/1/2010
GOLF	000-0000	Swenson Golf Course Perimeter Fence Renovation	\$ -	\$ 176,600	\$ 168,400	\$ -	\$ -	\$ 345,000	Updated PW estimates 3/1/2010
GOLF	000-0000	Van Buskirk Golf Course Cart Path Installation	\$ -	\$ -	\$ -	\$ 114,800	\$ 2,282,200	\$ 2,397,000	Updated PW estimates 3/1/2010
GOLF	000-0000	Van Buskirk Golf Course Irrigation Replacement	\$ -	\$ 287,000	\$ 2,548,000	\$ -	\$ -	\$ 2,835,000	Updated PW estimates 3/1/2010
GOLF	000-0000	Van Buskirk Golf Course Perimeter Fence Renovation	\$ -	\$ 182,950	\$ 182,950	\$ -	\$ -	\$ 365,900	Updated PW estimates 3/1/2010
TOTAL			\$ 374,000	\$ 749,550	\$ 3,139,150	\$ 2,457,000	\$ 2,282,200	\$ 9,001,900	

EXHIBIT A

CTY251983

Exhibit B

CONFIDENTIAL AND PRIVILEGED

MEMORANDUM

August 28, 2013

TO: Ken Hopper, RPA Appraisals
Val Toppenberg, Economic Development Advisor
Laurie Montes, Deputy City Manager

FROM: Susan Wren, Program Manager

SUBJECT: GOLF PROGRAM INFORMATION

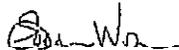
Below and attached, please find the information of, or status on, your request regarding the City of Stockton Golf program and properties.

The only items pending from your cursory list are the detailed income statements from 2008-09, 2009-10, and 2010-11, which I hope to compile for you next week in a format similar to the most recent 2 years reports attached.

Plans, blueprints, drawings and as-builts are available for your review in the Public Works Department file room, where I am available to escort you, at your convenience, next week.

Do not hesitate to contact me if you need more information, or have any questions.

Sincerely,



SUSAN WREN, CPA, CIA
PROGRAM MANAGER
COMMUNITY SERVICES-RECREATION

EXHIBIT B

CTY257951

August 28, 2013

1. Plans and specifications for currently improved properties.
 - a. Available for viewing in the Public Works Dept.- appointment set for Tuesday afternoon, September 3 - contact Susan Wren
2. Copies of leases or operational agreements.
 - a. Kemper Sports, Inc. agreement – attached
 - b. Yamaha Credit Corp agreement - attached
3. Income and Expenses Statements for the past five (5) years.
 - a. Years ended June 30, 2012 and 2013 – attached
 - b. Years ended June 30, 2009 - 2001, in progress
4. Rounds of play at each golf course for past five (5) years

	2012-13	2011-12	2010-11	2009-10	2008-09
Swenson	54,492	59,669	53,450	57,637	55,864
VanBuskirk	<u>24,316</u>	<u>27,047</u>	<u>24,300</u>	<u>29,830</u>	<u>27,095</u>
Total	<u>78,808</u>	<u>86,716</u>	<u>77,750</u>	<u>87,467</u>	<u>82,959</u>

Notes:

Approximately 20% to 25% of total rounds are member or discounted for youth programs.
 2010-11 CAFR lists total rounds of 76,850 instead of 77,750

5. Major capital improvements made during the past five (5) years.
 - a. \$342,566 spent between fiscal 2010-11 and 2012-13 for project (301-7892), Golf pro-shop, club house and roof repairs, the bulk of which included:
 - i. \$219,909 for Roofs on both course pro-shops and snack bar structures
 - ii. \$59,343 in City Public Works Dept. staff
 - iii. \$13,193 for air conditioning and evaporative cooler units for both course pro-shop and snack bar structures
 - iv. \$50,000 remaining expenditures for lead based paint clean up, kitchen appliance replacements, and miscellaneous project costs
 - b. \$43,670 spent between fiscal 2011-12 and 2012-13 for project (301-7895), including:
 - i. \$11,672 carpets at both courses
 - ii. \$18,565 painting at both courses
 - iii. \$9,110 City Public Works Dept. staff costs
 - iv. \$1,458 tile work in pro-shops of both courses
 - v. \$1,960 project site services
 - vi. \$905 other project services and materials

CTY257952

PRIVILEGED AND CONFIDENTIAL
GOLF PROGRAM INFORMATION
Page | 3

August 28, 2013

6. Person to contact.
 - a. *Susan Wren, Program Manager, 209-937-8154*

7. Property deficiencies - Information regarding the existence, if any, of contamination, soil problems, etc.
 - a. *None reported or on file*

8. Any other information that might assist us in appraising the property.
 - a. *Deed restrictions on the Van Buskirk property - attached*

CTY257953