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ATTORNEYS FOR SAN ALTOS – LEMON GROVE, LLC

CALIFORNIA REGIONAL WATER QUALITY CONTROL BOARD

SAN DIEGO REGION

IN THE MATTER OF: ADMINISTRATIVE CIVIL LIABILITY COMPLAINT NO. R9-2015-0110 AGAINST SAN ALTOS – LEMON GROVE, LLC	**DECLARATION OF PHILIP J. DOWLEY IN SUPPORT OF SAN ALTOS – LEMON GROVE, LLC'S LEGAL AND TECHNICAL ARGUMENTS AND ANALYSIS IN OPPOSITION TO ADMINISTRATIVE CIVIL LIABILITY COMPLAINT NO. R9-2015-0110**

I, Philip J. Dowley, hereby declare as follows:

1. I am Chief Financial Officer for PGI Investments, LLC, Managing Member of San Altos – Lemon Grove. I have a thorough understanding of the San Altos Valencia Hills Project ("Project") and know the following of my own personal knowledge. If called as a witness, I could and would competently testify to the matters discussed herein.

2. The Project is a single family home development that consists of the construction of 73 homes on an approximately 16 acre site.

3. The Project provides much needed affordable, high quality new housing to middle income workers including teachers, government employees and members of the military in the urban core close to their places of employment. 41 of the Project's homes have been sold to young families engaged in one of the aforementioned professions, and 30 homes have been sold

to Veterans Affairs eligible buyers at an average sale price of $470,000.

4. Prior to San Altos embarking on this Project, the Project site was a decommissioned San Diego Gas & Electric Company gas farm that had passed through prior owners who had presumably determined that it was uneconomical to develop.

5. San Altos originally acquired the land for the Project at a cost of approximately $5.8 million. Although San Diego Gas & Electric Company had removed most of the gas storage equipment, the site was in poor condition, covered in trash and debris and containing no erosion or flood control improvements of any kind. Adjacent public streets were essentially rough graded dirt roads.

6. Land improvement costs for the Project have been far greater than expected resulting in a substantially lower than anticipated return on investment. These improvement costs include grading, installing of underground utilities, curb, gutter and sidewalks, streets and landscaping. These improvements, which do not include engineering, design, permitting, fees and other related costs, were budgeted at approximately $4.5 million at the time of property acquisition.

7. To date, San Altos has invested over $7.0 million in these land improvements, including over $500,000 in direct expenditures related to temporary, construction period erosion control and storm water mitigation rule compliance costs. On completion the total cost of the work is expected to exceed $8.7 million.

8. After the total cost of land, entitlements, fees, interest, construction, and storm water compliance, the expected net profit is $29,000 per home, an average profit margin of 6.2%, which is well below the industry standard of 12.0% to 15.0%.

10. Imposing a penalty on the scale suggested in the Water Board's Administrative Civil Liability Complaint ("ACLC") reduces the return on investment to below 3.7%.

11. At the time the property was required, the adjacent creek was filled with trash, shopping carts and other detritus. After many millions of dollars of investment, the site is nearly fully improved with state-of-the-art storm water systems in place that will protect the creek for future generations. The penalty in the ACLC fails to consider the material benefits the Project

provides to the regional storm water system, particularly in light of the site's predevelopment condition.

12. The cost of storm water compliance will likely exceed $700,000 by project completion, or approximately $10,000 per home, exclusive of the costs associated with this ACLC

I declare under penalty of perjury under the laws of the State of California, that the foregoing is true and correct.

Executed this 2nd day of February, 2016 at Carlsbad, California.

Philip J. Dowley
Chief Financial Officer
Guardian Capital