

COASTAL CONSERVANCY

Staff Recommendation
September 15, 2004

HEARST RANCH ACQUISITION

File No. 04-048
Project Manager: Janet Diehl

RECOMMENDED ACTION:

Authorization to disburse up to \$34,500,000 to the Wildlife Conservation Board, as part of a series of conveyances designed to conserve the Hearst Ranch both east and west of Highway 1, toward: 1) acquisition of a conservation easement by a nonprofit organization over approximately 80,000 acres east of Highway 1 on the Hearst Ranch in San Luis Obispo County; 2) acquisition of interests in the 906-acre Junge Ranch east and west of Highway 1 by a nonprofit organization and the State, through a tax credit program or otherwise.

LOCATION: unincorporated northern San Luis Obispo County (Exhibit 1)

PROGRAM CATEGORY: Reservation of Significant Coastal Resource Areas

EXHIBITS

Exhibit 1: Project Location and Site Maps

Exhibit 2: Conservation Transaction Overview

2.1 Map

2.2 Text: Summary of Acquisition Details

Exhibit 3: Summary of Resources, Conservation Easement Area

Exhibit 4: Watershed Map

Exhibit 5: Proposed Homesite Parcel Map

Exhibit 6: West Side Public Access Maps

6.1 Beaches to be conveyed to State Parks

6.2 Trail connection (proposed) to Los Padres National Forest

6.3 Proposed access on San Simeon, Ragged and Pico Points

Exhibit 7: Summary of Resources, Fee Acquisition Area

Exhibit 8: Zoning and Certificated Parcels maps

Exhibit 9: Public Comment

9.1 Letters and E-Mails

9.2 “Comment Cards” Received at 7/15/04 Meeting

9.3 “Answers to Questions Received” at 7/15 Meeting

9.4 DVD recording of 7/15 Meeting (mailed to board members and available for public review at meeting)

9.5 Report of the Legislative Analyst’s Office (8/3/04), and letters responding to the report from: Wildlife Conservation Board Executive Officer Al Wright (8/27/04); American Land Conservancy/California Rangeland Trust (8/27/04 and 8/11/04) and Hearst Ranch Conservation NOW (8/6/04)

RESOLUTION AND FINDINGS:

Staff recommends that the State Coastal Conservancy adopt the following resolution pursuant to Sections 31000 *et seq.* of the Public Resources Code:

“The State Coastal Conservancy hereby authorizes the disbursement of an amount not to exceed thirty-four million five hundred thousand dollars (\$34,500,000) to the Wildlife Conservation Board (“WCB”) as a part of a series of conveyances designed to conserve the Hearst Ranch both east and west of Highway 1, toward: 1) acquisition of a conservation easement (“the east-side conservation easement”) by a nonprofit organization over approximately 80,000 acres east of Highway 1; 2) acquisition of interests in the 906-acre Junge Ranch east and west of Highway 1 by a nonprofit organization and the State, through a tax credit program or otherwise. Without limitation, these funds may be used to reimburse the source of any tax credits authorized under the California Natural Heritage Preservation Tax Credit Act of 2000 for acquisition of interests in the Hearst Ranch.

Disbursement of these Conservancy funds is subject to the following conditions:

1. Prior to disbursement:

- a. WCB shall review and approve all title and acquisition documents pertaining to acquisition of the east-side conservation easement, including, without limitation, appraisals, preliminary title reports, agreements for purchase and sale, escrow instructions, instruments of conveyance, a baseline-conditions report for the property, a property-monitoring protocol, and a policy for independent auditing of property monitoring. Upon request of the Executive Officer, WCB shall provide any of these documents to the Conservancy for its review and approval.
- b. WCB shall provide evidence that all funds necessary to complete acquisition of the east-side conservation easement are available.

- c. WCB shall inform the Conservancy's Executive Officer in writing that the conditions imposed at WCB's August 12, 2004 meeting for funding the east-side conservation easement have been met. Those conditions are:
 - 1) WCB staff and the Department of Fish and Game shall review and approve a Baseline Conditions Report and Monitoring Protocol.
 - 2) The following areas of concern shall be resolved to the satisfaction of WCB staff:
 - a) Application of viewshed protection standards for structures, (i.e. buildings of sufficient size) that could impair the viewshed as seen from Highway 1 or Hearst-San Simeon State Historical Monument (Hearst Castle).
 - b) Clarification that Highway 1 viewshed protection standards apply to the alignment of Highway 1 as it exists at the time of establishing each owner homesite parcel.
 - c) Provision in the east-side conservation easement that the Management Plan shall prescribe actions consistent with sustaining a combination of agricultural operations, natural resources and habitats with the portions of the easement area used for range, cropland or other agriculture operations.
 - d) Incorporation of standards into the Monitoring Protocol to guide the conservation-easement holder's determination regarding when there has been "impairment" of Conservation Values as defined in the east-side easement.
2. The purchase price of the east-side conservation easement shall not exceed fair market value as established in an appraisal and approved by the Department of General Services.
3. WCB shall require the entity that acquires the east-side conservation easement to permanently dedicate the interest for natural resource protection and open space preservation, through the east-side conservation easement itself or through another appropriate instrument approved by the Executive Officer.
4. The east-side conservation easement shall provide that it may not be conveyed or assigned in whole or in part without written concurrence by WCB confirming that the grantee or assignee meets all qualifications required by law and by the east-side conservation easement.
5. WCB's grant agreement with the nonprofit organizations(s) providing for acquisition of the east-side conservation easement shall provide that the east-side conservation easement may not be amended or terminated without the written consent of WCB.
6. All other interests and rights in the Hearst Ranch to be acquired by the State or nonprofit organizations, as indicated in Exhibit 2 to the accompanying staff recommendation, shall be acquired in a manner acceptable to the Executive Officer concurrently with or prior to acquisition of the east-side conservation easement, except:
 - a. As provided below regarding the Junge Ranch.
 - b. The Caltrans realignment transactions.
 - c. As the Executive Officer otherwise agrees in writing.

7. Disbursement of Conservancy funds toward acquisition of the east Junge conservation easement is subject to the same conditions as is disbursement of the funds for the east-side conservation easement, as provided above. Additionally:
 - a. The portion of the Junge Ranch east of Highway 1 may be incorporated into the east-side conservation easement, or may be encumbered by a separate east Junge conservation easement that incorporates all applicable terms from the east-side conservation easement.
 - b. Acquisition of the east-side conservation easement must precede or occur simultaneously with acquisition of the east Junge conservation easement.
8. Conservancy funding shall be acknowledged by erecting and maintaining signs on the Hearst Ranch, the design and location of which has been reviewed and approved by the Executive Officer; and the terms of the transaction documents shall not prohibit this.”

Staff further recommends that the Conservancy adopt the following findings:

“Based on the accompanying staff report and attached exhibits, the State Coastal Conservancy hereby finds that:

1. The proposed project is consistent with the purposes and criteria set forth in Chapter 8 of Division 21 of the Public Resources Code (Sections 31350 to 31356) regarding reservation of significant coastal resource areas.
2. The proposed project is consistent with the Project Selection Criteria and Guidelines adopted by the Conservancy on January 24, 2001.”

PROJECT SUMMARY:

Future development on the entire 82,000-acre Hearst Ranch would be permanently restricted and an 18-mile stretch of coast would be opened to the public in the series of conservation transactions outlined in this staff report. The proposed acquisitions would protect miles of public views and a vast amount of wildlife habitat on this very visible property, which has been the subject of contentious public debate for decades.

The Conservancy’s contribution towards acquisition of property interests in the Hearst Ranch would be matched equally by WCB, with an additional \$23 million from Caltrans and \$3 million from the Department of Parks and Recreation (DPR or State Parks). Acquisition costs for all property interests collectively are proposed to total \$80 million, plus \$15 million in state tax credits under the Natural Heritage Preservation Tax Credit Act of 2000, should that program be reinstated by the Legislature.

This complex transaction is being proposed by a number of agencies and nonprofit organizations, including: the Wildlife Conservation Board (WCB), State Parks, the Department of Fish and Game (DFG), the Department of Transportation (Caltrans), the American Land Conservancy (ALC), the California Rangeland Trust (CRT), and the Hearst Corporation (Hearst). These parties have worked with the Resources Agency to present for public review and comment the current working drafts of the proposed transaction documents, as well as maps and summaries of the various aspects of the project. They are available on the Resources Agency website located at www.resources.ca.gov or through a link available on the Conservancy’s website,

www.coastalconservancy.ca.gov .

Posting of these documents preceded a public informational meeting held by the Conservancy and other agencies on July 15, 2004 in Cayucos. At that meeting, representatives of State agencies and nonprofit organizations presented an overview of the proposed deal and received public comment (Exhibit 9.4). Questions and comments received during this public informational meeting have been addressed and posted on the Resources Agency website (Exhibits 9.2 and 9.3).

OVERVIEW OF PROPOSED TRANSACTIONS

The proposed series of transactions (see Exhibit 2.2) has several components that together cover the entire 81,777-acre Hearst Ranch:

1. East Side: Future development on approximately 80,000 acres of the Hearst Ranch on the east side of Highway 1 would be restricted by a conservation easement to protect the scenic, open space, agricultural and natural resource values of the Hearst Ranch; and it is to this component that the Conservancy would contribute most or all of its funds. New development on the east side would be limited to 27 new homes plus 15 employee housing units.
2. West Side: About 1,500 acres of the Hearst Ranch on the west side of Highway 1 would be transferred into State ownership – 949 acres to State Parks and 518 acres to Caltrans to accommodate moving the highway inland to alleviate serious erosion problems. (The area under the current highway would be conveyed to State Parks after any realignment). Hearst would retain ownership of about 700 acres on San Simeon, Ragged and Pico Points, but would convey conservation easements over the points, as well as easements for trails and other public access. Development on the west side would be limited by the conservation easements to one new 100-room hotel in Old San Simeon Village and supporting facilities, and would be subject to separate review and approval by the County and the Coastal Commission. Caltrans would hold a scenic easement over almost all of the west side properties.

Transactional components (East Side, West Side and Highway 1 Realignment Area) of the project are described in more detail below. These components are identified on the “Conservation Transaction Overview Map” (Exhibit 2 or www.resources.ca.gov/hearst_docs/1A-Conservation_Transaction_Overview_Map.pdf) and summarized in text in Exhibit 2.2.

SUMMARY OF EAST SIDE TRANSACTION

All or most of the Conservancy funds would go toward the acquisition of a conservation easement to be placed over the approximately 80,000-acre east side. WCB would combine Conservancy funds with its own funds to make a grant to the ALC, which has an acquisition option agreement with the Hearst Corporation. Hearst would convey the east-side conservation easement to ALC, which would immediately convey the easement to CRT, an agricultural land trust.

Easement Area: The property east of Highway 1 that would be covered by the east-side conservation easement comprises approximately 80,000 acres.

A conservation easement over one 789-acre portion of the east side, known as the Junge Ranch, may be acquired at a later date, due to the landowner's desire to apply for a tax credit under the Natural Heritage Preservation Tax Credit Act of 2000 and apply any allowable credit to this portion of the east side. The tax credit program has been suspended since 2002; therefore, the Junge Ranch may be separated from the overall transaction, pending resolution of several legislative proposals to reinstate and fund the program. If the tax credits do not become available, the Junge Ranch easement would not be acquired as part of this series of transactions.

Hearst would convey a two-acre portion of the east side to the DPR for expansion of the DPR's administrative area around the Hearst Castle Visitors Center, pursuant to a separate agreement between Hearst and State Parks. Pending the selection of the specific area to be conveyed, a five-acre envelope adjacent to the Visitors Center would be temporarily excluded from the east-side conservation easement. That envelope would be subject to restrictions to be included in a separate agreement among Hearst, the State, ALC and CRT. After conveyance of the two acres to State Parks, the balance of the five-acre envelope would be added to the east-side conservation easement.

Two additional portions of the east side may also need to be separately addressed. One 160-acre area, which Hearst acquired from The Nature Conservancy (TNC), is subject to TNC's right to re-enter and terminate the landowner's interest in the property if the landowner cuts down or destroys any of the Ponderosa Pine forest. A separate 145-acre area is subject to a mining claim referred to as the Polar Star mining claim. The landowner is taking steps to resolve the title effects of the mining claim. If necessary, one or both of these areas may be excluded from the east-side conservation easement pending resolution of the potentially conflicting interests. Exclusion of these parcels would not materially affect the fair market value of the east-side easement, and during this period, Hearst would be bound by use restrictions under an agreement with CRT.

Protection of Resources: The east-side conservation easement would protect defined Conservation Values summarized in Exhibit 3, which include:

- Productive rangeland comprised of a variety of native perennial grasslands and coastal prairie.
- More than 1,000 plant and wildlife species, including some State and federally listed rare, threatened and endangered species, and some species that are found only on the east side.
- Diverse habitats including coastal creeks, streams, springs, wetlands, stock ponds, perennial grasslands, serpentine outcroppings and soils, maritime chaparral mosaics, coastal prairie, coastal bluff scrub, oak woodlands, oak savannas, riparian woodlands, sycamore woodlands and mixed and multiple species of evergreen forest.
- Cultural and agricultural resources, coastal and interior habitats, and native plant and wildlife species, maintained in a large, contiguous and principally undeveloped landscape providing wildlife connections with other large natural open areas, including Los Padres National

- Forest, Fort Hunter Liggett and Camp Roberts.
- Seven major watersheds including San Carpoforo, Arroyo de la Cruz, Oak Knoll/Arroyo Laguna, Little Pico Creek, Pico Creek, Nacimiento and the Little Burnett Creek/Tobacco Creek (Exhibit 4).
 - Scenic mountain and ranchland vistas viewed by millions of people driving on State Highway 1, a federally designated All-American Road, and by visitors to the Hearst Castle.

Baseline Conditions Report: As a condition of State funding, CRT and ALC would be required to prepare a baseline conditions report to document the current conditions that exist on the east side, its uses and improvements, existing development and agricultural and natural resources. This report would be used to evaluate changes in resource conditions and compliance with the east-side conservation easement terms. The baseline conditions report would be developed by environmental resource professionals and certified rangeland managers, and would include reports, maps, photographs and digitized aerial photography. The baseline conditions report would be subject to review and approval by WCB as a condition of funding its grant, but would not be available for public review.

Monitoring and Enforcement of Conservation Easement Terms: As the proposed easement holder, CRT would be responsible for monitoring and enforcing the east-side conservation easement terms. CRT would be subject to WCB's grant agreement governing use of the public funds, and giving WCB some rights to ensure that CRT properly monitors and enforces the east-side conservation easement.

Monitoring would be conducted at least annually in accordance with a monitoring protocol that would be subject to review and approval by the State as a condition of its grant. The easement would allow access for independent audits of CRT's monitoring and enforcement, consistent with CRT's Audit Policy and Procedures ("Audit Policy"), available for review on the Resources Agency website.

Under the Audit Policy, review of monitoring activities and on-the-ground validation of monitoring would be conducted no less than every five years by professionals (certified range manager, biologist, botanist, ecologist) selected by an Audit Committee comprised of a CRT director, the State of California Resources Secretary (or designee), a certified range manager chosen by the President of the Cal-Pacific section of the Society for Range Management, and the landowner. The Audit Committee, by consensus, could inspect the property to validate the monitoring data and to assess the conditions of the conservation values.

WCB would have indirect enforcement rights through its grant agreement with the easement-holder. In the event assignment of the east-side conservation easement is required for any reason, including a default under the WCB grant agreement, the landowner would have 180 days to select an assignee consistent with qualification criteria established in the east-side conservation easement. WCB has a right to review the proposed assignment and approve the assignee as meeting the transferee qualification provisions contained in the easement. If an assignee has not been identified within 180 days or the landowner has not petitioned a court to transfer the east-side conservation easement to a qualified easement holder, WCB could petition a court to transfer the east-side conservation easement to a qualified easement holder or, if no

qualified easement holder is identified, to WCB.

Public Access: No public access to the east side would be granted by the east-side conservation easement. However, the landowner would allow limited access to the east side for four special, nonprofit events per year, and is working with State Parks to allow it to offer occasional special events at the Pergola Area around Hearst Castle.

Retained Development Rights for Agriculture and Private Use: Under the east-side conservation easement, the landowner would retain land use rights authorized by current coastal agricultural zoning, except as otherwise stated. Other limited uses specified in the east-side conservation easement would be permitted only within the 1,500-acre “Headquarters” and the 100-acre “Pico Area” parcels. The east-side conservation easement would allow existing homes, non-residential structures and other ranch facilities such as the Dairy Barn, Bunkhouse, Ranch House, and Aircraft Runway and Associated Structures, to be maintained, enlarged, repaired and replaced.

In addition, the east-side conservation easement would allow for the development of up to 15 new Hearst Ranch employee homes (five of which would be to replace existing employee homes at Old San Simeon Village, so the net potential increase over the total number of existing Hearst Ranch employee homes would be ten), and other facilities to support the permitted uses or activities on the east side. The easement would contain restrictions on the location of new employee homes, along with viewshed protection requirements, and the restriction that a new employee housing unit can be occupied only by a bona fide east side employee and the employee’s family. Support utility facilities, as well as any additional employee housing units required as a condition of approval of the Old San Simeon Village development, also would be permitted. All uses and activities would be subject to the restrictions of the east-side conservation easement, including the prohibition against impairment of the defined Conservation Values.

Reserved Rights for New Homesites: Hearst would also reserve the right to create and seek land use entitlements for 27 new homesite parcels (Exhibit 5, proposed homesite parcel map). The east-side conservation easement would restrict the locations of new homesites to protect natural and scenic resources. Restrictions would include:

- Building envelope maximum of five acres for one single-family residence and accessory structures and facilities, with private agricultural and recreational uses and facilities allowed on a 20-acre surrounding “homesite buffer area.”
- Siting criteria that require homesites to be located outside of public views, or screened to protect views, from Hearst Castle and Highway 1, in close proximity to existing or historically used Hearst Ranch roads, and outside of sensitive resource areas.

Subdivision: The 271 existing legal parcels that make up the Hearst Ranch would be extinguished on an 8-to-1 basis for each owner homesite parcel and on a 13 to-1 basis for the Headquarters and Pico Area parcels. If, after good faith efforts, regulatory approval for two or more “clustered owner homesites” within a cluster area is denied, unreasonably delayed or unreasonably conditioned, the landowner would instead have the right to create a “fallback

owner homesite parcel.”

The result in either case would be up to, and no more than 27 new homesite parcels (25 “clustered” or “fallback” homesite parcels and two large homesite parcels), two additional parcels in developed areas of the Hearst Ranch (Headquarters and Pico Area parcels), one parcel for employee housing at the Junge Ranch, in connection with the proposed Old San Simeon Village development project, and one parcel for the Highway 1 realignment area (discussed below). A total of 31 parcels would be allowed on the entire 80,000-acre east side.

Continued Agricultural Use: Grazing and agricultural uses would be allowed to continue, and some intensification of current agricultural uses would be permitted, pursuant to the east-side conservation easement and a Management Plan. The Management Plan would provide for a common management program for the entire east side, including the new homesites. It would address appropriate practices for soil and water conservation, erosion control, pest management, nutrient management, water quality and habitat protection on the portions of the Hearst Ranch used as range, cropland or other agricultural operations.

The Management Plan would address woodland resource management, and include special restrictions on tree-cutting (in addition to those in the east-side conservation easement). At no time could there be more than three entities responsible to implement the common management program for the entire 80,000-acre east side.

Agricultural Intensification: Hearst would retain the right to cultivate 3,000 acres in total on the east side and other areas of the Hearst Ranch, including up to 300 acres of vineyards and 300 acres of orchards. Vineyards and orchards could not be visible from Highway 1. Agricultural intensification (with the exceptions of irrigated pastures or dry farming) would not be allowed in two areas: from Pico Cove to Broken Bridge Creek, and from Adobe Creek to Arroyo de Corral, if visible from Highway 1.

Water Rights: The restriction against impairing the defined Conservation Values of the east side would apply to the landowner’s ability to use or transfer water. Any transfer of water for use outside the Hearst Ranch would be specifically subject to the easement-holder’s determination that that the transfer will not impair Conservation Values, particularly fish and wildlife, either at the time of transfer or following the exercise of other retained rights.

The landowner’s use or transfer of water also would be subject to applicable regulatory approval processes, with the additional requirements that the landowner notify the easement-holder of any application for regulatory approval to transfer water. The east-side conservation easement would require that any use of groundwater on the east side be consistent with water uses and water quality required so as not to impair Conservation Values, and that groundwater well pumping in and adjacent to the east side be subject to a monitoring plan that protects against impairment of Conservation Values.

Mining Rights: Retained rights for surface and subsurface mining would be restricted to five acres of surface disturbance for oil and natural gas, and five acres of other minerals (excluding areas of disturbance documented in the baseline conditions report as having been created before

the east-side conservation easement is recorded). Mining would be subject to the permission of the easement-holder. In addition, the scope and locations of mining endeavors would be limited by the resource-protection terms of the east-side conservation easement.

Highway 1 Realignment Area: The east-side conservation easement would allow realignment of Highway 1 inland of the existing alignment. The overall conservation transaction provides for transfer of ownership to Caltrans of 518 acres of property on the east side for future realignment needs (as explained below).

SUMMARY OF WEST SIDE CONSERVATION TRANSACTION

“The West Side” of Hearst Ranch refers to the 1,656 acres west of Highway 1. The west side conservation transaction would include permanent protection of the entire west side and increased public access, with a combination of fee transfers, conservation easements and public access easements. The components of the west side include the “West Side Public Ownership Conservation Area” (832 acres), the “Junge Ranch West Side Conservation Area” (117 acres), the “Ragged Point and Pico Cove Conservation Easement Area” (243 acres), the “San Simeon Point Conservation Easement Area” (370 acres) and the “Old San Simeon Village (OSSV) Conservation Area” (94 acres).

West Side Public Ownership Conservation Area (832 Acres) and Junge Ranch West Side Conservation Area (117 Acres) to State Parks in Fee.

The 949 acres encompassing these two west side areas, including 13 white sand beaches and a 18-mile stretch of potential new California Coastal Trail, would be transferred in fee to the State Department of Parks and Recreation for public recreational uses. Maps showing the public access to beaches and to the Los Padres National Forest that the project would offer are attached as Exhibits 6.1 and 6.2. A summary of this 949-acre area’s natural resources is shown in Exhibit 7.

Public use and access improvements would be developed through a public planning process. Uses would be subject to the terms of a restrictive scenic easement to be purchased by Caltrans with \$23 million of federal transportation enhancement (“TEA”) funds. The easement would allow for public access and necessary support facilities, with some limits, while protecting the coastal vistas from development.

On the Junge Ranch West Side Conservation Area, the State would have the opportunity to develop primitive, walk-in campsites out of the viewshed of Highway 1. If State tax credits are not immediately available, the 117 acres of West Side Junge Ranch property would not be included in the initial closing. If tax credits are not approved, the Junge Ranch will not be conveyed as a part of the deal.

West Side Easement Areas – San Simeon Point, Ragged Point, and Pico Cove (613 acres)

San Simeon Point, Ragged Point and Pico Cove would be subject to scenic conservation easements, held by Caltrans and funded by federal TEA, that prohibit development. These areas also would be subject to resource protections and public use restrictions. The potential for development that exists under current resort zoning, including a golf course, would be eliminated. No residential development would be permitted on the west side.

Hearst would donate a separate public access easement to State Parks over these three Points to allow for irrevocable public access. The new public access easement would include the right of the State to develop a continuous portion of the California Coastal Trail to run across these easement areas (Exhibit 6.3). This permanent public access easement would supplement the revocable, restricted access Hearst has allowed for many years.

While the exact terms of public use would be developed in a post-closing planning process, the following parameters are included in the draft documents posted on the State's website:

San Simeon Point (370 acres): Would include access to the public not less than 300 days per year, during daytime hours only, for up to 100 people per day. Access is contemplated to be on a loop trail using existing trail routes starting from near Old San Simeon Village.

Ragged Point and Pico Cove (243 acres): A program of quarterly guided walking tours for up to 20 people would be allowed at Ragged Point during daytime hours. This access will be in addition to the Californian Coast Trail access across these areas and any other access that Hearst chooses to continue to allow on a revocable permissive use basis.

Old San Simeon Village (94 acres)

Hearst would retain ownership of the Old San Simeon Village area, subject to a conservation easement to be granted to ALC. The easement would permit the reuse of existing historic structures and the creation of a new 100-unit inn consistent with the original 1920s-era designs by architect Julia Morgan for the village. All proposed future development would remain subject to separate review and approval by the County and the Coastal Commission.

The Old San Simeon Village reuse plan would be limited to a 39-acre building envelope, with an additional 55-acre infrastructure and reconfiguration boundary area that could be utilized for necessary infrastructure or reconfiguration of the 39-acre building envelope if required during the entitlement process. Development beyond these uses would be permanently prohibited. As with the other easement areas, the California Coastal Trail would run the length of the Old San Simeon Village Easement area, situated to avoid sensitive resources, and to link up with the other sections of the Coastal Trail.

SUMMARY OF HIGHWAY 1 REALIGNMENT AREA TRANSACTION

This component of the overall conservation transaction would allow realignment of

Highway 1 within an approximately 518-acre area covered by the east-side conservation easement. The realignment would reduce the need for future coastal armoring to protect Highway 1 where it is currently eroding. Public money would be saved by avoiding piecemeal realignments.

Realignment would occur through a complex series of land transactions, following Caltrans' selection of a course through the Realignment Area. Caltrans would procure a new highway alignment in fee. The area under the current Highway 1 alignment (110 acres), plus the land in the Realignment Area west of the new alignment, would be conveyed in fee to State Parks after the new highway is built, subject to the same restrictions as those contained in the Caltrans scenic easement. The remaining land in the Realignment Area east of the new alignment right-of-way that is not used for the new highway alignment would remain subject to the east-side easement.

PROJECT STATUS

In February 2003, The Hearst Corporation entered an option agreement with the American Land Conservancy that outlined the proposed purchase of property and conservation easements. A purchase price of \$95 million (\$80 million in cash and \$15 million in State tax credits) was negotiated. Hearst and ALC have represented that the original term of the option agreement expired in February 2004, but has been extended, subject to certain conditions.

The Conservancy contracted for an independent appraisal of the property and the interests to be acquired, and also contracted for a subsequent independent third-party appraisal review. (The appraisal review, dated July 7, 2004 by Michael F. Waldron, MAI, is posted on the Resources Agency website at www.resources.ca.gov/hearst_docs/AppraisalDocuments_2B-Independent_Appraisal_Review.pdf). The Department of General Services (DGS) reviewed the State's appraisal. On August 11, 2004, DGS approved the conservation transaction value at no less than \$110,000,000; including a value for the Junge Ranch (east and west portions) of no less than \$28,000,000.

On May 13, 2004 the California Transportation Commission authorized Caltrans to spend \$23 million from Transportation Enhancement funds towards purchase of a Highway 1 viewshed easement on the west side of the Hearst Ranch.

The Wildlife Conservation Board approved its allocation of \$34,500,000 at its August 12, 2004 meeting. Because the Department of Parks and Recreation seeks to accept a donation of land, the Public Works Board is expected to consider the proposed donation at its regularly scheduled meeting in October 2004.

The Conservancy's contribution to the acquisition of the east-side conservation easement is conditioned on the availability of funding from the other agencies, and timely completion of the related conveyances and agreements described in this staff recommendation. No Conservancy funds would be spent until matching funds are secured.

Legislation to create a new non-General Fund account for the California Natural Heritage Preservation Tax Credit Act of 2000 has passed the State legislature (AB 2722, Laird) and awaits action by the Governor. Any funds allocated by the Conservancy towards the tax credit portion of this project would not be disbursed unless the tax credit program is implemented. The parties seek to close escrow later this year, after concluding the funding hearings and completing the final transaction documentation and due diligence. If close of escrow occurs prior to the implementation date of the tax credit program, the Junge Ranch portion of the Hearst Ranch would close later.

Site Description:

Located on California's Central Coast in San Luis Obispo County, midway between Los Angeles and San Francisco, Hearst Ranch includes nearly 82,000 acres (128 square miles), along 18 miles of scenic and tourist-traveled coastline. The ranch surrounds Hearst Castle, formally known as the Hearst San Simeon State Historical Monument, which was donated to the State of California in 1957.

The Ranch includes long stretches of rocky shoreline punctuated with sandy beaches and coves. The immediate nearshore area is typical coastal benchland, separated from the sea by low to steep bluffs. East of Highway 1 are gently rolling hills that become progressively steeper and more rugged as they approach the ridgeline of the coastal mountain range.

Seven major creeks flow from the mountains and support the riparian vegetation and fauna typically associated with central coast creek systems (Exhibit 4, Watershed Map). The most important creeks are San Carpoforo and Arroyo de la Cruz, the latter recognized as having the richest assemblage of plant species in the County. Over 20 rare plant species occur at this site, including Hearst's ceanothus and Arroyo de la Cruz manzanita, which are found nowhere else in the world. Wildlife species associated with this creek are the federally listed threatened red-legged frog and the California steelhead.

The Coastal Zone lies within an approximate 5-mile-wide swath (north to south) on the west side of the ranch. Approximately 49,000 acres are within the coastal zone, which is about 60% of the ranch.

Nearly 1,000 different plant and animal species have been documented on this property, including many rare, threatened and endangered species (Exhibits 3 and 7). Vegetation on the coastal plain and moderately rolling hills is limited to grasses, with some maritime chaparral, coastal bluff scrub and coast live oak. Some native coastal prairie grasses remain. The rugged, steep uplands are heavily wooded with a mixture of indigenous big cone spruce, oak, madrone and bay laurel and the endemic Santa Lucia fir. The Ranch also encompasses a substantial portion of the state's southernmost stand of native Monterey pine.

A large elephant seal population thrives on the beaches south of Point Piedras Blancas. Formerly near extinction, the elephant seal population has rebounded and is in the process of expanding its range. The seals began appearing in large numbers at San Simeon in the 1990s and currently number about 2,000 at the peak of the season. A recently constructed public viewing area

adjacent to Highway 1 is run by docent volunteers called the Friends of the Elephant Seals.

The ranch is remote from significant population centers. The small town of Cambria is located approximately three miles from the southern boundary of the property, and San Simeon Acres – a cluster of several motels and restaurants – lies near the southern boundary of the ranch. Old San Simeon Village on San Simeon Bay contains a small collection of historic buildings, some of which serve as commercial establishments.

Project History:

Development proposals and well-attended public hearings on the Hearst Ranch go back more than 30 years. In 1980, the Hearst Corporation proposed one of many development scenarios, including two golf courses and several resorts. The County adopted a modified version of the plan and the Coastal Commission certified the County's Local Coastal Plan for the North Coast in 1983. In 1988, the plan was modified to delete one of the two golf courses and one of the proposed resorts. Hearst did not pursue that development plan. (Exhibit 8, "Zoning and Certificated Parcels Maps.")

In 1994, County staff issued a draft North Coast Area Plan update that proposed changes to the LCP, including the Hearst Ranch plan. Proposed changes included prohibiting any development on San Simeon Point, but retaining the ability to develop a golf course and a 650-room resort development nearby. County staff also proposed to further expand the existing coastal access dedication requirements. In 1997, the County Board of Supervisors approved these amendments to the North Coast Area Plan.

In January, 1998, the updated North Coast Area Local Coastal Plan was presented to the Coastal Commission. The updated LCP proposed a development scenario that the County formulated in conjunction with the Hearst Corporation, which included a 650-room resort complex consisting of two hotels, one motel and an inn, convention meeting rooms, commercial development at historic Old San Simeon Village, and an 18-hole golf course on the coastal terrace.

The Coastal Commission hearing on that 1998 proposal was attended by over 1,000 people, many representing statewide and national environmental organizations. Most of the people who spoke at the hearing expressed vehement opposition to the Hearst/County proposal. At that hearing, the Coastal Commission rejected the proposed LCP, but approved a modified version with extensive revisions, including the scaling back and clustering of the resort, elimination of the golf course, public access revisions, and other constraints largely having to do with the area's scarcity of water.

Since that time, the County and the Coastal Commission have been unable to reach a consensus. Because agreement between the County and the Coastal Commission is required to amend the 1988 Coastal Commission-certified LCP, the 1988 plan is still in effect for the Hearst Ranch. (Please see "Project Status" section of this report, page 12, for recent project history.)

PROJECT FINANCING:

Acquisition of east-side conservation easement and west-side scenic easement, Phase 1:

Coastal Conservancy	28,500,000
Wildlife Conservation Board	28,500,000
Caltrans	<u>23,000,000</u>
Total:	\$80,000,000

Acquisition of Junge Ranch fee and easements, Phase 2 (Tax Credit Program):

Coastal Conservancy*	6,000,000
Wildlife Conservation Board	6,000,000
Department of Parks and Recreation	<u>3,000,000</u>
Total Tax Credits:	\$15,000,000

*These funds could be used instead as an additional contribution to the east-side conservation easement, provided that Junge Ranch is actually acquired.

The anticipated sources of Conservancy funds for this project include:

- \$11,000,000 from the “Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002 (Proposition 50) from fiscal year 2004. Under Proposition 50, these funds may be used for grants to acquire and protect coastal land and water resources. The proposed conservation easement would cover 80,000 acres, including seven major creeks with watersheds entirely within the Ranch.
- \$7,943,252 from the “Watershed, Clean Beaches, and Water Quality Act of 2002” (Proposition 40) from fiscal year 2004. Under Proposition 40, these funds may be used for acquisition and protection of land and water resources.
- \$8,500,000 from the “Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond Act of 2000” (Proposition 12) from fiscal years 2002 and 2004. Under Proposition 12, these funds may be used for acquisition of interests in real property in coastal areas and watersheds, respectively for the benefit of fish and wildlife, acquisition of coastal resources, and completion of the coastal trail.
- \$7,056,748 from the “Habitat Conservation Fund” (Prop 117), fiscal years 1996, 1998, 1999, 2000, and 2002-2004. Under Proposition 117, these funds may be used for a grant to a public agency for the purposes of acquiring land that provides habitat including native oak to protect deer and mountain lions, and habitat to protect rare, endangered, threatened or fully protected species.

CONSISTENCY WITH CONSERVANCY'S ENABLING LEGISLATION:

The Conservancy's contribution would be provided under Chapter 8 (Sections 31350 to 31356) of the Conservancy's enabling legislation, Division 21 of the Public Resources Code, regarding reservation of significant coastal resources. Public Resources Code § 31351(a) directs the Conservancy to cooperate with other public agencies and with nonprofit organizations in ensuring the reservation of interests in real property to further the purposes of Division 21, as well as for park, recreation, and fish and wildlife habitat purposes. Consistent with this section, the Conservancy's participation in this project would be in cooperation with other public agencies, for the purposes of creating new park and recreation land, and protecting fish and wildlife habitat, as well as agricultural land. These purposes are consistent with the purposes of Chapter 4 (agricultural preservation), Chapter 5.5 (coastal and marine resources protection), Chapter 6 (coastal resource enhancement) and Chapter 9 (public coastal access) of Division 21 of the Public Resources Code.

Section 31352(a) authorizes the Conservancy to award a grant to a public agency or nonprofit organization for purposes of § 31351 (see preceding paragraph) if that entity is unable, due to limited financial resources or other circumstances, to acquire, hold, protect, or use the property itself. Consistent with this section, neither the Conservancy's proposed grantee (the Wildlife Conservation Board) nor the other State participants, including the Department of Parks and Recreation, has the financial resources to acquire sufficient interests in this vast property without assistance; the Conservancy's contribution will make the difference.

**CONSISTENCY WITH CONSERVANCY'S
STRATEGIC PLAN GOAL(S) & OBJECTIVE(S):**

Consistent with **Goal 1, Objective D**, the proposed acquisitions would serve to secure approximately 18 miles of new Coastal Trail right-of-way.

Consistent with **Goal 2, Objective B**, the acquisition of the Junge Ranch portion of the Hearst Ranch would serve to open an area that is currently inaccessible or closed to public use while respecting the rights of nearby landowners and the need to minimize impacts on sensitive natural resources.

Consistent with **Goal 4, Objective A**, protective interests in 80,000 acres of scenic agricultural and habitat lands would be created.

Consistent with **Goal 5, Objective B**, the acquisition of the east-side easement would serve to preserve and restore habitat corridors between coastal habitats and inland habitat areas.

Consistent with **Goal 7, Objective A**, an 80,000-acre agricultural conservation easement would be acquired (exceeding the entire stated objective by 62,000 acres).

Consistent with **Goal 8, Objective A**, the acquisitions would resolve a long-running land-use conflict.

**CONSISTENCY WITH CONSERVANCY'S
PROJECT SELECTION CRITERIA & GUIDELINES:**

The proposed project is consistent with the Conservancy's Project Selection Criteria and Guidelines adopted January 24, 2001, in the following respects:

Required Criteria

1. **Promotion of the Conservancy's statutory programs and purposes:** See the "Consistency with Conservancy's Enabling Legislation" section above.
2. **Consistency with purposes of the funding source:** See the "Project Financing" section above.
3. **Support of the public:** This project has widespread support, including that of State Senator McPherson, Assemblyman Maldonado, the Regional Water Quality Control Board, the San Luis Obispo County Board of Supervisors, and several local environmental and recreation organizations (Exhibit 9). However, the Conservancy also has received many statements of opposition to the project; these also are included in Exhibit 9. Also included in Exhibit 9 is the analysis of the Legislative Analyst's Office (8/3/04), and several responses to that analysis.
4. **Location:** The proposed authorization would fund the protection of property that is 60% within the Coastal Zone. The Conservancy's recommended participation is approximately 36% of the total purchase price, which can easily be allotted to the portion of the property that is within the Coastal Zone.
5. **Need:** Although WCB is contributing matching funds, it does not have the resources to fund this acquisition by itself. The acquisition would not happen without Conservancy funds.
6. **Greater-than-local interest:** Approximately four million travelers annually visit this area on Highway 1, which has been designated a State Scenic Highway and federal All-American Road. At least a million people a year take the tour of Hearst Castle, making it one of the most heavily visited California state parks. The property contains plant and animal species of state-wide significance.

Additional Criteria

7. **Urgency:** American Land Conservancy staff has represented that its option to acquire the property will expire soon.
9. **Leverage:** See the "Project Financing" section above.
12. **Readiness:** The proposed acquisition could be completed within the next few months.
15. **Cooperation:** Many agencies and nonprofit organizations have cooperated in developing this transaction, and in contributing funds. In developing this project over the past three years, staff from the Conservancy has worked with staff at WCB, DPR, DFG, Caltrans, and many nonprofit organizations.

COMPLIANCE WITH CEQA:

The proposed acquisition of the Hearst Ranch is categorically exempt from the California Environmental Quality Act (CEQA) pursuant to 14 Cal. Code of Regulations Section 15313 as an acquisition of land for wildlife conservation purposes, and under Section 15325 as a transfer of ownership of interests in land in order to preserve open space and existing natural conditions, including habitat. Upon approval, staff will file a Notice of Exemption for the proposed project.