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# Potential payday fuels fight over Conaway Ranch

Sacramento Business Journal - March 17, 2006 by [Mike McCarthy](#) Staff Writer

A 17,300-acre ranch has become a legal battleground between high-profile landowners and Yolo County.

The landowners -- including Carl Panattoni and Jack Sweigart -- view Conaway Ranch as a collection of assets, sort of a financial pie that can be cut into water rights, marketable preserve land, acreage for potential development, farmland and mineral rights, according to court documents.

But the county believes it must have the land, especially the water rights, and is seeking to buy the property through eminent domain. The ranch has rights to more than 50,000 acre-feet of water, enough to supply 200,000 people per year.

"It's imperative that we preserve these water rights," Yolo County Supervisor Mike McGowan said. "If the water goes to Southern California for swimming pools, it's not in our best interest."

If the landowners can keep the ranch and market conditions are right, the land may bring them \$500 million -- more than eight times the \$60 million they paid in 2004, according to calculations by industry observers.

"As soon as we say we won't sell (the assets) outside the county, that devalues the resource," said Tovey Giezentanner, a spokesman for the developers. "We can't do that in an eminent domain case."

The price the county would have to pay for the land will be debated in court. Giezentanner added that putting the government in charge of developable assets, would be like the "fox guarding the henhouse."

Two weeks ago, the legal battle intensified when the developers appealed the case to the state Supreme Court. The landowners asked for a review of two lower-court rulings in favor of the county's right to take the property. The court has until April to respond.

The appeal is the latest move in an unusual land gambit.

"In sheer size, it dwarfs just about any other transaction close to an urban center," said Dave Jarrette, a land expert and partner in the appraisal firm of [Jarrette & Giannelli LLC](#). "And it's a big consortium of heavy hitters. And it's got multifaceted revenue sources."

It's also fascinating because of the strategy. Whether the court favors eminent domain or not, the landowners will likely enjoy a nifty payday for the property.

If the landowners prevail against the county and get to keep the parcel, they can split the tract's

various assets into separate, marketable products, said veteran land experts. But even if they lose the land to the county, they are likely to get far more than \$60 million because of the assets. The county may have to drop its effort if the court sets a lofty price.

Although the landowners have argued that they are preservationists, they clearly saw a potential for profit. Their depositions in the case make it clear that the deal was pitched to them as a land speculation that would include preservation. Indeed, much of the preserved land would be for-sale mitigation acreage, farmland and other assets that developer Steve Gidaro explained to his partners as ways to generate a good return.

Gidaro, who arranged the partnership that bought the property, pitched it to the investors as a business deal, according to depositions. Among other partners in the deal, developer Panattoni testified that when Gidaro talked about it, "in general, he intended to keep the property in its present state with the ability to sell certain aspects of it."

He and others testified that Gidaro raised the possibility that at least some of the land could be developed and that water may be sold, possibly outside the county.

It's also clear the buyers knew they were getting the tract at a discount because of the condemnation proceedings. That, of course, would make control of the assets more enticing.

And some of the buyers are emotionally attached to the acreage, partly for hunting.

"The focus of the landowners is not on the money they can make," Giezentanner said. "Steve (Gidaro) and John's (Reynen) heart and soul are in that property. They love the land."

But he added that there's no question the landowners also look for a return on their investment.

Pieces of the pie: The water rights alone could be a financial windfall. The ranch controls rights to more than 50,000 acre-feet of water from the Sacramento River under a contract with the [Bureau of Reclamation](#). The water rights can potentially be sold, possibly for \$100 million, said veteran Yolo County land broker Jim Wirth.

The partnership assumes all of the water rights can be sold, at least for the purpose of appraising the property, Giezentanner said.

The Bureau of Reclamation surface water itself -- without the rights -- can be sold for about \$75 to \$200 per acre-foot annually, the amount and price depends on demand. In theory, the water could bring up to \$3.7 million to \$10 million a year in revenue, assuming enough demand.

Although the county has an ordinance against importing water, it could be changed by long-term political action by developers, observers said.

Political pressure by developers was the key to overcoming official opposition to development in North Natomas, for instance. And pro-development pressure is behind the city of Folsom's effort to annex 3,500 acres south of the city, despite Sacramento County's opposition to developing the land.

McGowan calls it "checkbook politics." And he predicted that, should the Conaway Ranch developers keep the property, they would campaign for the development and sale of the various assets.

#### Mitigation bank

Conaway Ranch is poised to become a huge market for mitigation land -- preserve acreage that can be purchased to compensate for habitat lost to development elsewhere. McGowan estimated that at least 6,000 acres could be sold for mitigation.

Giezentanner said the partnership's estimate is "much greater than 6,000 acres" for potential mitigation land.

Such acreage could sell for anywhere between \$6,000 and \$20,000 per acre, possibly much more, land brokers said.

One hitch is that local officials usually expect mitigation to be within the county of development, and there is not much development in Yolo County. But the political pressure for change is under way. Sacramento County's Board of Supervisors, for instance, will consider Wednesday whether they should allow mitigation in Yolo for development in north Sacramento County, said Anna Whelan, a Sacramento County planner.

The idea was advanced by developers, said Sacramento County Supervisor Roger Dickinson.

He added that Gidaro has discussed with him the possibility of allowing mitigation for the Swainson's Hawk habitat to cross the river into east Yolo County. The hawk is listed as a threatened species by the state.

Whelan said staff will recommend against the trans-county idea.

But the game is far from over: The developers will persist, industry observers say.

Although Conaway Ranch's mitigation land might sell for \$6,000 per acre today, a minimum of \$12,000 per acre is more likely if county restrictions are lifted, brokers said.

Another potential asset is a 2,100-acre block of land near Woodland. It's relatively dry, low-quality farmland that can be developed more readily than the rest of the ranch, much of which is in the often-flooded Yolo Bypass.

The ranch's previous owners expected to develop the 2,100 acres and removed it from the Williamson Act, a state law that allows farmers to get a tax break in return for not developing their land.

If even half of that the 2,100 acres were to be designated for housing, it could sell for at least \$250,000 per acre, said land expert Jarrette. And if parcel maps were approved, it could sell for possibly \$350,000 per acre or more.

Giezentanner said the builders could get a good return even if they didn't sell land for development.

The above estimates for water and land prices are low. But they still add up to more than \$500 million. The figure does not include revenue from existing gas wells, farming and hunting.

#### Eminent domain

Assuming that the state Supreme Court rejects the landowners appeal, Yolo County Superior Court has a trial date of June 13 for the first eminent domain hearing. Issues will include Conaway Ranch's real value, and the developers are doing their appraisal now.

If the highest probable price is beyond the county's ability to pay, the eminent domain may fall through, leaving Gidaro's group with the property. The county plans to borrow the money for the purchase from the Native American tribe that runs the Cache Creek Casino.

Land developer and former Congressman Doug Ose said it's possible that the county won't be able to go through with the deal if it wins in court.

Stuart Somach, the county's attorney, said the jury is limited to valuation based on current zoning. However, if the price is too high, the county would likely drop the action.

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