

Oral History Interview
with
Harvey Stearn

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Interviewer: Robert David Breton
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Harvey Stearn

January 28, 2012

Robert David Breton,
interviewer

BRETON: Good morning. My name is Robert Breton. Today is January 28, 2012. I am interviewing Harvey Stearn, former Executive Vice President of the Mission Viejo Company, at the studios of MVTV [Mission Viejo Television] inside the Mission Viejo Library as part of the Oral History Project.

Harvey, where were you born and raised?

STEARN: I was born in New York City. When I was about five, we followed my dad around during World War II, wound up living in Colorado Springs, then after the war came back to New York.

BRETON: Where were you educated? Did you receive a degree?

STEARN: Yes, M.I.T. [Massachusetts Institute of Technology], bachelor's in chemical engineering, and then went on to graduate school at the New York University Graduate School of Business. While I was working, I was going to school at night.

BRETON: What was your occupation once you came out here to California?

STEARN: I actually came out with Hunt Foods & Industries Fuller Paint Division, which was newly acquired at that time, and was on special assignment for three years to reorganize their Trade Sales Division.

BRETON: Where did you reside?

STEARN: We lived in Fullerton for the first two years, then moved to Mission Viejo in 1966.

BRETON: I'm wondering, just out of curiosity, was Fullerton named for the Fuller of Fuller Paint?

STEARN: You know, I never really thought about that. Possibly.

BRETON: So you moved with your wife Bobbie [Stearn] here in Mission Viejo in what year?

STEARN: 1966.

BRETON: At that time did you make acquaintance with [James G.] Jim Toepfer?

STEARN: I did. Actually, we weren't here very long when I wound up becoming president of Deane Homes Men's Club, and I started getting involved in community activities. In fact, in 1967 I was talking to several people on the board, and we said, "You know, community of Mission Viejo, the greater community needs something to kind of pull it all together." So I went to Jim Toepfer at that time and proposed the idea of forming a citizens committee to put on major events in the community, and Jim and I actually hosted the first meeting.

We sat down and decided we were going to do Five Nights of Christmas as the first event, and later followed by Cinco de Mayo, and later Saint Patty's Day [St. Patrick's Day Parade] and all the other things that the [Mission Viejo] Activities Committee does. In the meeting we couldn't decide what to call this committee, and I don't remember whether it was me or somebody else, but just said, "Why don't we just call it the Activities Committee? Because that's what we are," and that's what we became. Jim was the company's liaison, graciously supplied us with the manpower and some of the financial support to accomplish what we accomplished.

BRETON: Why don't you describe for us now how it was that you came to be interviewed for and hired by the Mission Viejo Company.

STEARN: Well, I wasn't here much beyond that point when I began to realize what an incredible venture building a new town was, and as a researcher and corporate planner, I saw all kinds of possibilities beyond just building houses and thought it'd be really wonderful to work for this company. So in 1968 Jim [Toepfer] set up a meeting with [Philip J.] Phil Reilly, and I made my pitch about the company starting up a research and planning department. After about three months, they deliberated, and then Phil came back and said, "Sorry, but we can't really afford anything like that right now."

I said, "Fine."

About a year later, Jim Toepfer came to me again—of course, we were seeing each other all the time—and said, "We would like you to join the company this year, but it won't be doing what you proposed. It'll be in public affairs, because we really need your experience in community efforts to help with a problem we have with the homeowners."

There were only relatively few thousands at that time, but the company had just started to build the Casa Loma Apartments, and even though that was on the master plan from day one, the residents were upset, so we needed to really sit down with them, explain that their worst fears were not going to be realized. They did calm down, and that was my entrée to the company. I thought that it wasn't what I really was most qualified to do professionally, but it was more important to me to be with the company, which I felt was an incredible company and an incredible venture.

BRETON: How much did you interface with Phil Reilly?

STEARN: Well, quite a bit, actually, because in public affairs that was a subject that was very important to him. I think the company's face to the outside world was almost everything, and so

I didn't dare go before a TV camera or a microphone without first going over what I was going to cover with him. So I would say I talked to him pretty frequently.

BRETON: Did you deal or meet with the members of the board, other members of the Board of Directors, such as [Richard J.] Dick O'Neill or [Anthony R.] Tony Moiso?

STEARN: I had met them and talked to them on occasion, yes. I knew all of them. I knew [James E.] Jim West and Tony and [Jerome] Jerry [Moiso].

BRETON: To whom did you report directly?

STEARN: When I first came to the company, I reported to John Martin, who was head of sales and marketing. About a month after I joined Mission Viejo Company, Philip Morris [USA, Inc.] purchased an option in November of 1969, and the option was to run for three years to acquire as much as 100 percent of the company.

Just prior to them exercising that option, I think in 1971, they sent [James G.] Jim Gilleran, who had been assistant treasurer for Philip Morris, to Mission Viejo Company to basically replace [Thomas D.] Tom Colvin, who was chief financial officer. I wound up reporting directly to Jim because at that time Philip Morris decided if they were going to purchase the company—and all indications were that they were going to go through with it—that they wanted to set up the organization similar to their other division, so they wanted a corporate planning department, and I got tapped for that.

BRETON: Who did the feasibility study for the Philip Morris Company?

STEARN: That was done by A.D. Little out of, I think, Berkeley or that area, Menlo Park, somewhere around there. Philip Morris was basically looking to diversify.

BRETON: And expand.

STEARNS: Expand, become a conglomerate. There was deep concern about whether they could sustain the kind of earnings they were getting from tobacco, and they had already acquired Miller Beer [Miller Brewing Company].

BRETON: But nothing in the housing market.

STEARNS: No, nothing in land development, but one of the things that they became aware of was that real estate development was considered to be one of the four major growth industries for the seventies, and they decided they wanted to be part of that. They were looking for a suitable candidate, and that's when, I think, Phil Reilly got deeply involved and consummated that deal.

BRETON: What did they find to be attractive in the Mission Viejo Company, do you think?

STEARNS: Well, a number of things. Number one, it had the scope and size that they felt one of their divisions would need. The 11,000 acres, which really turned out to be 10,000, gave a project duration of approximately thirty years, it gave a substantial inventory of future housing, and a number of other opportunities, so that satisfied their financial objectives. Philip Morris had a policy that every division they had, every industry they were in, they were going to be at least number two, if not number one, in that industry, and they felt that Mission Viejo Company, because of its concept, its management at that time, had the potential to become number one in the development industry, at least in the western states.

BRETON: So the acquisition by Philip Morris said a lot about the Mission Viejo Company's financial strengths and managerial [unclear].

STEARNS: In reality, we were land-rich but didn't have a whole lot of cash. Having had my own development company and developed other communities elsewhere, I can tell you that something the size of Mission Viejo requires deep pockets to the extent that only a few companies in the world could have underwritten. I don't think it would have been possible

without Philip Morris or some company like it, because so much of community development and homebuilding is basically long-term, and your payoff comes in later years, and even though it could be very profitable, the internal rate of return tends to be low because of the long period of payback. So it's just the fact that you need tremendous deep pockets to underwrite the preliminary development that must take place before you even sell the first house.

BRETON: So in one sense the Mission Viejo Company was saved by the acquisition of the Philip Morris.

STEARNS: At that moment it was. It's not to say that Phil, being the brilliant man he was, wouldn't have negotiated with another company to come in and supply the same role, but the union of Philip Morris and Mission Viejo Company was phenomenal. It was once in a lifetime, we were extremely compatible, and a large part of what Mission Viejo Company became was, in part, due to Philip Morris.

BRETON: Describe a little bit about the climate at the top level of the Mission Viejo Company, the camaraderie, the teamwork spirit, the pressure, the openness with which you could work with each other, and yet the requirement that you produce and always fulfill your obligations.

STEARNS: Much of what the company started with became major underlying factors to the rest of its corporate life, however you must keep in mind that companies evolve just like people, and things do change somewhat over time, yet some of the things like the camaraderie, the corporate spirit, and the community spirit were present from day one and persisted right to the very end, to the completion of the community.

Working for Phil was both rewarding and challenging. Phil was a very, very strong leader, a strong personality. I'm sure he still he is, but speaking about his role in the company at that time. You were free to express opinions and ideas. I always felt that. But he watched

people's performance very closely, and if it felt like it was not going in a direction that he was comfortable with, he would challenge it, and you had better be prepared to back it up with facts.

It was a very interesting period for me. It actually helped my personal and professional growth.

BRETON: To what extent did he and the others encourage thinking outside the box, creativity, innovation?

STEARN: He didn't restrict it, but Phil was a very conservative leader, which he had his eye on specific objectives. He stuck to it. If you wanted to change the game plan a little bit, yes, you would be strongly challenged, and that has both its positive and negative aspects. I think for the formative years of Mission Viejo Company, it was definitely positive.

BRETON: At what point did you realize you had not only moved into, but were now an executive with the most successful developer in the nation as far as creating a new town?

STEARN: The concept was there. The promise was there. I'll talk more about the promise later, but that specific promise to become one of the top development companies in the country was there from the beginning. I don't think that I felt it was fully realized until probably well into the seventies. We were still working to reach a certain point. Again, I can refer back to the later.

BRETON: Did you realize that you were setting a template or a model for other developers to utilize?

STEARN: I think it was one of the things we strove for, very definitely, not that we wanted to be acclaimed number one. That wasn't it at all. I think it is we wanted to be as good as we could be. We were aware that the development history didn't always have the greatest name among the public, and we were determined from day one—and that was very much part of Phil Reilly's

philosophy—to show that we were responsible and there for the long term and we were going to produce a quality product.

BRETON: How was the company able to parlay its single-developer platform into the opportunity to carry out the unique vision of a master plan? In other words, could it have been done if it were not a single developer that had created the plan and was going to follow it through all the way to completion?

STEARN: I don't think it could have been done nearly as successfully if it was a joint venture between other developers. I've actually been part of those before, and I've seen them come together in other parts of the industry with varying degrees of success.

The early part of Mission Viejo was like a newborn child. It was fragile and you had to nurture it, and there could only be one parent. In 1972 we had a grandparent, which was Philip Morris, but basically the guidance of Mission Viejo Company's executive team was all-important in bringing Mission Viejo to the point where it was hugely successful. We had an early success, sales success. We opened our doors in 1965. I wasn't part of the company then, but I bought a house then. That success actually was the harbinger of greater things to come later, but financially and even market-wise, we had a long way to go at that time.

BRETON: The company struggled financially at the outset. Apparently they had the flexibility with the O'Neills to purchase—well, they purchased options and exercised options as they could afford to develop different tracts, different areas of the entire master plan.

STEARN: That's not so much because of the company's financial condition. That would be a given with any large-scale development. Hardly any developer in the United States would be capable of developing basically what became a significant city by itself and lay out all that money for land and lay out tens of millions of dollars for initial infrastructure. You can't do it.

Cash-flow management is critical in any business, but for large-scale development it's an absolute given that you have to manage your cash very, very carefully, even if you have deep pockets behind you. So a series of rolling options was really the formula for large-scale development throughout. I don't know of any large-scale development anywhere in the country that didn't have their land deal structured that way.

BRETON: How was the company able to amortize the cost of this initial investment in the infrastructure, and then the amenities, the slopes, the medians, the parks, the rec [recreation] centers, etc.? How were they able to amortize this over the long haul so that they could get the return on their dollar and yet make the initial housing very affordable?

STEARNS: Again, through very careful cash management, but every dollar that we or Philip Morris had to invest in initial infrastructure and initial marketing and all the other administrative requirements, basically all of that was put into a fund that was carefully recorded, an amortization fund, and it was applied per acre to future development so that at every point in time where new land was developed, that particular acreage had an amount of money applied to it as a cost.

BRETON: That it had to generate through the sales.

STEARNS: That it had to generate, plus other operating costs, plus profits. That was a moving target, of course, because as time went on, the amortization requirement kept growing, until fairly late in the game it started diminishing.

BRETON: Was there a feasibility study conducted as to each subdivision, as to each tract, so that it could be either given a green light or a red light depending on whether it was feasible?

STEARNS: Every residential development we did, and later every commercial development we did, was carefully researched. That's really where I came in. Every housing project that we

purported to develop had a sales forecast and a cash forecast, and if it was determined that we were able to meet or exceed our targets, we went forward with it.

BRETON: Before we continue to discuss the residential developments, let's go back and talk a little bit about the initial acquisition from the O'Neills. You weren't here at that time, but why do you think the O'Neill family, from what you learned once you came on board, that the O'Neill family rejected other offers from other developers and was able to take such a huge risk with a group of relatively untried individuals to develop one-fifth of their 50,000-acre ranch, their most treasured resource?

STEARNS: One of the handicaps I'm suffering under in answering that question is I really don't know what other offers they entertained or who else they talked to. But they brought in [Donald L.] Don Bren to head up this new company, and I think one of the reasons the O'Neills may have done it was because they retained tremendous control over Mission Viejo Company. They owned 100 percent of the stock less whatever interest they gave to both Bren and Reilly at that time, but they basically controlled the destiny of the company and the development of land, which was important to them.

The O'Neills were sitting on incredible future wealth with their land holdings. They knew it. They knew that was only a matter of time. They only had to keep things going. Like other people that had been in that position, they had an abundance of land but relatively little cash. Development for them was the best way to preserve all the things that were important to them and generate the cash they needed to keep operations going, and eventually became one of the major success stories in the United States.

BRETON: In what way did the O'Neills, as you say, ensure that their interest in the legacy in the protection of the environment, and their reverence and respect for the land, how did they

ensure that this would carry over not only through the planning stage, the master plan stage, but that it would carry over through completion?

STEARN: There are no guarantees to that, and I'm sure they were aware of that. You can't ever predict the future, especially thirty years out in time. I think they had confidence in the people. When they brought in Bren, Bren brought in Phil Reilly. Phil Reilly brought in Jim Toepfer from Santa Ana City Planning Department. I think the O'Neills knew all these people and got to know them fairly well and had confidence in them, and basically the plan that Jim Toepfer developed with, I'm sure, a lot of Phil Reilly's input as well as Bren's, basically laid out what the future was likely to be, and they were comfortable with that.

BRETON: Were Tony and Jerome Moiso able to monitor the progress of the implementation of the general plan?

STEARN: Well, I think to a great extent Jim West played an initial role. He was Chairman of the Board of Mission Viejo Company, and Jim had been the O'Neill family's legal counsel for many years, and he was very highly trusted by them. Tony was not, at that time, experienced in land developing. He knew nothing about it, but he became executive vice president when Phil became president after Don Bren left, and I think Tony was learning at a very fast clip as we went along. Jerome would sit and attend board meetings. I don't think his heart really was in either—well, in land development. He was a dedicated rancher, and eventually he just went off to Carmel after Philip Morris took over. Once Philip Morris purchased Mission Viejo Company in 1972, then the O'Neills went off the board, and Tony pursued future development of remaining [Rancho] Santa Margarita land.

BRETON: Did the company executives, Phil Reilly especially, did they impress upon you the importance of considering this as a stewardship that you had over the land, that this is not just

your ordinary housing development, but that there was a true feeling of stewardship in this area over the land?

STEARNS: Well, I think that was evident in all of our marketing material. There was the reverence for the history of the land, the Chain of Title, and all that. There was perhaps an even more pragmatic point of view which worked hand in hand with that, which was that if we're going to be successful with a thirty-plus-year project year after year after year and essentially be building our own constituency with every house we sold, then we had to have credibility and maintain it all the way through. The plan became the roadmap and the bible. That was our commitment to the type of community that Mission Viejo would become.

Also strict adherence to the plan, and working very closely with the county was a given. I mean, that was absolutely essential. We were all very, very much aware that in all our dealings with the county and with other stakeholders and members of the public we always had to promote the quality of the Mission Viejo plan and project and always do what we promised to do. That was from day one. I mean, Phil made that very clear, and we all followed that, and we certainly supported and agreed with it as well. We understood the significance of it.

I will say one thing about the master plan, however. It was put together even before I moved to Mission Viejo, obviously, because you can't have all the entitlements without having the plan to go with it. But the genius of the plan put together by Jim Toepfer was it was both, in a sense, specific and general at the same time. It was enormously flexible because the initial direction established for the community was liable to change over time. It had to evolve—there was no question about it—in order to continue to be successful. But the plan always enabled that evolution, and we never had to go back in and change the plan. It was the one thing that we were determined never to have to do.

BRETON: Remarkable, isn't it?

STEARN: Yes.

BRETON: We're going to talk later about one amendment to the plan, which I think included the Lake [Lake Mission Viejo]. We'll skip over utilities, water, sanitation districts, electricity, gas.

Public relations, to some degree, deals with assuring the public that they live in a safe community. To what degree did the company interface or enter into talks with the local police and fire in order to ensure that it was well served? Do you remember?

STEARN: I didn't have an awful lot to do with that. I would certainly be able to deal with questions and crises if they came up, as public affairs officer, which was my first corporate responsibility. But we had contracted with the county to supply fire and police services. Not too long into the plan we had our first fire department and established the fire district. It was really part of the initial plan. That took care of local requirement.

BRETON: Did you have anything to do with the formation of the Neighborhood Watch programs with any of the community associations that worked with the police to protect against [unclear]?

STEARN: I really didn't. I can't remember having any significant involvement with that.

BRETON: Anything to do with the hospital?

STEARN: No.

BRETON: With regard to community relations, why was it that the company seemed to always want to take the initiative and be proactive in dedicating and setting aside land for schools and for parks rather than waiting for the land to be condemned, as other developers do?

STEARNS: Well, there were several reasons for that. One of them is you don't want to wait till something becomes a crisis, because it's very hard to undo that once that starts. You want to be proactive and you want to show the strength of your community plan by providing for that up front. Pulling teeth on future questions, the best thing to do, really, is through your actions and your plan, have future questions already answered rather than having to answer them later. Phil was very much aware of the importance of—and we all were—of really good relations with the community, with the county, with all the agencies, and it was really important that we demonstrated consistency and reliability and integrity, those three things.

BRETON: Why did the company value and listen to the voices of education and the county and the people, in addition to the voices of the building industry?

STEARNS: Well, as a company, we were developing land, building infrastructure, building houses, selling houses, developing some commercial, but we weren't building schools and we weren't doing a whole bunch of other things that a growing community needs, and all of those agencies as allies, not as antagonists, which is a mistake, unfortunately, that some developers make all too often. We knew that we needed to work with them so that they could provide the kinds of services that the community needed. We needed schools. The whole initial thrust of Mission Viejo was a family-oriented community with young families, with young children who would need to go to school, and eventually to high school and on to junior college or college. So we worked very, very closely with all those agencies to make sure it happened on a timely basis and happened in a way that was consistent with the plan and well received by the residents.

BRETON: So the company was, in a sense, shattering convention by treating these other entities not as impediments to their profit motive, but as partners, because it made good business, didn't it?

STEARN: Absolutely. Everything we did made good business sense, and when you're in a long-term project, you recognize you never get to do the things downstream if you don't do them right the first time. So basically when you're developing a community of 90,000 people, everything you do to benefit the community, within certain financial constraints, basically makes good business sense, and that, by the way, is Philip Morris' credo. When they supported the arts, in which I became very involved, their whole basis for supporting the arts was that it makes good sense business-wise. They didn't do it just because it was the right thing to do and because it was expensive and they gritted their teeth and did it anyway; they did it because they genuinely believed that it made good business sense. That really was a cornerstone of Mission Viejo Company philosophy and one of the reasons why Philip Morris and Mission Viejo Company were so compatible.

BRETON: By dealing with the utilities, with the contractors, with the agencies, with the schools, with the county, on such friendly, open, transparent terms, the residents benefited, didn't they, because they ended up having the best schools. They had roads and sewer lines that were put into place in a timely fashion because these agencies knew in advance what your plans were. You were giving them previews, and therefore they knew that that infrastructure was going to be in place. The residents knew that that infrastructure—they could see it developing right around them.

STEARN: I think history speaks for itself in that sense, not that we didn't occasionally have times when we'd have to sit down with the residents and explain to them carefully what was going on. In fact, the first such instance I remember was the reason I came into the company. But basically our relationship with the community was always very strong, and it was for a number of reasons. It was strong because of the community activities that we supported,

Mission Viejo Activities Committee. I mentioned that earlier. Jim was very receptive to my idea, and the two of us actually made that happen, he as a company man and me as a resident. But the recreation, which initially started out just because when you have a large-scale community, recreation is definitely a component, and we put in the Montanoso Recreation Center very early. That really started to take off and it resonated with the community, and we gradually grew into a powerhouse of athletic endeavor.

BRETON: Why was it so important that the company share its inside data regarding its long-range plans with the various stakeholders, with the various governmental entities and agencies?

STEARNS: Well, there wasn't anything terribly proprietary about that plan. It was a matter of public record once it was approved by Board of Supervisors. It was an important thing to market to the early residents. After all, when I came here, moved to Mission Viejo in 1966, there was the Deane Recreation Center in the neighborhood that I became part of, the Montanoso Center was built shortly afterwards, but there really wasn't an awful lot here. There was La Paz Road. I used to come up El Toro Road from Laguna Beach after spending an afternoon away somewhere, and I'd come back at night and everything was pitch black. There was only one little row of lights, and that was La Paz Road. I couldn't see my house, but I knew exactly where it was based upon those lights, and that's all there was in those days. We were really quite far out, and I remember we had to go to Anaheim to get supplies like brooms and things. There were no general stores or other stores. Mission Viejo Company put in a convenient store, which was in the wrong location for a long-term, but which was badly needed for the short term, and that was right at La Paz and Chrisanta [Drive]. But basically there was nothing here. So the residents coming and buying homes were definitely coming on the basis of a promise.

BRETON: By working with the county, and not only on the initial approval of the general plan, but subsequent approvals with the Planning Commission of the various area plans and various projects, did the company develop not only good rapport, but a sense of confidence with the county? Was the county confident in seeing the quality of the work that the company was doing, and therefore generally approved nearly everything that was presented?

STEARNS: Again, history speaks for itself, but this was a relationship carefully nurtured by Phil Reilly, by [Thomas C.] Tom Blum, and [Paul] Van Stevens after Tom left. That was an extremely important relationship, and it was one of the most—I think it probably was Phil's greatest priority, to be honest, and it was something we all appreciated and supported. We rarely ever had much of a conflict with the county because we did our homework. We worked with staff very, very closely before anything ever went before the Board of Supervisors, and in most cases with revisions that we could live with, and sometimes with no need for revision staff would go ahead and make a recommendation to the board to approve what we were asking for.

BRETON: What did the company do to foster and further develop those relationships with the people that were involved with the decision-makers? Did the company invite them to ballets, to operas, to concerts, to deep-sea fishing trips?

STEARNS: I believe we were pretty careful about that. We never wanted to be in a position of looking like we were trying to exert undue influence, and we actually had an unbelievably high moral character as a commercial entity. It was part of our corporate philosophy. So on occasion, where it made sense to offer a ticket or admission to something that was a community event or whatever, we certainly always invited county staff and planning staff and engineers and sometimes the supervisors down so they could get a sense of what Mission Viejo was all about, but it was always done judiciously as a means to educate, not to influence.

BRETON: We're going to skip over design elements. That isn't something that you were particularly in charge of. I'm talking about the original, the bell, adobe.

STEARNS: That was in there. Don Bren probably has a lot to do with that.

BRETON: But did you make any trips to Spain or to Europe in order to do any kind of research for the architectural features?

STEARNS: No, I did not.

BRETON: Were you involved in setting some of the architectural features for some of the home products?

STEARNS: Almost all of it, prior to the initial Ranch/Spanish Colonial theme that Mission Viejo was initially guided, actually I found it necessary to change some of that, to modify some of that to adopt with changing times to maintain the required sales projections. I'll explain that more, probably get into it later.

BRETON: How important was it for the company to establish CC&Rs [covenants, conditions, and restrictions] and controls and restrictions?

STEARNS: Well, hand in hand with a community plan, you must have CC&Rs to control what has been put in place and make sure that the quality of the community is maintained, because once you bring in residents and other stakeholders, things have a way of changing unless you have a structure that maintains the direction and quality that we tried to instill from day one.

BRETON: I'm going to skip over landscaping, churches, the school system, but I'd like to go to the library and culture, which is something that's dear to your heart. Tell us about the first library.

STEARNS: I probably had very little to do with the library itself initially. My involvement with culture came a little later when Phil started volunteering me for board positions on different arts

organizations that he was invited to join but couldn't because of all the other demands on him.

So the first thing he volunteered me for was not an arts organization; it was a Girl Scouts Council Board, and I served on that for a while. Then the next thing, I think, was the Orange County Business Committee for the Arts, which had just started to form, and Phil was invited to sit on the Executive Board, and again, he volunteered me, so I helped start that organization. There were many company leaders and people like Henry [Thomas] Segerstrom, Dave [David S. Tappan]—it was Fluor Corporation—

BRETON: Fluor?

STEARN: —that sat on that board, but I worked with him.

BRETON: William Lyon?

STEARN: No, William Lyon was active in Orangewood [Children's Foundation], which was Jim Gilleran's thing.

The arts thing became mine, and one thing led to another, so shortly after I was in those positions for a while, Governor [Courken George] Deukmejian [Jr.] wanted an Orange County representative to go on the California Arts Council, which is a state agency. Nobody from Orange County had ever served on that council. You remember, that was the council that Jane Fonda wanted to be on, and she was prevented from joining that because of her involvement with [North] Vietnam.

Anyway, so I was nominated and interviewed and appointed by Governor Deukmejian, I think in the early eighties, and then I served for a year on that, then became vice chair for two, and then I became Chairman of the California Arts Council for two years and spent another four or five years on the council helping to guide state's arts policy.

I skipped over one thing. I was on the board that built the Orange County Performing Arts Center largely through the Segerstrom family's great contributions, but helped in the design of it and other functions. All the board members were pretty active in that.

BRETON: Fundraising?

STEARNS: Fundraising, definitely, and there Philip Morris was a huge supporter, and I wouldn't have been there if not for the fact that they were prepared to give a substantial amount of money to the Arts Center.

BRETON: Were you involved at all with the local chapter, the Barrymores, or any of the local [unclear]?

STEARNS: That came later. No, because basically once the Performing Arts Center was built, shortly after that, went off the board, and I spent most of my arts activity on the California Arts Council. I became Chairman of the John Wayne [Airport] Arts Commission for putting art in the John Wayne Airport, which is an ongoing thing, and I later went on the board of the Laguna Beach Theater, because by 1986 I had become a resident of South Laguna Beach. That was the extent of my arts involvement in Orange County.

BRETON: How large was your operating budget with the Arts Council?

STEARNS: We got up to about 16 million at one point, and that was a time when the state was having difficulty and was cutting back on all the agencies. There was a large cutback of the Arts Council budget threatened just at the time that I became chairman, and I sat down and met with Governor Deukmejian and made a pitch for enhancing, or multiplying, the impact of state funds on council achievements by proposing a public-private matching fund, that we would attempt to bring in companies to support programs, so for every dollar of state money that we put in, there would be at least a dollar matching private funds to support those same efforts, which was

successful. Instead of getting cut back from the \$14 million budget that we were at when I became chairman, we went up to 16 million at that time, the only state agency to actually increase its budget during that period.

BRETON: I wonder how the snooty people from Northern California looked upon you as a Southern California Orange County resident being in charge of that program.

STEARNS: I don't think they were so concerned about my being from South Orange—well, Southern California or Orange County—as they were over the fact that I was a businessman. Prior to my being on the council, almost all of the appointees from Governor [Edmund Gerald “Jerry”] Brown[, Jr.] were arts people, and they had a great passion and understanding of the arts, but the big problem was they didn't understand the dollars and cents of it.

That's where I kind of bridged that gap. I actually was an artist in my own right. My wife was an artist. My mother was a well-known watercolorist. I grew up with the arts, having been a resident in New York and gone to many ballets and operas. I knew a thing or two about it, but more importantly, I understood the dollars and cents of it, and it took maybe a few months in my position as chairman of the council to get the Northern California people comfortable with it. By the time my stay as chairman was over two years later, I don't think they were the least bit concerned about my being from Southern California.

BRETON: You might be pleased to know that our city has developed a complete arts program under the Director of Library and Cultural Services, and we have Arts ALIVE in May of every year, two-day event with major art exhibits, and we have a Readers' Festival in September where we bring major well-known authors to speak to the public, and in August of every year we host the Pacific Symphony under the stars for a free concert. We also have, even on Crown Valley [Parkway], we have a public arts program where we display art right in the medians, and a lot of

people are involved in the creation [of those exhibits]. Also in the Oso greenbelt area, the Oso Creek [Trail] area, we have mosaics, we have obelisks, labyrinths. We have a lot of mosaics that are created by volunteers as artwork, and also in our new community center [Norman P. Murray Community and Senior Center] we have art exhibits on display all the time. So could you comment on the importance—

STEARN: Number one, it's very impressive, really. I mean, how many cities of this size are able to accomplish and maintain what you've been able to do? As a person greatly involved in the arts, it does my heart good to know about that. I remember Pacific Symphony when Roger Faubel used to dance for them. He was working for Edison, and Roger and I go back a long way.

BRETON: Oh, I didn't know that.

STEARN: Then when I was on the Arts Council, it didn't hurt that we were in a position to give grants to companies like Pacific Symphony.

I'll mention one other thing. As a member of the California Arts Council and as chairman, I was appointed to the State Grants Panel for the National Endowment for the Arts to determine how the National Endowment would distribute their funding to state agencies, and also some of the policy guidelines, so I spent several years working with the National Endowment for the Arts.

The thing that the arts always face, they need to be both publicly and privately supported, and, unfortunately, it tends to be one of the first areas that's cut back. Most people would rather support athletic programs than the arts. I'm not here to say that either one is more important than the other. They're both very important, and continuing education beyond the schools is certainly important. So all those things are very important to not only maintain the vitality of a

community and a culture, but also to educate children, to give them greater breadth and capability as they grow up and become adults, which is why Mission Viejo Company was so involved with all those things.

We were a community that was literally top-heavy in athletics. A lot of that has to do with Jim Toepfer, because he was an incredible promoter of youth athletics, and what we were able to do with the [Mission Viejo] Nadadores swim team and Philip Morris' support of that team, there is nothing comparable to that anywhere in the history of the United States. The team became, by far and away, the best swim team in the United States, thanks to Philip Morris' support and Mark Schubert and later Ron O'Brien. In fact, when they were invited by the Russian national swim team—well, actually, by the Russians—to train in Moscow and Leningrad in 1977, basically the Russians wanted to study our coaching techniques in preparation for the Moscow Olympics in 1980, and so our team was invited, and I went along to help make sure that there were no problems with public relations at that time as a corporate officer. I mean, things we were able to do because of Philip Morris' support, but because so much to do with Jim Toepfer's initial involvement and guidance. We were top-heavy in athletics.

BRETON: It was a balanced community that offered everything that a child needed in growing up, but it was more recreation oriented than it was cultural oriented.

STEARN: Right.

BRETON: And you always need patrons for the arts.

STEARN: Absolutely, and we became a patron for the arts largely through Philip Morris.

BRETON: Did you not also, through your connection with the development of the Performing Arts Center, sponsor and pay for busloads of elementary school children to go to the Performing Arts Center one day a year for a special concert?

STEARN: We did. I mean, we always kept the kids in mind, and there was a conscious effort to give our kids the best experience and the best education that we could. Before Mission Viejo became a city, we effectively were the managers of that city that we were creating until the city was ready to go off on its own, and we were very conscious, I think, of that responsibility. So promoting events like that and making sure that our schools had the best equipment and the best programs and the kids had the best experiences, I mean, that was, I think, part of our corporate philosophy from day one.

BRETON: Before we dive into parks and recreation, let's take a break.

STEARN: Well, Montanoso I had nothing to do with. It was before I joined the company. The Marguerite Recreation Center was part of the merchandising complex that we put together with Madrid Homes, which I'd done all the research for, but the decision to make it a 50-meter pool was something that Jim Toepfer really spearheaded based on input from the community and the rising prominence of the Nadadores swim team.

BRETON: The lower Marguerite section.

STEARN: Yes, and the ultimate expansion. Jim was definitely the guiding light for that.

BRETON: Was it your idea to place the model home complexes adjacent or near, very near, to rec centers so that the potential buyers could see what they were getting?

STEARN: Madrid Homes was the first major new housing program to replace La Paz and some of the early product that was already aging. We needed new concepts, so that was going to be a

big splash. So basically John Martin and I both had proposed that. I mean, I reported to him, but I did the research supporting what the homes would look like and how we should merchandise it.

BRETON: Even the Castille Homes, didn't they have a model home complex across Marguerite, from the rec center so they could look from the back of those model homes onto the complex?

STEARN: Castille and Madrid were basically replacing El Dorado Homes, La Paz Homes. The Monterey Master Homes was a relatively small project, but when they were done, there was a gap slightly in that move-up housing market that we didn't fill until we actually developed Madrid. Madrid was designed to appeal to the upper end of La Paz Homes, and the same market for Monterey Master Homes. Then Castille basically replaced El Dorado and the lower end of La Paz.

BRETON: You mentioned that when you first moved here, there was just that little tiny center at La Paz and Chrisanta. How important was it to the company to provide stores for the new residents in which to shop?

STEARN: Well, it was absolutely critical. I mean, you can't have people going ten miles to get a quart of milk. I mean, that's crazy. So we absolutely had to develop that convenience center, even though long-term it was not considered to be a viable location. The way the master plan was laid out, the shopping was supposed to be in hubs in the various neighborhoods so that it was easy to get to, didn't involve too much driving, and in some cases could even walk. The original convenience center was outside the residential centers, so it was a nod, truly, to convenience for the early residents.

BRETON: Then when did the La Paz at Marguerite center take place?

STEARN: I'm not sure the exact day. Obviously, I think it was towards the middle to late seventies—

BRETON: The Village Center.

STEARNS: —when we started doing that. Mission Viejo had actually lagged behind commercial because our expertise initially was all in residential, and we found that some of our competitor developers were ringing Mission Viejo with small convenience centers to try to take advantage of the potential demand that we were building up in Mission Viejo. After a while, we realized we better get going, and that's when Phil created a Commercial Division with Jack [G.] Raub in charge of that, and we started developing—

BRETON: And Jack Raub was acquired by the Philip Morris Company, right?

STEARNS: Yes, at Phil's recommendation.

BRETON: Isn't one of the beauties of the plan that every resident be able to walk to a neighborhood school or a neighborhood park or a neighborhood shopping center?

STEARNS: That was certainly the intent, and some of that was not pioneering. I mean, that was basically a similar concept that was followed in Reston [Virginia] and Columbia [Maryland]. Master planning of large-scale communities had just really started in the early sixties, and we were right in there in that first wave.

BRETON: Now let's talk about the mall, the Mission Viejo Mall. Could you describe what marketing studies had been conducted and what led up to its development?

STEARNS: It's a fascinating study of competitive strategy. Originally, in the original master plan, that was always supposed to be a regional shopping center, and early on, Phil had engaged in negotiations with the Hahn Company to develop a regional shopping center in Mission Viejo. Hahn professed to be very interested, but in reality—and I don't know that Phil was aware of it or anybody was aware of it at the time—Hahn was having discussions with Ross [W.] Cortese at Leisure World to put the regional shopping center there, which later became Laguna Hills Mall.

He continued to talk to us because he didn't want to do anything to derail his fallback option in case his negotiations with Cortese fell through, and so in a sense, he put us on ice while he was moving towards his number-one objective, which was Laguna Hills Mall.

Once that went in, the conventional wisdom was that we had lost the only opportunity we had to have a regional shopping center because Irvine's Golden Triangle site was considered to be the ultimate site for a mega regional shopping center comparable to South Coast Plaza, and that was before South Coast Plaza went in.

So we had this 50-acre site sitting there for quite a few years, and early in 1976 Phil asked me to go ahead and study what kind of commercial we should develop on that 50 acres and to hire a consultant, which is an interesting sidebar, because when I first looked at the original shopping center study that was done by Larry Smith & Company, I felt the study was very weak and superficial and maybe one of the reasons why we didn't get Hahn there. So I told Phil I didn't think the study was a very good study, and he remembered that, much to my chagrin.

When he gave me the charge of developing recommendations for the use of our regional shopping center site, an alternate use, I started looking around at different consultants and I was contacted by a fellow by the name of Marshall Baskin [phonetic]. Word got around. I was talking to some of the other consultants. Baskin had been the former site selection director for Federated Stores [Federated Department Stores, Inc.]. Within the prior months just to my starting up this study, Baskin went to work for Larry Smith & Company as a consultant, and so I listened to his pitch, and what he said was, "I have reason to believe that your site is better on a net basis than Golden Triangle because the problem with the triangle site is it's too close to both South Coast Plaza and Fashion Island, and the major department store chains, they're all represented in one of those two sites, in either one of those sites, and they therefore all will suffer

from cannibalization by Golden Triangle regional shopping center. I think if I can put the numbers together to demonstrate that, we can build a case for why those chains would be better off at the Mission Viejo site.”

It’s no secret that the chains determine where the sites are going to be. They’re the power that determines exactly what gets developed and what doesn’t, and Marshall had tremendous—not only his knowledge, but his close connections with [J.W.] Robinson [Company] and May Company [California], made me think, “This is our opportunity.”

So when I reported to Phil, what I wanted to do—and to Jim Gilleran as well. I reported to Jim Gilleran, but in this case I had to really brief Phil on it, as well as Jim. I told them I wanted to hire Larry Smith & Company. I thought there was still a possibility to get a regional shopping center.

He said, “You’re wasting your time. There’ll never be a regional shopping center there. We just got precluded, and Golden Triangle is probably the next one.” Then he said, “On top of that, why would you want to—.” He was really incensed. “Why would you hire Larry Smith & Company when you took such pains to criticize their study?” He was really breathing down my neck on that one.

I gulped, and I said, “Phil, I wouldn’t, but the person that would do the study that I’d be hiring—forget about Larry Smith. The person I’m hiring to do the study is a fellow by the name of Marshall Baskin,” and I told him the whole story. He still wasn’t totally convinced, but up to that point I really hadn’t been wrong either, so he was good enough to let me go ahead with that, and Marshall did the study and it found exactly what he’d hoped it would.

Then he set up a meeting with May Company to go over the results of the study, and we met with May Company, and Marshall was part of that meeting and he made the presentation.

May Company said, “We’re really interested and we agree with your premise, however, we won’t go into the site unless Robinson agrees to go in, because we always go in together on the same sites.” So then they set up a meeting with Robinson’s.

We met with them, and Marshall made his presentation there and told them May Company was in favor of it. They were in favor as well, but they said, “Who’s your developer?”

We gulped and said, “Well, we don’t have one,” and there weren’t too many major regional shopping center developers around.

But Robinson Company said, “Can we make a suggestion?”

We said, “Absolutely.” We’re just looking for anything that would allow us to pull this off.

So they said, “We’ve done business with [Edward J.] Eddie DeBartolo back in Youngstown, Ohio, and we understand from him that he’s intending to go to California. In fact, he’s already got negotiations going up in Northern California, and he may be real interested in developing your site.” At that point Jim Gilleran got real active, and we invited Eddie to come down. Jim made the presentation.

BRETON: Was that before he developed Desert [Hot] Springs, the mall in Desert Springs, DeBartolo?

STEARNS: I believe it was. I think it was pretty close—we made the deal before he developed any of those, but I think the one in Northern California got completed before ours did.

But we made a deal. We told them we didn’t really want to own the land and lease it. We wanted somebody to come in and buy it, and we were willing to develop underground parking, give them a land price that would make that feasible, because our site was a little small for a regional site, and the underground two-level parking was what was needed to make the site

work. We made the deal, which was really Jim Gilleran's significant accomplishment on that. He and Eddie got along very well together.

At that time [A. Alfred] Al Taubman, he formed, along with Don Bren and Joan Irvine Smith, had just bought the Irvine Company as a result of Joan's lawsuit against the [James Irvine] Foundation. They were obligated to settle and he bought the company, but Taubman became president of Irvine Company, and both Bren and Joan Irvine Smith were minority stakeholders, or shareholders. But the reason that Taubman was in the deal was because he was a shopping center developer, and his main interest was the Golden Triangle regional shopping center site.

So he called a press conference right about the time that we had agreed verbally with Eddie DeBartolo that they were going to develop our center—and we had letters of intent from Robinson's and May Company—and he announced the development of the Irvine Shopping Center Mall. His press conference was supposed to be a month or two later, but he moved it up when he found out we were close to signing. He was hoping to preclude us. He didn't realize how far down the road we were.

So he called his press conference, gave it, and immediately after, we had a conference to announce the development of the mall, not just the signing, but the development of it, and the Golden Triangle regional shopping center just went away forever. It was an amazing thing because nobody, nobody, gave our regional shopping center site a chance to become a regional shopping center after the Laguna Hills Mall got built, and even Phil didn't believe it was possible. I think both Jim and I got promoted as a result of that, and I remember at the opening of the regional shopping center Phil was very kind in his praise of both of our efforts on that.

BRETON: Do you know anything about the Freeway Center on the other side of the freeway?

STEARN: I do.

BRETON: We wondered, as a city, once we formed as a city, we grabbed that opportunity to develop that area because of the freeway visibility and proximity—

STEARN: And the revenue.

BRETON: —and building the big boxes. I know there were difficulties with Nellie Gail [Ranch], Laguna Hills, and getting the access across, whether it's at-grade or the bridge or whatever, in dealing with other agencies. But my question is why did the company not pursue that as a viable commercial gold mine, whether it be car dealerships or something earlier?

STEARN: I think it was more a matter of having our plate full. We were playing catch-up on commercial up to the point that we formed a commercial development division, which Jack Raub headed, and we had other centers that were going in. The Lake was a big part of that, and I did the initial planning for that.

The original site on the other side of the freeway was originally called the Carrot Patch. In the early formation of Mission Viejo Company, Phil was able to hire a group of young Turks. There was [Donald G.] Don Zellner who was in charge of finance and accounting. There was Frank [L.] Fehse who was Vice President of Engineering.

BRETON: For the company.

STEARN: Yes. John [T.] Martin, who was Vice President of Sales and Marketing; [Robert E.] Bob Osborne, who was Vice President of Construction; and [Robert M.] Bob Maurer, who I think was Vice President of Purchasing at the time. We had all these guys heading up these different functions, and they were paid salaries.

At the time, the company was small and finances were somewhat limited, so Phil developed—and probably Bren as well—developed the idea of having something as an incentive

for those men to stay with the company and do well, and they would all have ownership in that parcel, was called the Carrot Patch. It was basically a compensation program.

Well, when Philip Morris came into the picture and bought Mission Viejo Company in 1972, as a publicly owned company, they couldn't have private incentive programs, so the first thing that went away was any outside interest in that parcel of land. Within a couple of years, that was replaced by stock options in Philip Morris, but the land then became part of Mission Viejo's land inventory for future development. I think we were concerned with catching up within the community of Mission Viejo to make sure that the community had all the commercial that it needed. We were also developing the industrial park at that time. So it was really a low priority.

BRETON: What about the light industrial area along Via Fabricante? Were you at all involved in the efforts to attract major companies to come to this area?

STEARNS: No, I was not, not at that stage. There was a stage later on when I became president—I don't think you have that in your history. I was President of Mission Viejo California, responsible for all of California operations the last two years I was with the company.

BRETON: Including Fresno, or what other operations?

STEARNS: Yes, including Fresno. Well, Fresno was pretty much done by that time, but it included some tract-building that we did in Riverside and San Bernardino Counties.

BRETON: The Mission Viejo Company?

STEARNS: Yes.

BRETON: Let's go into that, then. When was that started, and was it anticipated that this entire venture here would be repeated in other areas such as in Arizona and Colorado, other parts of California?

STEARN: It was anticipated, but at the same time we felt we were not going to go into a new market area full-blown without having some experience and knowledge of that area. So I think our first diversifications were fairly modest.

BRETON: What was the name of the company?

STEARN: It was still Mission Viejo Company.

BRETON: But I mean the division that you just mentioned.

STEARN: Well it evolved. Let me tell the story, Bob, because I'll get there faster than if you're asking questions.

BRETON: Sure. Go ahead.

STEARN: To begin with, when Philip Morris purchased Mission Viejo Company in 1972, they were looking to potential expansion of Mission Viejo beyond just this planned community, and one of the first things that Phil did was he went to Phoenix. He found out about a new planned community in Tempe, Arizona, in the Phoenix area that was going to be called The Lakes. It was a joint venture between El Paso Natural Gas [Company] and Diversified Properties, which was a real estate holding operation and developer. Phil agreed to buy eight hundred lots to build houses there to get our feet into it, because Phoenix was a popular jumping-off place for Southern California builders who wanted to expand to other markets, so Phil went there without any input from me. It was actually a good market. We started building houses there. Like in all cases, initially our targeting was a little bit off because we didn't understand the market completely, and I did help later redesign some of the housing so that it was more geared to the Phoenix market, but that was only for starters.

Then I had recommended to Phil that there may be smaller markets in Central California that might be worth looking at, like Fresno and some of the smaller cities, Stockton, whatever.

Phil never had to have anything mentioned twice. He brought in a neighbor of his, Ross [Cannon]—I can't remember Ross' last name, but Ross was a small custom builder. I told Phil that in Fresno we needed to develop just conventional single-family tracts, that that market still was pretty conservative. But when he got there, Phil found, rightly so, that we had been at a tremendous disadvantage because the market was unionized, except two or three of Fresno's longtime builders were grandfathered in. They were able to use non-union labor. Being a subsidiary of Philip Morris, we had to use union labor.

So maybe, in retrospect, the best thing would have been just not to go there, but Phil wound up, at Ross' urging, I think, wound up buying some land that was zoned for townhomes, and I was a little concerned that the market wasn't ready for townhomes yet. So I couldn't say much at that point. Phil was our leader. So he bought the townhomes site, and I have to mention that Phil was a genius when it came to buying land. He made very few mistakes, and the mistakes he made were small ones. His successes were huge, which included Phipps Ranch in Colorado and Aliso Viejo Ranch in Laguna Hills. But that one didn't quite work out the way we hoped.

At the time Philip Morris had a liaison to the company—I should say George Weissman did. George Weissman was chairman of the board, and there was a fellow by the name of [Norman J.] Norm Treisman, who was [Joseph F.] Joe Cullman's son-in-law, who was working for Philip Morris that was sent down as a liaison. Norm started rooting around, and he kept pressing me, why wasn't Fresno doing well? I mean, he'd asked me about a lot of other things, and at some point I said, "Well, I think it's maybe a little bit too early for townhomes in Fresno," and that was it. I mean, I never said anything beyond that.

We were on a plane. It was a Gulfstream II or III—I think it was a III—with George Weissman. He had asked for a tour of all the different projects. Phil and Jim Gilleran, myself, and Norm Treisman, George Weissman, were on this plane trip, and apparently George had talked to Treisman and Treisman told him what I had told him after a lot of pressuring. George Weissman asked me at that point, he said, “Why aren’t we doing well in Fresno?”

I gave a number of halfhearted reasons. I didn’t really want to tell him what I thought, but finally he point-blank asked me, and I couldn’t lie. I didn’t want to lie to him, so I said, “Well, it’s just a little bit too early for townhomes.”

He said, “Didn’t you know that at the time?”

I said, “Well, sort of.”

He said, “What do you mean, sort of?”

I said, “Well, there was a study that was done,” and he just wouldn’t let go.

So finally the truth came out, and Phil was just madder than a wet hen. I remember when we got off the plane in Fresno, I got off just before he did. Weissman and Treisman were already off the plane, and Phil looked at me and said, “You’re done,” and I couldn’t say anything.

I said, “Phil, I’m sorry. I just couldn’t lie to him, and I tried not to—.”

So anyway, Treisman realized what was happening. He realized he had compromised my position and that George Weissman did not do me any favors, so he talked to Weissman and Weissman talked to Phil. At the end of the plane trip, we had visited all the projects, Phil called me into his room and said, “Well, you can stay with the company, but I want to have a few things clear.”

I said, “Fine, Phil. I’m really sorry to put you in that position.”

So that was that. We built out Fresno. That Small Communities Division that Ross headed up didn't go anywhere. Ross wound up leaving the company, although I think he was involved with the vertical framing operation for a while, which was an attempt to get into modular construction and lower our construction cost.

But in the meantime, Phil did ask me where else should we be going. We're already in Phoenix, but that was just a building operation. Philip Morris really wanted to replicate Mission Viejo. So I told him that I was working with [Alfred J.] Al Gobar, who was a land economist and a consultant, and that I had just hired Al to do a study based on some of the work he had done for other developers. Phil said, "Well, yes, do the study, but did he say anything that would lead you to any immediate conclusions?"

I said, "Yes. He and I both agreed that Denver is an important growth market." Phil was off on a plane that same week, and by the time he got back a few days later, he had bought 640 acres of land, which became Mission Viejo Aurora [Colorado].

I had lived in Denver and Colorado Springs as a kid. I sort of knew a little bit of the background of Denver and its prejudices and long-term trends. I wasn't that fond of Aurora because Aurora was always considered to be kind of a working man's area. The really quality areas were south of development. But we had to get our feet wet. It was a good opportunity, and he bought it.

After Fresno, I had to really support him in everything that he decided to do, so we tried to make that really successful. We took our lumps there because we really didn't understand the Denver market. It takes time and experience. The first product that was developed was more California style, and it wasn't successful because the market didn't understand it. So I went in

and helped revamp that product, substituted a few models, changed a few other designs, and it started to do better.

Then about midway through Mission Viejo Aurora Phil finds an opportunity to buy the Phipps Ranch, which was absolutely amazing. I mean, that could not have been a better strategy or stroke of fortune. What had happened was the Phipps Ranch was put on the market by Lawrence Phipps [, Jr.] It was 23,000 acres, and it was the whole southern area of the Denver Metropolitan Area. It was the future of Denver. Before any developer got a crack at it, the local guys, headed up by the guy that owned a steel company—what was his name?

ARTHUR COOK: Marvin [H.] Davis.

STEARNS: Marvin Davis. Thank you. Marvin Davis put together a consortium of developers and builders to take an option on the Phipps Ranch to buy it. I think they put a million dollars down, and Phil came in and agreed to buy it for \$22 million, which gave Marvin Davis and the consortium an incredible return on the million-dollar investment. But the truth of the matter was it was a steal at 22 million, and we were just really happy to have it. So then we had a full-blown Denver division. We had a division before that one, Mission Viejo Aurora cranked up.

BRETON: That became the Highlands Ranch [Colorado].

STEARNS: That became Highlands Ranch. I got involved and so did Van Stevens.

BRETON: Jim Toepfer was sent up.

STEARNS: Jim Toepfer was sent up. All of us got a little involved, but it became Toepfer's baby, and product-wise, I continued to be involved with that in Aurora while I was developing Mission Viejo and Aliso Viejo product. Aliso Viejo opened in 1980. We bought the land, I think, in 1975, a year or two years before Phil bought Phipps Ranch, but it took us five years to get all the entitlements in place because Orange County was a lot more environmentally sensitive

than Denver was at that time. So actually the two communities at very close to the same time, around 1980.

BRETON: When we were considering incorporation here and had to appear before LAFCO [Orange County Local Agency Formation Commission] and show that it would be economically feasible and viable and sustainable as a city with the boundaries that we were proposing, we hired a consultant to do the entire analysis, including the [projected] tax revenues.

STEARN: I remember.

BRETON: That man was Al Gobar.

STEARN: Yes. Al, he was very instrumental in the Society of Land Economists, so called. I think he helped set it up, and he nominated me to be on that. I remember him very fondly. He was a very smart man, very smart.

BRETON: Let's move on to residential then. We have discussed with Jim Toepfer already the fact that at the very, very beginning the company wanted to kick-start the program, wasn't ready to start building houses, so they brought in the Deane brothers and Harlan Lee and built the homes that you moved into. At one point the company was having a difficult time convincing other builders to invest out here, to build the homes. They were hesitant. They wanted to wait and see that people would really come out here into the sticks and buy homes. So the company decided to build homes themselves and create their own building division and to proceed to develop the land themselves. Then when these other builders wanted in on the action, it was too late. The division had been formed and they [the Mission Viejo Company] were doing quite well.

STEARN: Well, there's a minor tweak to that. I wasn't in on that initial planning, but my understanding was there were several reasons for selling land to Deane brothers, notably, and

also to Harlan Lee, who built Monterey Master Homes. Number one, it helped cash flow. Philip Morris was not in the act at that point, and we couldn't afford to do everything ourselves, so selling land for about eight hundred homes to Deane Homes was strategically important in terms of providing cash and also providing instant recognition to the project, because Deane Homes was a highly respected builder in Southern California. So I think maybe what Jim Toepfer and others were referring to was the decision was made early on to build our own houses at some point, but it could not have been the first step, and wasn't. Shortly after Deane Homes bought those lots, the company started developing El Dorado and La Paz Homes, and that was done by hiring [Sanford R.] Sandy Goodkin to do a market study for those two housing programs.

BRETON: Which two?

STEARNS: La Paz Homes and El Dorado Homes. Sandy had a young man working for him by the name of John [T.] Martin who actually did the study, and when the study was complete, Phil and Bren hired John Martin to be Vice President of Marketing and Sales. At that point, work started on La Paz and El Dorado Homes.

BRETON: Who headed the Building Division?

STEARNS: Robert [E.] Osborne. He was a small custom builder at the time.

BRETON: How important was it to the company to satisfy different markets and to offer a wide price range?

STEARNS: Well, initially the strategy really was to go after the entry-level market and the first move-up market, perhaps, and it was a smart strategy because basically we're pretty far south. There was hardly any development here. Irvine Company was underway pretty much the same time we were. They were offering a wider range of housing, including move-up housing, and the

question became why would people move so far south to an unproved community like Mission Viejo and not buy from Irvine?

There was also Laguna Niguel that had started up the same time, and they had some good move-up housing being offered. And there was Aegean Hills, a small tract off of Muirlands [Boulevard]. So there was a fair amount of competition.

Where Mission Viejo Company had an advantage was on entry-level housing, and Deane Homes really occupied a point that was straddling entry-level and first move-up, and so they were providing that market. El Dorado was pure entry-level housing. La Paz was sort of a hybrid, hybrid that was more competitive to Deane Homes. That was basically it. We went with our strength at that time.

BRETON: So the company decided to price the homes at the lower end of the market, especially at the beginning, and then wait to build the move-up expensive homes.

STEARN: At that point we had a low land base. The 10,000 acres really were put in at a fairly low value that enabled us to be competitive on entry-level housing. Again, that was decision-making made before I joined the company, but it was a smart decision.

BRETON: How did the company go from zero to 32,000 residents in just nine years? Did they anticipate that throngs of people would be camping out to buy a home?

STEARN: We didn't necessarily anticipate the campouts. We anticipated good sales success. I was one of those early campers. In the first year that the company opened its doors in 1965, I think between Deane Homes, Monterey Master Homes—I should say the second year—we sold somewhere, memory serves right, between 600 and 1,000 homes that first year. I mean, it really ripped. So our sales success happened very early, and the key was going to be to maintain that sales rate. If you have a thirty-year project planned with 30,000 homes, that's an average of

1,000 homes a year, and the fact that we were on target the first couple of years was absolutely amazing, but the greater challenge became to maintain it, because as time went on, prices went up and the market changed quite a bit.

BRETON: We had a few recessions.

STEARN: We had a few recessions.

BRETON: But as I look at the records, sales went up every year.

STEARN: No, they did not. They fluctuated. We had a couple of good years. Then it declined somewhat. We had recessions that limited our sales, and, as I said, the trick was to try to stay on that thousand-home-a-year target range. Therein lies sort of an interesting story, because Phil was a very faithful adherent to the plan that he and Bren created and that the O'Neill family endorsed. Nothing ever really stays the same completely, and what had happened was prices started going up, just normal inflation. Our initial success was based on having very affordable housing, but it became harder and harder. The lowest priced single-family home in El Dorado was like \$17,000, and it started moving up into the twenties, became harder and harder to sustain that kind of sales momentum.

I started doing the research, basically started doing the research, for Madrid [Homes] in 1970 under John Martin, and then in 1971 I became Director of Research and Planning, and by that time, John Martin had left the company. I started researching future product at that time, but still staying pretty much in the same mode. Madrid Homes was the first new product in several years, and we developed Castille Homes about the same time basically to replace the three products, El Dorado Homes, La Paz Homes, and Deane Homes. It got to a point where they were starting to age a little bit and we needed new product, and our sales were starting to fall off.

Madrid Homes was hugely successful, but after a couple years, I mean, Irvine came out with a lot of new product, Laguna Niguel had really reached full swing by then, and it was time for us to start doing some things. One of the things I recognized was that we needed to have a wider variety of architectural expression than just ranch and Spanish. There were those people who believed that ranch and Spanish was more for the low end, and to that extent, we were victims of our own success because we opened up the low end, did hugely well with it, but now the market was starting to take a different orientation that Irvine was only too happy to exploit. You know, always very conscious of Irvine Company.

So I started suggesting to Phil that we needed to hire architects that could give us a broader range of housing based on the successes of Irvine Company and others in South County, and he was very adamantly opposed to moving away from the Spanish and ranch look. The only way I finally got some concession, because he was an extremely strong personality—and even though Jim Gilleran supported what I was trying to do, Phil was the boss. So I pointed out to Phil that the community character was already set. We already had the ranch feel in the color scheme of the community and the landscaping and the mission bells and the arterials and the monumentation, and that all I was asking to do was to get away from the somber earth-tone colors, accents, of our housing and maybe start testing the waters with some colored trims that complemented the earth tones.

He reluctantly agreed, as an experiment, and we did it, and that was Galicia Homes. Galicia was the first housing program that started getting into more diverse architectural styling, and Galicia was hugely successful. So Phil was kind of relieved, and after that, we kept offering Spanish- and ranch-type housing, but we started doing more and more. We even got to do New England, which was Evergreen, and Phil felt increasingly more comfortable with it.

By the way, interesting enough, up to that point, Mission Viejo had gotten some early awards mostly for its community and, I think, maybe for its first generation of product. But after that, we hardly won any industry awards at all for product. One of the byproducts of diversifying was we started winning awards, and by the time that we were close to build-out, we had won seventeen MAME Awards, which was a BIA [Building Industry Association] Sales and Marketing Council major award presentation, and we had won countless other awards from different agencies. We had about half a dozen or more Gold Nugget awards, which put us in position to compete for the Grand awards that were offered, and before it was done, we won two Grand Nugget Gold awards for best affordable housing in the eleven western states and also another program, I forget which.

But Phil, he could not care less about awards, and I kind of agreed with him, because most of the time companies that won these major awards never made any money on the housing. They just developed splashy architectural styling, but the houses were too expensive to build. I told Phil I believed it was possible to do both. You could have good design and still have a cost-effective product, and we did. We made substantial amounts of money on every housing product we ever built in Mission Viejo and won all those awards as well. Winning those awards was another way of raising the awareness and prominence of the Mission Viejo planned community. It was part of a program. It was branding, basically, and that's what I was attempting to do. All the things that we did that were so community oriented were part of that branding program, and it was fairly apparent as I started taking over product development and marketing and sales and eventually construction and the whole residential development.

BRETON: We're going to talk a little bit later about the Casta del Sol program, retirement community, but before that, just a couple of questions. When John Martin left in 1971, is that when you were placed in charge of sales and marketing, or was it someone else?

STEARN: No. Actually, we didn't have a Vice President of Sales and Marketing at that point. We had a fellow that was a sales person that became director of sales, and he left the company, was replaced by [Donald B.] Don Schulz in the same position. At that point I think was put in charge of product development, and so I had research and product development. But at one point I know I felt that Don was a superb sales manager, but I could do a better job with the development and marketing, and Don got a better offer anyway. So he left the company, and I know the company looked on the outside before they gave me that consolidated position as Vice President of Sales and Marketing, but in the end, decided that I was qualified to do it.

BRETON: At one point the company either decided to accelerate the absorption rate or to placate the demands of Philip Morris, but the company decided to go ahead and sell entire tracts of land to outside builders.

STEARN: No, that happened much later.

BRETON: When did it happen?

STEARN: That actually happened in 1987.

BRETON: Why did they go to Barrett and [unclear]?

STEARN: We're getting ahead of ourselves a little bit, I think. I'd rather follow the chronology first.

BRETON: Okay, then let's go back to Casta del Sol. Tell us about your involvement with the Casta del Sol project.

STEARNS: Well, even before I became Vice President of Sales and Marketing, I started research on a retirement community. It was not my idea. I don't know who proposed it, but we were looking for ways to diversify our product offering, because, again, selling a thousand homes a year with all the competition we had, which was our stated goal, was not an easy task. So retirement was looked upon as maybe an opportunity. Now, there was Cortese's Leisure World and Laguna Hills, and I knew we couldn't compete with him head-on for the entire retirement market, but I was aware at the time that there were a number of different segments of the retirement market, and the one that fit us naturally was the so-called active retirement market where people still wanted a small single-family home, basically wanted a single-family lifestyle still. They weren't ready to move into a small condominium or assisted-care living or anything like that.

I hired a guy by the name of Gary McDonald [phonetic] who was originally a salesman and a researcher. He did a lot of data-gathering for me, and he came up with some of the ideas for this. The study was completed, and I think that was my first trip back to New York with a team to pitch the Philip Morris Board on making that investment, because Casta del Sol, what became Casta del Sol, was to have been a 2,000-unit retirement community with a nine-hole golf course and two recreation centers. So it was a community within a community. Phil was always fond of saying we didn't have communities; we had neighborhoods. Because it was Irvine that had villages, and we wanted a sense of an overall community. He was right on. We were very careful to keep that distinction. But literally Casta del Sol was a community within a community, special-purpose community. I made that pitch.

A lot of the product design and the recommendation of the facilities and the way the recreation facility was designed was based a lot on my folks' experience. They moved to

Mission Viejo from New York in 1967 to Deane Homes, and I knew what their needs were and incorporated that along with the research into the recommendations for Casta del Sol. So Philip Morris approved it. We went ahead and started construction on the Casta del Sol Golf Course and on the recreation center and the models, and when it opened up in 1973, my folks, they were in that first phase, and I think Phil Reilly's mom was there too. So it became a very important part of Mission Viejo.

The idea was, in keeping with the Mission Viejo theme, that for all the important things you didn't have to go outside the community. Kids growing up in Mission Viejo would have the experience of going to the next neighborhood and visiting their grandparents, because by the time we had thousands of homeowners there, they had parents who wanted to retire and they moved to Mission Viejo, which was another part of the genius of developing Casta del Sol. We had a built-in market for it.

BRETON: The company also was proud of the fact that many of your entry-level homes were sold by the residents, but those residents bought up in Mission Viejo. They stayed in Mission Viejo, and they bought up to the next home.

STEARNS: We built a huge move-in market from day one, even before I joined the company, but it wasn't realized until we started developing two move-up products some years later. But by that time, we had at least several thousand homeowners ready to move up into the next product, and we continued to have campouts as a result.

BRETON: Why was it set at forty-five, the age limit for Casta? Was that because you wanted to emphasize these are active seniors and [unclear] like Leisure World [unclear]?

STEARNS: The normal thing was fifty-five and over, but we knew we had young people who wanted to live near their children who weren't quite fifty-five yet. We didn't want an age-

restricted community that precluded them, so we made it forty-five, but it was also a good marketing choice because it really set the tone for something more vital than Leisure World—

BRETON: More vibrant.

STEARN: —and people understood when they bought into Casta del Sol, they were part of a vibrant community and not just part of a retirement community. We got people who were over fifty-five and even over sixty-five, but the benefit was the image we created, the branding, was set from day one, and it really was highly successful.

BRETON: One of the geniuses of the company was that they actually went to the county and asked the county to itemize the tax bills—that's something that had not been done before—so that the local homeowner could see exactly what every penny of the tax bill was being spent on. Did you know anything about how that came about?

STEARN: It was probably done pretty early, and maybe Tom Blum had something to do with that along with Phil. I don't know whether Van Stevens was involved with that at all at that point, but certainly Tom Blum and Jim Toepfer.

BRETON: Another great feature was the fact that the prospective buyer could come to the community, see the model homes, and then, upon purchase, could do everything with one stop, could have the finance company under the same roof, the escrow, the title, the home warranty, the home design, so that all at once, the new homeowner was acquiring the property without having to go outside Mission Viejo.

STEARN: Originally it was outside Mission Viejo, and we were aware that people did it. I think it wasn't that unusual for a builder to ask them to do that, but there were people who said it would be nice to have that in, and some builders were starting to do that, some developers. We decided to develop our own decorating center early on, and John Lay [phonetic], who was a

community resident, was tapped to do that, and he became the first director of the decorating center.

BRETON: How important was it for the company to make sure that it established a home warranty department that made good on its promise to [unclear]?

STEARNS: Oh, it was part and parcel of a corporate philosophy established by both Bren and Phil and reinforced by Gilleran and others like me to make sure we had credibility in all the things we were doing. In fact, one of the first things I did when I came onboard the company was to develop contiguous area reports that we called CARs, which basically explained to the homeowners what was going to be around his house not only when he moved in, but over the next thirty years. It followed the community plan verbatim, always careful to avoid being too specific to where we're locked into something that was not in our interest to do, but in generality, people knew what kind of development was going where. So that was the CARs.

The New Home Warranty was equally important in the same sense. We wanted homeowners to know that if something was wrong with their houses, the ones that we built—Deane Homes had their own New Home Warranty Department that was their responsibility, but we became the major builder very quickly. So yes, the New Home Warranty Department was a critical thing.

Then we had all kinds of other promotions that I was involved with where we had the Mission Viejo Belles [phonetic] that greeted homeowners and gave them their book and made them feel welcome and helped them to get established in Mission Viejo. So the company spent a lot of time and effort keeping the homeowners happy.

BRETON: How was home production and home sales coordinated so that the home was being built as the buyer was purchasing, and they could have a quick turnaround to keep the cash flow?

STEARN: In the beginning it was not the smoothest coordination, and you have to recognize that the leadership team, the management team, like all young organizations, was evolving steadily. There wasn't anybody smart enough, none of us, not even Phil Reilly. Don Bren was smart enough to understand how it all was to go together from the very beginning. We had to try many things and had to evolve. In the beginning there were some problems. It was a little problematic getting coordination between construction and sales and marketing. I mean, there were regular meetings that Phil had with his vice presidents even before I came onboard, where they tried to coordinate things, but there also was a fair amount of rivalry between the vice presidents, and that's a natural thing. [Robert E.] Bob Osborne, I think, envisioned himself as eventually taking over when Phil retired, and I think John Martin wanted to rise in the company, and Don Zellner had his thing. Phil had a hell of a juggling act to keep all these young Turks from going at each other's throats and still maintaining coordination and cooperation. It wasn't bad, but there was that. It got better as time went on.

BRETON: How were the lot costs, the costs of the lots and the land, combined with projected housing construction costs, sale price, and delivery schedule, how was all this combined to carry out the feasibility analysis in order to understand whether you could sell it at this price and whether you should go ahead or not?

STEARN: Well, as I said, I did my first research study for Madrid Homes in 1970, '71, in that period. It wasn't just a marketing study to determine what the housing should look like and how many we might be able to sell, but it was an economic feasibility study as well. We had to be able to demonstrate that we were going to sell at a certain price and at that price we would cover our cost and make the desired margins. I mean, it's part and parcel of being a competent businessman.

So at that time Frank Fehse was in charge of engineering, and he would come up with estimates of lot cost. When Philip Morris came into the picture, Fehse left right about that time or a little bit before, and Jack Raub started performing a lot of Fehse's functions still as the owner of the Jack G. Raub engineering company. So that information would be funneled back to me, with the finance people inputting their aspects, and I would have a target lot cost to shoot for, which influenced the design of the housing to a great extent, because it not only had to be appealing, it had to be profitable. That became our method of operation for years afterwards. It evolved a little differently because Jack G. Raub eventually—his company was purchased by Philip Morris, and he was head of that company under Philip Morris. Then eventually Philip put him in charge of the Commercial Division and Van Stevens in charge of planning. I think probably Jack retained his responsibility for engineering for quite a few years after that, if not forever.

BRETON: How concerned was the company about speculators?

STEARNS: Quite a bit. I spent a lot of my early years trying to come up with ways to thwart them. We didn't become fully aware of what speculators were doing—we had campouts from the inception, and we continued to have them year after year after year, but probably in the early seventies we became aware of people flipping the lots, so to speak, or double-escrowing the houses. They would put their deposit down after being in line and they would buy the house, but before they actually took title, there would be a double escrow, and the owner they sold it to would be the final owner, all accomplished within the escrow structure, but at a profit of maybe as much as 20,000 or 30,000 to the speculator.

We didn't feel that really served the community very well. We tried to keep housing costs as low as possible and stay with the entry-level market as long as we could. So we began

to develop anti-speculator devices. I think that probably Jim Gilleran and I probably did the initial planning on that, and Phil, as always, being chief executive officer, would be the final word on everything. But we effectively did stop speculation. I mean, if somebody was determined enough, they could probably find a way, but we basically took most of the profit out of it for them, and we were able to maintain affordable housing for years afterwards.

BRETON: Later on in the eighties, why did the company decide to sell to other developers?

STEARNS: Well, I think, again, I'd like to cover a little bit of history before that, because we were moving our houses at a pretty rapid clip. We were staying on that thousand-home-a-year schedule, and more importantly, we were really profitable. When Jim Gilleran came in and we analyzed our true costs and everything, we realized we weren't really making a lot of money on those first houses, but we did the smart thing. We got momentum going, which was important, but at some point we had to be making money on the houses. So the product that we started developing was very cost-effective, effective in all ways, and it was profitable and it was diversified. We started hitting all the price targets.

Then we went through a number of recessions, but kept building and came out of them really well. The recession of 1981 and 1982 occurred, and we nobody realized that that recession was going to be so long-lived. All the previous recessions lasted four to six months. So the decision was made at top levels, probably between Reilly and Gilleran, to keep building throughout the recession so that we had inventory to sell when there was no inventory elsewhere in Orange County, and that was designed to maintain sales and even increase them and possibly increase our profitability as well. Unfortunately, the recession dragged on for an extra year, and also by the beginning of 1982, we had 1,100 homes sitting in inventory completed and unsold.

I wanted to take this point to tell you a little bit about Philip Morris and some of the challenges of working with a major Fortune 100 company who's very much concerned about earnings and stock prices, and they had to be. One of the things we became aware of after a while—and I don't think even Philip Morris was quite aware when they bought the company—is the huge amount of capital investment involved and the long payout period with real estate development. So we became pretty aware after a while, participating with Philip Morris management, and our team had a lot of close interaction with Philip Morris. They never micromanaged us, but they always steered in the right direction, so we became a much better managed company as a result of their efforts, and we became aware of their challenges.

One of the things we knew we needed to do was to accelerate housing sales and to make sure that they were profitable sales, and that was very much behind Phil and Jim's decision to keep on building in that recession. Now, it became a two-edged sword. Because the recession did drag on longer, we had these immense carrying costs, and by that time, I was Vice President of Sales, Marketing, and Product Development. I was responsible for getting inventory sold, so was Phil, of course, as being responsible for everything. So he was under tremendous pressure from Philip Morris to pare that inventory down. I mean, 1,100 homes, the carrying costs on that were over \$20 million a year. Fortunately, we had Philip Morris, and the problem was financing, first and foremost. Mortgage rates went up to 19 percent. Nobody could afford to buy a house anymore unless they paid cash. But Philip Morris asked us, "What do you need most?"

We said, "Financing. Can you arrange to give us at least a ten-year loan at a rate that people can afford, even if it's still pretty high, like 10 percent?"

They said, "Can do," and they gave us quite a large amount of financing in two stages, 10 percent loans at 10 percent interest, and we even got into offering silent second so people could

get in with less than 20 percent down. In other words, they were obligated to pay off the second mortgage, but they didn't have to make payments on it for five or ten years, and it worked beautifully. I think probably Jim Gilleran and I pretty much came up with that.

Almost every day, at least twice a week, Phil would come to me, certainly every Monday morning, to review the sales for the weekend, and we were selling a steady one sale a week per program and even better, two a week, in some cases during this terrible recession, but we had 1,100 homes that we had to clear out. Phil would say, "Are you sure you're doing enough fast enough?"

I told Phil—I was crossing my fingers at the same time hoping that what I believed was true. I said, "Phil, if I offer too much incentives now, if I drop prices or if I offer too many other incentives to help the buyer out, it's going to increase sales dramatically for about three weeks, and then it's going to come to a screeching halt because other builders would start following suit by lowering their prices and offering more incentives, and I would have nothing left to give them because I'll have given them the company store. That means that the buyers would start saying, 'Well, we can go buy this house. We might as well.'"

I always wanted to be in a position of being ahead of the competition a little bit all the time, so I kept giving them little incentives here and there, and every week our sales were steady, and every week, at least twice a week, Phil would say, "Are you sure you're doing enough?" We had to clear out that inventory, but we did.

By the end of the year—and I took tremendous forbearance on Phil's part because he was feeling the pressure from Philip Morris, and, of course, I was feeling it directly from Phil and Jim Gilleran. By the end of the year, we were down to eighty houses completed and unsold, but the remarkable story of that was not only did we clear out the inventory, not only didn't we lose a lot

of money that year, but we had the best year in our history. We had \$40 million profit pretax, and our best, I think, had been around 30 to that point. In a funny way, Phil and Jim's decision to keep building is what allowed that to happen. If we didn't have that inventory, we never could have made those sales.

The other thing that happened during that time we'll probably get into later was in 1982 I developed an advertising campaign called The California Promise.

BRETON: Yes, we'll get to that.

STEARNS: I won't go into the details for the moment, but by the end of 1982 and going on through 1983, we doubled our market share. We outsold Irvine Company two-to-one that year. In fact, I think it was [Jeffrey A.] Jeff Slavin who was, at that time, Director of Sales and Marketing for Irvine Pacific, he looked like a freight train had hit him, and he said, "What on earth did you guys do? I mean, you must have grown up in the ghetto or something. You hit us so hard, we didn't know which end was up during that year." Very fine compliment, because Irvine Company had historically done an incredible job with product and sales and marketing, but we had a tremendous year in 1982.

BRETON: It sounds like it, marvelous. Are you ready now to talk about what happened later when the company decided that they wanted to go ahead and sell entire—

STEARNS: If you want to come back to "The California Promise" [campaign] later, yes, but that actually came before. But "The California Promise" was an important thing of merchandising the community not only to help us sell houses, but to really prepare the way for the community to really be attractive to other builders and to get the highest possible prices for our land, because, after all, that's what we're in business for.

The company had been considering the possibility of selling land to other builders to accelerate absorption, but our rapid sales—I think in 1982 or '83 we had over 1,600 closings between Mission Viejo and Aliso Viejo, and the lion's share of that was in Mission Viejo. So as long as we were selling like that, the decision to bring in other builders was still off in the future. But by then, Philip Morris had become painfully aware that this was a highly capital-intensive business, and with all our profitability, we didn't have the same turnover rate on assets that their other divisions had.

Philip Morris, like many industrial companies, was highly leveraged. They used a lot of borrowed capital. They used internal rate of return as a measurement of their profitability, but also in terms of their potential for growth. Their capital and their borrowed capital always tended to be put in the areas that produced the highest return, and we were always challenged to try to produce a return equal to what some of the other operating divisions were capable of doing. Land sales, it was understood at that time that maybe that was going to be a future direction of the company, but as long as we were continuing to sell so well, sell our housing, it didn't.

The California Promise campaign not only allowed us to double our market share and to sell a tremendous amount of housing, particularly completed inventory, but it really set the stage for bringing in other builders. I'll get into the campaign a little later if you want, but basically the decision finally to bring in other builders was made about the same time as I was promoted to President of Mission Viejo California, which involved all the community development and residential development in Mission Viejo and Aliso Viejo, with Jack still retaining control of the commercial. But the planning of the build-out of Mission Viejo and of Aliso Viejo was my responsibility at that point.

BRETON: Before we talk about parks and recreation, I'd like to go back, Harvey, to another area, which is the degree to which the company became a leader in conservation of natural resources. You weren't here when the company was reacting to the energy crisis of 1974.

STEARN: Sure I was.

BRETON: You were?

STEARN: I joined the company in '69.

BRETON: That's right. How did the company endeavor to reduce the per capita consumption of resources, in what ways?

STEARN: Well, I think our corporate philosophy from the beginning was to be a really good corporate citizen, and I think that was Mission Viejo Company's natural bent anyway, but Philip Morris certainly understood that and always made an effort to do whatever was right on these issues as they came up. We became aware of the cost of trying to maintain landscape medians, how much energy and water those things took, and the program to develop drought-tolerant plant material happened very early. As you know, [J.] Randall Ismay was the horticulturist who experimented with different types of materials, plant materials, some from Australia, and recommended a palette of materials to use throughout Mission Viejo. In part, that was just self-interest. I mean, we were footing the bill as a company, huge utility bills for maintaining community infrastructure, so it was a natural tendency to want to find ways to keep the community looking good, but at the same time cut down on the use of resources.

But these are issues that were present throughout Southern California at various times, and the question was always being raised, why are people building so many homes in the desert? Why are they taking all this water from Northern California and using it to build communities in a desert? So we had to be tremendously sensitive to any potential charges that we were unfairly

using more than our share of the state's resources or not being sensitive to the need to husband those resources.

BRETON: How did that evolve into the use of reclaimed water to irrigate the golf course

STEARNS: We had a golf course by 1967. When we developed Casta del Sol, we had a second golf course, and the issue was really are we doing everything we could to keep costs down and the use of water down? And reclaimed water was an obvious way to go. That became more of an issue in 1976 when the state went through a tremendous drought. We were taking a lot of criticism from the people up in Marin County at precisely the time we were trying to fill a lake. We're going to cover that later. But that awareness happened early, and Phil was a tremendous proponent of resource conservation.

BRETON: Didn't the company also promote the use of water-saving showerheads and reduced-flow toilets?

STEARNS: Yes, we did all that. I think we may have done that to a certain extent early on, but that campaign really was in full bloom when we had to show we were a responsible community and the State Water Resources Control Board shut down the filling of the Lake.

BRETON: What about the two solar energy model homes, experimental energy-saving prototype homes?

STEARNS: We did a lot of experimentation where that was concerned. I think that was a natural and easy thing for us. The Building Industry Association, both nationally and of Southern California, had been promoting solar panel electricity generation and water heating for some years before we even did that, so that was sort of a no-brainer that we would attempt to do that. But in a similar fashion, we did other things to try to lower the cost of home construction.

BRETON: Okay, let's jump over to parks and recreation. Did the company engage in any inquiries, surveys, discussions, with the residents to determine what they needed in the way of recreational amenities?

STEARN: We had both formal and informal feedback from the community in terms of what the community needs were, and recreation was certainly a part of it because it was an easy thing for us to design and construct, and it was something very close to Jim Toepfer's heart, so it was natural that we would seek to develop recreational opportunities and, at the same time, listen to what the community had to say regarding them.

BRETON: Wasn't Mission Viejo one of the first communities to design and put into place bicycle lanes on its arterials?

STEARN: I can't really speak for other communities. We did it pretty early. Today, having been on City Council in Sedona [Arizona] for four years, being lobbied by the Bicycle Association to put in bicycle paths, it's a big thing today, more so than it ever was before. We were fairly early on in appreciating that. It's part of the planning process when you're developing a community that basically is trying to create convenience for people, give them as much amenity as you can and try to avoid too much travel by auto, which had always been one of the main problems of Southern California, that we would try to create walking paths and bicycle paths so people could get around without using automobiles. Smog had always been an issue in Southern California, and automobile use was certainly a major contributor to that.

BRETON: In fact, I read somewhere, I think in the minutes to the original Master Association or maybe the Activities Committee, that one of the original ideas behind the Five Nights of Christmas was so that people would concentrate their Christmas activities on only five nights, and thereby save on gas consumption and automobile usage. I actually read that in the minutes.

STEARN: Yes, and I had forgotten that. Thank you for reminding me. But we had a lot of good suggestions. You talked about community feedback. When I got the idea to create the Activities Committee and asked Jim Toepfer to help me do that, because we needed company help to really do it, the community residents could not have possibly have done that on their own without help from the company, so Jim and I really did all that together. He provided a number of names of community residents that he knew personally that would be willing to serve on the committee, and I put up some of the people that I knew from Deane Homes. We got a lot of good input from those citizens at that point in time, and that was one of them. The idea was really to, again, provide more to the citizens of Mission Viejo so they didn't have to go outside of the community, and make it convenient for them and make it something that would instill community pride.

BRETON: Didn't the company also provide an incentive to those employees who would bicycle to the company office?

STEARN: You know, I vaguely remember that. It's been a long time. I think there was something like that, but I can't really speak to it.

BRETON: Somewhere along the line the company must have determined that they wanted, in addition to swimming pools and tennis courts, that they wanted a clubhouse, hence Montanoso Rec Center was designed that way with an actual clubhouse, which the Activities Committee later was able to use for its events, correct?

STEARN: Yes. Actually, what had happened was when Deane Homes built the first homes in Mission Viejo, they had a recreation center as part of that. In fact, I became president of the Men's Club associated with that rec center. The other residents of Mission Viejo who bought La Paz Homes and El Dorado Homes probably were just a little bit envious of that because it was

not a community-wide rec center, and they lobbied the company fairly well, and the company responded very quickly with the Montanoso Center.

BRETON: How did the company decide where to place its rec centers, the four rec centers?

STEARN: Well, the original master plan designated zones for every type of activity. It had areas for recreational activities, schools, churches, commercial, and they were all strategically scattered around the community of Mission Viejo so that all the neighborhoods had reasonably close access to each one of those activities in their area.

When we built the Marguerite recreation complex, the driving force behind that at first was really the merchandising of Madrid Homes, which was probably the single-most important housing program, other than historically, that the company had built at that point, so we wanted a really strong merchandising statement, and we decided to build a rec center and swimming pool there. I don't know that the pool was originally designed as a 50-meter pool. It was just going to be a nice good-sized swimming pool, but I think input from the Nadadores swim team and Jim Toepfer convinced us pretty quickly that it would be nice to have an Olympic-size pool, so we put in a 50-meter pool at that point.

BRETON: You might be pleased to know that the City Council just approved the renovation of the tennis complex at lower Marguerite [Parkway], so that building/clubhouse there has been razed, has been destroyed, and there's a brand-new clubhouse that's being built now. That's, of course, where the Seventeen tournament [Seventeen Magazine Tennis Tournament of Champions] and the Battle of the Sexes took place. And Michael [Te-Pei] Chang just bought a home on the Lake in Mission Viejo, a major tennis star, and spoke on behalf of that renovation of that, Marguerite.

STEARN: That's really heartening to hear that. I'm not surprised. The city has done such an incredible job since we took it over, and I think they far exceeded our expectations when we withdrew as a company when the buildout was pretty much completed.

The tennis courts were significant, because I think we had two courts at Montanoso, and there was always a waiting line to get on those courts. We understood early on that we needed more tennis courts, and the courts at the Marguerite Rec Center were designed to provide plenty of capacity at that point, so they were pretty historic in their own way.

BRETON: The Montanoso Center has been completely remodeled.

STEARN: So I understand.

BRETON: Were you at all involved with the riding stables and their various stages and various relocations?

STEARN: Yes. Actually, the residents had indicated a desire for equestrian activities. We had researched a full spectrum of recreational activities and facilities, and it was felt that the stables, equestrian facilities, would be very much in keeping with the history of the land as a ranch and the continuing working ranch status of the Rancho Santa Margarita, so it made sense for us.

My wife and I became among the first horse owners as a result of it. We started out taking lessons from a young lady by the name of Dobray [phonetic] on horseback, and we liked it well enough to where I bought two horses. My horse sort of became a legend around Mission Viejo. He was a charro horse, and he was a beautiful Anglo-Arab stallion, never been gelded, very spirited. I think a lot of the people were maybe a little afraid of him, but he was a pussycat, and he was the most incredible animal. But that began a very gratifying time in my life. I think that over a fifteen-year period from that point in 1971 till about 1986 I found a way to ride that horse every day either during lunch break instead of having lunch or after work I'd go down and

groom the horse and ride him out on the trail. By the way, it was having that horse and being able to ride around the unbuilt portions of Mission Viejo I got to know literally every square inch of the land, so when I started doing things like making recommendations for the Lake and the influence area around the Lake, which was considerable, I already knew the terrain and I knew where everything was.

BRETON: Wow.

STEARNS: So it was a great thing that we did.

BRETON: That's far better than Jim Toepfer's Ford Falcon that got so ruined with the brush and the cane that he had to convince the company to give him a company car when he was driving the Deane brothers around on those hills.

STEARNS: Well, there were limits, and actually I remember that when we actually started physically planning the Lake in detail, the two Jims, Gilleran and Toepfer, organized a trail ride around the northern part of Mission Viejo on horseback so that we could take in all the different engineering—the terrain features and the engineering considerations, which was an immensely successful ride. I remember that quite well.

BRETON: Did you see [Steven] Steve Trammell down there at the stable very often?

STEARNS: Yes, quite a bit. When I became President of Mission Viejo California—actually before that, when I became Senior Vice President, including construction, Steve reported to me. He had just come into the company like a year or two before that.

BRETON: Okay, let's move to the Lake then. Tell us about when the company decided that the residents wanted a lake, and that it would be an excellent amenity and would satisfy a certain portion of the market to have lakefront housing.

STEARN: I don't think that it was driven by the community in that case. The idea for the Lake was actually kicked around very early in Mission Viejo Company's career. I think Frank Fehse first raised—he was Vice President of Engineering. He raised the possibility by saying that a lake was feasible because of the impervious clay soils in some of the old creek beds. I think the idea probably was the kind of idea where everybody nodded and said, "Yes, that would be great," but it was shelved.

Then in, oh, I'm going to say sometime in the early to mid- seventies, right around 1973, I started doing market research. Again, it was an effort to see what we could do to broaden our product line and enjoy wider support for the higher price ranges, and I was aware of the early thoughts that a lake might be feasible, so we embarked on a study. I had a young man working for me by the name of [Steven] Steve Swanson who, by the way, used to be the center for USC's [University of Southern California] championship football team, but he was interested in research, so I had him gather a lot of the information. We studied lake communities like Lake Forest and Westlake and Lake San Marcos, all around Southern California, and visited and interviewed people, talked to them. We also talked to planners and engineers to see the pros and cons of having a lake. One of the things that we were struck with is that a lake actually uses less water than a golf course, because the original site, or part of that original site, was going to be a second golf course.

BRETON: Second or third?

STEARN: Well, this was actually even before Casta del Sol was built when I first started doing the research.

BRETON: That was a bean field, wasn't it, some sort of a [barley farm/field]?

STEARN: Casta del Sol Golf Course?

BRETON: No, where the Lake was going to be built.

STEARNS: It was all ranchland at one time. I don't know if they ever had any agriculture. I don't remember.

BRETON: Barley field or bean field. We thought, in our research, that that had been used as a bean field, maybe leased by Moiso, O'Neill.

STEARNS: Oh, it's possibly going back in history that might have had some other use. I mean, their primary operation was cattle, but I don't remember that aspect of it.

BRETON: You're saying it had been considered a possible golf course.

STEARNS: Yes, and one of the things we became aware of, given our history of resource conservation and water conservation, was that golf courses are very expensive to maintain and wasteful of energy and water. We already had one and were planning a second one at Casta del Sol, so that didn't make sense. The Lake seemed to make a lot more sense, and we found out that the water loss through evaporation is like one-fifth or one-quarter of the water loss in a golf course through evaporation and seepage, and a properly designed lake with an impervious bottom would save quite a bit of water.

That started to make more and more sense, so then it became a question of what that lake should look like. I think we reached a conclusion the Lake made sense, and that's where the research really came in handy. All the lake communities that I had studied had so-called developer lakes where the lakes were anywhere from five to ten feet deep, maybe a little more in a few cases, and basically they were just things to look at and provide an ambiance, and that was not in the spirit of Mission Viejo active recreation. I felt that particularly because I really didn't care for the developer lakes. I thought that just looked like a theme park approach to

development, so I was very much in favor of trying to create a lake that enabled activities that you would normally do in a lake, a natural lake, and the research brought that out.

So I put together a recommendation not only for the Lake, but laid out an influence area of 5,000 homes and recreation and commercial around the Lake, realizing that certainly the Lake would enable us to command much higher prices for housing and give us opportunities for high-end housing, and that that would go on for many years. So as part of that study, I laid out an influence area of quite a few hundred acres, which encompassed 5,000 homes on our master plan, and also laid out three beaches, two condominium areas, and the specialty shopping center on the east side of the Lake.

BRETON: On the east side?

STEARN: Yes.

BRETON: The Market on the Lake?

STEARN: Market on the Lake.

BRETON: That's on the west side.

STEARN: That's on the west side, I'm sorry. You're right. It was the beach, yes, the beach on the east side.

So did all the research for what became Finisterra and—I forget the other—Mallorca.

BRETON: Mallorca, which is where I live.

STEARN: Yes. Phil and Jim Gilleran basically approved the concept, and then it became a question of selling Philip Morris on it, because it was expensive to build a lake, and our first estimate was going to be that it cost somewhere in the neighborhood of five to six million dollars just to construct the Lake. I did the feasibility studies and I worked backwards in terms of how much additional value the Lake would impute to the home prices and home premiums, lot

premiums, in order to justify building a lake, and it came out that we had to get something like in the mid forties, average in the mid forties, per house.

I went back east with Jim Gilleran and Phil Reilly to make the presentation to the Philip Morris Board, and I remember I was kind of nervous, but I got up and made the presentation, and then they asked questions. One of the board members asked me directly, “What makes you think you can average \$45,000 a house when you’ve been averaging kind of in the mid thirties to date?” I started going over the results of the research in terms of what it did for housing values in other lake communities, and I was very confident that we could get \$45,000 a house, and the board approved it.

So then we went back to Mission Viejo and we started further refining the Lake concepts, and Jack Raub looked at the study, which said we really wanted a lake that was deep and that you could boat on and swim in and met all the standards of a true mountain lake. He said, “You know, we can build it that way, but the problem is it’s not going to stay that way because unless you do something to divert the runoff from the surrounding hillsides, that lake is going to get fouled in a matter of several years.”

So he proceeded to design two giant bypass drains on both sides of the Lake that would carry runoff from irrigation and chemicals and everything else away from the Lake to the sewer systems and preserve the pristine quality of the Lake water that was to be used.

The only problem with that is it cost an extra \$2 million, so all of a sudden we had to go back to New York, and once again I had to give a presentation about why the Lake was now going to cost an extra two, three million, four million, whatever it was at that time, and why the increased house prices and lot premiums would justify it, which at that point required that we sell an average of 63,000 or 65,000 dollars a house. Of course, the board remembered quite well

what I had said the first time, and they said, “You know, the first time we asked you about the mid- forties, and we certainly agreed with that. What makes you think now that you can have average \$65,000 a house to justify this lake?”

I kind of gulped and said, “Well, I think I was really conservative the first time. I looked at it from the point of view what was the minimum price we could get to pay for the Lake, not necessarily what the values really would be by the time we got there.”

The said, “Well, do you really think you can average 65,000?”

I said, “Yes, I really do,” and I really did believe it, but I had taken a very conservative approach the first time. So again, they approved it for the increased cost. I don’t know if 5,000 [5 million] and 7,000 [7 million] are the right numbers. It might have been a little higher than that, but I know that the bypass drains cost a million each, and we proceeded to complete final design of the Lake.

We were actually going to build all new on an area overlooking the Lake, and Madrid Homes were selling so well that we felt we really didn’t need a whole new housing program at that point, so we went ahead and eliminated those models from development and basically sold the lots. As part of our continuation of our Madrid housing program, all we did was update Madrid. But the Lake was such a powerful merchandising tool that it certainly proved that we really didn’t need to get into fancy housing at that time, which economically made a lot of sense.

By the time we started selling the first Madrid Homes at the Lake, there were all kinds of campouts. There were speculators trying to get into the act, and we did our best to prevent that. The average housing prices were well over 100,000 by the time we opened our first homes at the Lake, and well into the program, long before we got to Stoneridge and some of the other homes

on the northeast corner of the Lake influence area, but after Tres Vistas was opened up, we were averaging over \$200,000 a house.

BRETON: You were vindicated.

STEARN: We were vindicated. We all bought off on that. Maybe it was my research that I stood behind, but the others had to buy off on that as well, and it became a joke after a while, “Do you still think you can get 65,000 a house?”

BRETON: You can get that for just the raw land in the Tres Vistas.

STEARN: Yes. We actually went to an auction on the Tres Vistas lots not because we needed an auction to help sell the lots, which usually is the case. Auctions have been used by developers to clear out distressed inventory or slow-moving inventory. Just the opposite. We felt the auction was the best way of getting the highest prices because we couldn’t even determine how high those lot prices were going to go. We had people coming in, wanted to buy a particular lot right then and there before it went on sale, and, of course, we said, “No, we’re going to give everybody a chance.”

BRETON: They were ready to pay cash.

STEARN: Yes, that’s right.

BRETON: The Lake became a logo for the city, for Mission Viejo. In your marketing campaign, after that, you could use the Lake.

STEARN: It became the ultimate amenity, and we did use it very successfully. I think you’re now kind of segueing into the California Promise campaign.

BRETON: Not quite. I want to get back into the political ramifications of filling a 1.2-billion-dollar-gallon lake basin during a drought.

STEARN: Okay. It was a 1.2-billion-gallon lake.

BRETON: Yes. I said 1.2-billion-gallon lake. Is that correct?

STEARN: Gallon is correct. I thought you said dollar gallon.

BRETON: Gallon, gallon lake, during a drought.

STEARN: Well, when we finished the design of the Lake, we had an agreement with the water district, Santa Margarita Water District, to purchase water to fill that lake, and that water was state water. Fifty percent of it came from the Colorado River and the other fifty percent came from the state water project up north. It was Northern California water. We proceeded to move ahead on that basis. The drought really didn't develop until maybe a couple of months before we started filling the Lake, and it wasn't a political issue until we started filling the Lake. I think the county and the state were both pretty comfortable with the planning that we had done and what we were going to do to conserve water and how we would pay for the water and where the water was coming from, but when the drought progressed to a point where Marin County homeowners were having their lawns brown out and they weren't able to fill their swimming pools, they started making very strong political statements to state government, and the State Water Resources Control Board started investigating that.

We made the point that half the water was supplied by Colorado River water, and I think at one point all of it that was going to fill the Lake was going to come from Colorado River. We committed to that, and there was no way of getting Colorado River water up north. There was no conveyance for that. There might have been if the Marin County people hadn't been so snotty about restricting growth and trying to keep what they considered to be lower-income homeowners out of the area by voting down a bond issue to provide reservoirs and a conveyance system to bring water from all different points up back to the north. But that wasn't an argument they wanted to listen to. In their mind, it was our fault. We're filling the Lake with their water,

which was ridiculous. But politics don't always revolve around truth; they revolve around perception.

So at that point we agreed to stop filling the Lake, and instead, we pursued an alternate plan, which was to recharge the water basins in San Juan Capistrano, which had grown brackish from all the water that had been drawn out over the years and were no longer being used. Our plan was to fill the Lake with that brackish water, which, number one, it got away from using water that could have been [for] drinking and other purposes, and to use that water that nobody wanted. At the same time, by drawing that water out of those underground reservoirs, it would have freed that capacity up for rainwater to fill it back up with fresh water once the drought was over. The State Water Resources Control Board agreed to our plan. It would have involved us building four to five miles of pipeline to bring the water from San Juan Capistrano down into the Lake area at a cost of about \$5 million, and again, Philip Morris, by then, understood the economics of the Lake, and so they approved our spending that money for that pipeline.

We also had made our point to the State Water Resources Control board and to the media in general—this was a war being played out in the media as well, which I was very much involved with—to explain that Lake Mission Viejo was going to be pure water and maintained as pure water under the original plan and would be an emergency reservoir in case of future droughts. All you had to do was just chlorinate it and the water was fit for human consumption. The State Water Resources Control Board understood the merit of our plan quite well, but it was a political game, and they were bowing to pressure, so they took the easy way out, just stopping us, and they approved our plan for an alternate water source.

At that point, after Philip Morris had approved the \$5 million for the line, providence intervened, and all of a sudden we had tremendous rains and the drought was broken, and they lifted the ban, and we were able to fill the Lake with fresh water, not brackish water.

BRETON: The developer lakes that you referred to required dredging every ten years.

STEARNS: Yes.

BRETON: This lake, being so deep and so well designed, actually attracted engineers and experts from all over the world to come and look at it.

STEARNS: Well, we hired some of those. In order to fulfill the marketing recommendations for a real lake that was swimmable and potable and people would feel like it was a resort, not just Disneyland, not that there's anything wrong with Disneyland, but we were trying for something a notch above, we recognized that the Lake had to be quite deep. The location of the Lake was extremely important.

Now, developer lakes typically are one of three kinds. They either excavate an area and put in a rubber membrane, and then fill it, which provides the impervious quality to the lake bottom, or they will put in something like a membrane with concrete on top, and that was done in several of the communities, like Westlake, that we looked at. Actually, Jack Raub, our engineers, came up with a different alternative that was brilliant. We were looking for an area with heavy clay deposits from ancient geological times where the runoff and the streams carried the clay to the bottom of that stream and created a really deep clay layer. As it turned out, the present site of the Lake had what was considered to be a very deep impervious layer of clay that we would be able to, with proper grading and compacting, be able to use that as an impervious bottom without the need of rubber membranes or concrete, and that was really key. The Lake at that point could have been as deep as seventy feet deep, because that layer went down pretty

deep. Because of the depth of the planned lake, it would eventually develop its own ecology and it would not need any kind of dredging or draining to do remedial work, which all of the other developer lakes had needed a number of times over since. It was a major thing.

We hired Morrison-Knudsen [Company], heavy-duty engineering company out of Minnesota, to do the study for the lower retention dam, and they designed a dam that basically would go down ninety feet below the Lake surface, twenty feet under the lower water level, and then an earthen upper retention dam. The Lake, as designed, and then later modified based on Morrison-Knudsen input, was going to be a total of 124 surface acres, 1.2 billion gallons of water, with an average depth of 30 feet. That's the lake we built. It took us two years. We resumed filling the Lake in 1977.

By 1978, or actually late '77, the Lake was pretty much full, and then we started educating people as to the benefits of that lake. We did that actually beforehand. We worked with the community. The community was very enthusiastic about having that kind of amenity. We explained what it would entail. There were going to be three beaches and there was going to be a specialty shopping center. The main beach, the marina, it was going to have a marina in the northwest corner of the Lake where people stored their boats. We didn't allow motorboats—it was going to be sailboats or electric boats—to maintain the quality of the water in the Lake.

The main beach was an incredible facility. I mean, it was huge. I remember as a kid living in New York, between Colorado and California, where I spent part of my childhood in New York, used to go to Jones Beach. Jones Beach in New York had these series of huge beaches and parking lots to support it, and different than all the other beaches in New York at that time. These beaches were broad, white, and sandy, and they were a joy compared with Rockaway [Beach] and other beaches that weren't quite as nice. That stuck in my mind from my

New York experience and one of the reasons why I recommended this big broad beach at the top where the upper retention dam was.

BRETON: With fine sand.

STEARNS: With fine sand. I wanted to make it into something that people could really relate to if they had the kind of experiences I had as a kid.

BRETON: To educate the residents, didn't you have an information center on Alicia [Parkway]?

STEARNS: We did. We did, and, actually, that information center served several purposes. Part of it was to promote all the new housing programs that we had planned in the lake influence area, because we didn't feel that just the regular information centers attached to each housing program would be sufficient. We wanted to really merchandise the community, and at that point it was a community unlike any other community. It fulfilled its promise.

BRETON: Let's move on to the Saddleback College. Were you here when the land was offered for the creation of a college district?

STEARNS: I was living in the community. I don't recall if I was with the company. It was right about that time. I joined the company in '69, and I think it was either just a little bit before or a little bit after that, Saddleback College bought the land, the district was formed.

BRETON: I think we discussed that with Jim Toepfer, that National Cash Register was offered that property as one of their major plans and major headquarters, NCR.

STEARNS: That would have been pretty early on.

BRETON: The deal that the company offered them was so sweet and so good that they turned it down because they said they couldn't believe it. It was too good.

STEARNS: [laughs] You know, it makes a good story. Maybe it's true. I don't know. I have no way of knowing, but it certainly makes a good story.

BRETON: Let's talk about community identity. How do you create a sense of belonging, a sense of hometown feeling?

STEARN: Well, the first thing is you have to set a certain tone initially, but you also have to recognize early on that you can't do that in a vacuum. The home town is going to be occupied by people whose town that is, and so you really have to work with the residents the moment they start coming in to create a sense of pride and identity. That's the branding. That's part of the corporate philosophy of keeping your promises and doing what you say you're going to do and letting people know up front what your plans are. That was done from day one, and it was something I noted as a resident, that this company was really good about keeping its word, which is why I decided very early in the game I wanted to work for this company. I was really impressed with them.

BRETON: When you first moved in, you received a welcome packet.

STEARN: Yes.

BRETON: The Chain of Title. Possibly you were early enough to be fortunate to have a welcome sign in front of your home. Some of the early Deane Homes we have pictures of actual wooden sign in front of the home that said "Welcome Partridge Family."

STEARN: I think Don Bren probably pushed Deane Homes in that direction, to do the things with their houses that the company intended to do with its own housing, and I think Ben [C.] Deane was pretty good about that. I remember that one of the things we got when we first were about to move into our Deane Home was our choice of olive trees. We went down to the nursery down in what later became Lion Country Safari and picked out our own olive tree, and they planted it. They tagged it and planted it in front of our house.

BRETON: Amazing.

STEARN: Or actually, it was in the front yard. It was those kinds of things that started to instill a sense of ownership and pride. I don't think it started with Ben Deane, although he was a master of merchandising. He understood those principles. I really think the tone was set early on by Don Bren and Jim Toepfer and Phil Reilly.

BRETON: License plate frame. Do you remember those?

STEARN: Yes, I do. I think that started about the time I joined the company. That may have been John Martin's idea.

BRETON: What better way to create a sense of belongingness than to start the publication of the *Mission Viejo Reporter*?

STEARN: The *Reporter* actually started with Larry Manzo, and I think it started just a little bit before I got there, but it became my responsibility because my first responsibility was public affairs and public relations. So, yes, I watched it grow.

BRETON: What functions did that serve, the *Reporter*?

STEARN: Well, it was definitely a merchandising, marketing tool, but it was also a community relations tool in which we would develop the sense of a growing community, something that people would not only be proud of immediately, but whose pride would grow over the years as the community became more and more.

BRETON: So they could see those projects that were on the horizon that were about to be completed, dedicated.

STEARN: But one of the brilliant things that the *Reporter* did early on—I think Phil Reilly had a lot to do with that—it did not feature Phil Reilly or the company executives talking exclusively or to a great extent; it was more about the residents. I'm in those early *Reporters* quite a bit because I was very active in the community, probably more so than I would have been, had I

been working for the company at the time. So that guideline continued for years afterwards. Larry Manzo stayed on for a few years, and then we brought in other advertising PR [public relations] companies.

BRETON: Did he publish the *Reporter*, Larry Manzo? Who did that?

STEARN: I thought that we did. It was our organ.

BRETON: In house.

STEARN: I don't remember.

BRETON: Did you hire a consultant?

STEARN: We hired people who could tell us how you go about publishing something like that physically.

BRETON: How was that distributed?

STEARN: The *Mission Viejo Reporter* went to every household in Mission Viejo, but we didn't miss an opportunity to provide copies to the county and to the world at large. We had them in our sales offices. It was a major marketing tool for us.

BRETON: What about the Mission Viejo Beautiful [Committee] or House Beautiful Committee? Do you remember any of that?

STEARN: I do remember. I think that was a resident that started that. I think [Martin G.] Marty Russo at one point, if not from the very beginning, had a lot to do with that.

BRETON: Now let's focus more on community pride, on how the world began to see Mission Viejo, a recognizable brand worldwide. The Nadadores.

STEARN: Well, that was an incredible opportunity that is almost unique to Mission Viejo. Years later, other companies tried to emulate it. I know when Mark Schubert took a job down in Boca Raton, it was with a developer who wanted to build another Mission Viejo in that area,

planned community, with a swim team, and swimming was big in Florida. But we had all the elements. I mean, it just took off, and Jim recognized early what it could be, Jim Toepfer, and he, through every resource, every company resource that was available to help foster the development of that swim team.

It got to a point where we had homegrown residents like Brian [S.] Goodell who won two gold medals in the '68 Olympics. Shirley [F.] Babashoff, who had come to Mission Viejo specifically to train under Mark Schubert, won a number of silver medals in that Olympics. That's the point at which our reputation began to become international. People all over the world began to realize that we had this swimming team that was providing the country's best swimmers, and it didn't end there. I mean, soon after that, or about that time, Ron O'Brien was brought in to coach the divers who, at that point, were just a swim club, but we became a swimming and diving club when Ron O'Brien came onboard, and he brought in [Gregory E.] Greg Louganis, who, of course, is legendary.

BRETON: The naming of the team, was that a nod to the Spanish heritage, Nadadores?

STEARNS: Yes, it really fit. I think it was named by the community residents whose children participated in the Montanoso swim program, and they developed a swim club that could compete with some of the other local swim clubs, and Jim Toepfer was right there nurturing it every step of the way. So yes, it all started, and it just took off.

At one point the Russian government invited the Mission Viejo Nadadores to come train for two weeks in Russia so that their swim team could observe the training techniques that Mark Schubert and Ron O'Brien used, and I was elected to be the corporate officer that went with them. We had six chaperones for the kids, but I went along to make sure that nothing blew up in our face in a public relations way.

BRETON: Then you were on the world stage in the Tournament of Roses Parade. Can you tell us the genesis behind that and how it grew?

STEARNS: We were in a meeting one time with Phil and Jim Gilleran. I want to talk a little bit about Jim Gilleran because he's no longer alive. He played such an important role in the development of Mission Viejo and other communities, and he was my mentor, really, to a great extent. But anyway, we had a meeting between the two Jims, Jim Toepfer, Jim Gilleran, Phil Reilly, myself. The question was his reviewing our housing programs, how we generate more awareness of Mission Viejo and what it is through anything we could be doing that would really complement what was happening with our swim team and other community efforts to bring Mission Viejo more to the fore.

I think Phil at that time said, "It was always part of my dream to sponsor a float for the Rose Parade." Phil went to 'SC [University of Southern California], was a graduate. He was a Yell Leader there and very much definitely gung-ho USC and Pasadena and Rose Parade. He said, "I actually tried to do it, but I found out there was a huge waiting line for commercial entries, so maybe that's not such a practical idea."

Well, I knew how much Phil wanted it, and it was a great idea, if we could pull it off. So I did wind up making some preliminary investigations with a member of the Parade Committee and found that we would be accepted instantly if we applied as a city. Well, I knew and Phil knew and the two Jims knew we weren't a city yet, but we knew it was going to be a city, so we sort of fudged it a little bit.

BRETON: City embryo.

STEARNS: We applied as a city, and it was accepted. At that point I got together with the—Phil or somebody had recommended this one designer who was fantastic. He won so many awards.

BRETON: Is that Raul [R. Rodriguez]?

STEARNS: That was Raul. I was very much involved with that initial design, but not having the background in the history of the Rose Parade that Phil had. He deferred to me, but I went ahead. That first design was heavily influenced by my insistence that it represent the community, that we have a community theme with the colors of Mission Viejo and the mission bell lights and the monuments and the landscaping, the whole nine yards, and we went ahead and did that. Raul was very—I know he bit his tongue a few times, but he was obliging. We did that, and we had community residents on the float. We had Shirley Babashoff and Brian Goodell on the float symbolizing the community that was emerging with the citizens, and that was a very successful float. It got us a lot of attention. Commercially it really worked for us.

BRETON: It wasn't totally amateurish.

STEARNS: Oh, how could it be. Raul really knew what he was doing, and we had volunteers, all the students from Mission Viejo, that went up a couple of nights beforehand and started decorating the float. The Rose Parade floats rely upon volunteers to get those floats built the way the designers design them. They put thousands and thousands of flowers of different colors and shapes to create the theme of the float, and we had Mission Viejo High School kids and their parents working on the float for days. Marty Russo and maybe [Arthur S.] Art Cook was involved at that time too. So that all was going on. The float was successful in terms of getting us recognition, and we were invited back again for the following year, but this time Phil said, "Okay, now we're going to do it the right way. We're going to let Raul do what he knows how to do best, and it's not going to have any preconceived ideas on theme." [laughs]

I said, "Okay, Phil," and he came in and produced a beautiful design, and it won the sweepstakes award in our second year of entering the float. I mean, it was like everything could

not have gone better if we had tried to plan it that way. I mean, we did a certain amount of planning. The rest was serendipity.

BRETON: Was Philip Morris onboard at that time?

STEARN: Oh, yes, they had an influence over the company even as early as 1970, '71.

BRETON: So they enjoyed seeing your success at the Rose Parade.

STEARN: Oh, absolutely. Philip Morris is one of the best marketing corporations in the business in any industry. They understood advertising and promotion and marketing. I mean, there were nobody better than them, maybe equal, but not better.

BRETON: I'm going to now list a few of the other events that brought you national, if not international, recognition, and just tell me if you were involved, if you want to provide a quick anecdote about any of these. The "Mission Impossible" golf tournaments, the golf tournaments.

STEARN: Well, I was not really involved with that. Obviously I coordinated with it because I was in charge of media relations and community relations at that time. The "Mission Impossible" Mission Viejo Golf Course was built in 1967, and Phil and Don Bren hired Robert Trent Jones [Sr.] to design the course. I don't think we were totally aware of his philosophy of a golf course design. Maybe we were. It was not going to be a typical developer course either.

BRETON: But the O'Neills encouraged you to go to Robert Trent Jones.

STEARN: Yes, they did. My recollection, I wasn't part of that discussion. But it turned out to be a very long championship golf course aimed at the pro that even some pros had trepidation about playing. We got our opportunity to get some good golf course lots around it, but it wasn't a typical short course ringed with residential. It was definitely a golf course architect's golf course, and it became pretty much apparent when it opened in 1967 that this was one bear of a course to play.

BRETON: Did you ever succeed in getting the National Golf[ers'] Association to have a regional or national tournament there?

STEARN: Oh, there were tournaments, yes, association-sponsored tournaments, on that golf course. It was a challenge for even great golfers, but a lot of them like that kind of challenge.

By the way, one more thing about that golf course. It was so difficult, we actually, within the first year or two of its operation, we had to shorten it and make it a little easier. The reason was that the golf course still had to pay for itself, and we weren't getting enough play-through to pay for the course, because it took easily six hours to go around that course. That involved a decision to go in and modify it somewhat so that we could have people go through in five hours, still have a reasonably challenging course.

BRETON: Did the golf eventually become a private association as opposed to a public golf course?

STEARN: Yes, there was a point in time. I don't remember the exact year. But we weren't in the golf course business. We had no intention of being that. We wanted the amenity for the community to give the community prestige, but we were looking to see if somebody would buy it from us, and the entity that wound up buying it, was probably most motivated, were the golf course members themselves.

BRETON: Next category would be the televised [Celebrity] Challenge of the Sexes.

STEARN: Well, one of the beautiful things about having a parent company like Philip Morris was all the promotional opportunities that they were aware of and could steer our way. So that Challenge of the Sexes was something that some producer came up with, thought it would be a great thing, sort of like the precursor to today's reality TV, and Philip Morris asked us if we were

interested. I think Phil jumped on that right away. Phil had a really good sense of merchandising, he really did, for a lawyer.

BRETON: Virginia Slims [tennis] tournament.

STEARN: Same thing. Philip Morris was a sponsor for—and that was even more direct. They sponsored the Virginia Slims tournament because they were trying to promote their Virginia Slims cigarette, which was contrary to Marlboro, was aimed at the women's market, and they felt that women's tennis would be a good way to get into that.

BRETON: Seventeen Magazine tennis tournament.

STEARN: Yes. I'm not sure how Seventeen originally came to the company. It may have been a Philip Morris-initiated effort. I was very involved with *Seventeen Magazine* helping them organize and publicize the event. They were great people to work with.

BRETON: That put you on the cover of a major magazine.

STEARN: Of course it did, and a very wholesome magazine that was family oriented.

BRETON: Wheelchair tennis exhibition, Marguerite, in 1980. Do you remember that?

STEARN: I do remember that, and I'm not sure exactly how we first were exposed to that. I know there was a point at which we did something for veterans, particularly we hosted a two-day meeting of the Congressional Medal of Honor winners, but we were always looking to do things that could illustrate the sense of corporate responsibility that we had, and Philip Morris was as well. You can imagine owning a major tobacco company and a beer company, that they wanted to show they were good corporate citizens, and so the wheelchair thing came up and we jumped at it. It was a wonderful thing.

BRETON: Then the other biggie is the 1984 Olympics.

STEARN: Yes. When the Olympics were awarded to Los Angeles and Peter [Victor] Ueberroth was coordinating all of that, we had applied for several of the venues. I think Jim Toepfer was really anxious to get involved with that, again, being the ultimate sportsman. We applied to more than just the bicycle race, but the bicycle race is the one we were awarded, and we showed the Olympic Committee around.

BRETON: You have the perfect terrain for [unclear].

STEARN: We had the perfect terrain. Vista Del Lago road was steeper. I used to run up that thing in the summertime. It was amazing how those bicyclists could do that a number of times. But they approved the course, and we got the award for that. I still have photographs. I should provide the city with that. I took photographs of the finish with the winner coming across the finish line, an American holding his arms up in the air before he even reached the finish line, which is a little bit risky, but he was so excited.

BRETON: Alexi [S.] Grewal.

STEARN: Yes.

BRETON: And Connie Carpenter.

STEARN: Yes.

BRETON: That was seen not only by 250,000 spectators along the course, but worldwide.

STEARN: Yes, absolutely. I mean, it was tremendous exposure for Mission Viejo Company. With all the things that we did before and afterwards, that really just made us a world-class community. I mean, there was no question about it.

BRETON: The visit in 1986 of President Gerald R. Ford, could you tell us about that?

STEARN: That was 1976.

BRETON: He came also in '86, then, because—

STEARN: He may have visited, but he was—

BRETON: He came here to celebrate the twentieth anniversary.

STEARN: Yes, he did, but he kicked off his presidential campaign in 1976, running against [James Earl “Jimmy”] Carter [Jr.]. The way that happened was his son, [Steven M.] Steve Ford, while Gerald Ford was president and assumed the unexpired term of [Richard M.] Nixon, his son came to study large animal care and shodding horses as a farrier and all that type of thing, animal husbandry. He really wanted to go into that, and he came to Mission Viejo because we had a stables, we had a good operation going. He felt he could learn a lot, and we welcomed him.

In 1976 when Gerald Ford decided to kick off his campaign, he knew already from his son Steven about Mission Viejo and decided this would be a great place to start. Phil jumped on that. We weren’t yet a city, but we had celebrated—I forget what anniversary we called it, but it was like tenth anniversary of the opening of the community or whatever. We found an anniversary date that would make some sense, and Phil kicked off the meetings. I was assigned to work with the advanced planning men from Ford’s Secret Service and Logistics, so I worked with them very closely months in advance to plan for that. Art Cook became master of ceremonies, and Phil was the official host, and it was really quite a big deal.

BRETON: He was an Eagle Scout, Gerald R. Ford.

STEARN: Yes.

BRETON: You were involved with the Scouts.

STEARN: In a kind of minor way. I became the first male den mother for the Cub Scouts in Orange County, to my knowledge. We couldn’t find a mother that had the time to do it, and my son was in Cub Scouts, and I just, “Oh, what the heck.” [laughter] All the things I was doing, I became a den mother and also went on the board of the Orange County Girl Scouts.

BRETON: Now let's move to community spirit. You, and then later with Jim Toepfer, formed the nucleus of the Mission Viejo Activities Committee.

STEARN: Well, it was more simultaneous. I met with Toepfer just before the committee was formed and proposed the committee to him. He loved the idea. I mean, they were really looking for ways of involving the citizens and promoting the community, and so once he agreed to become part of that committee and be the company's liaison, it became feasible. I could not have done it without him. But the idea really came from a discussion that I had with a couple of the board members of the Deane Men's Club that I was president of.

BRETON: Let me read you some names here. Jim Rivines [phonetic].

STEARN: Jim Rivine was VP under me at the Deane Men's Club.

BRETON: [Walter W.] Bill Knitz.

STEARN: Bill Knitz was a community member and belonged to the Lutheran church that Jim belonged to.

BRETON: Vince Esposito.

STEARN: Vince Esposito, I think, lived in Mission Viejo. He joined the company fairly early.

BRETON: Homer Meech [phonetic].

STEARN: Homer Meech was a friend of Jim's and a community resident.

BRETON: Bob Aldrich.

STEARN: Aldrich was a resident.

BRETON: Marty Russo.

STEARN: Marty Russo, that's where he got his start. He became a very productive member of the Activities Committee.

BRETON: Dave and Donna Rukstalis.

STEARN: Donna was like vice chair, whatever. She took over the Activities Committee after I stepped off, and she was really a dynamo of energy and a very beautiful woman.

BRETON: Another asset that you utilized to help—

STEARN: Well, don't forget Norm Foreman [phonetic]. Norm Foreman was a local veterinarian and a resident of Mission Viejo. He was on the early committee, Dr. Foreman, and when we planned our first event, the Five Nights of Christmas, I think it was Foreman's idea to have a Chanukah lamp to show that the community was honoring more than just Christian beliefs in the celebration of the holidays.

BRETON: He was a veterinarian who had a clinic here in Mission Viejo?

STEARN: Oh, initially I think it was in maybe Laguna Hills. I think he later had an office off of Marguerite Parkway.

BRETON: Horses or dogs and cats?

STEARN: No, it was small animals.

BRETON: Whose idea was it to provide the Mission Viejo Family Fun Bus between the rec centers each summer? That's a great idea for a family-oriented community.

STEARN: I would say that probably both Jim Toepfer and Jerry Curran deserve equal credit for that one.

BRETON: For a family-oriented community that is trying to cut down on gasoline use, that's a great way to get the kids to be able to utilize the rec centers without having to drive.

STEARN: Absolutely. I mean, almost everything we did was always with some fundamental policies and objectives in mind, and almost everything we did satisfied more than one criterion. It just all worked beautifully.

BRETON: After the Five Nights of Christmas, then you had the Cinco de Mayo. Do you remember that?

STEARNS: I remember it very well. We did do that, because it came earlier. My original thought was to have something along the lines of reflecting the city's ranching heritage, and I wanted to have something called Mission Viejo Days that explored that, but for one reason or another, it really wasn't feasible at first, and the committee felt, particularly Jim Toepfer, that maybe since Christmas was coming up first, that we should concentrate on something for the Christmas festivities. He suggested Five Nights of Christmas, in part because it dovetailed with the Mexican, Hispanic form of celebration and part of the heritage of the Ranch, and also because to try to do twelve nights of Christmas, as some of the activity members had suggested, was just totally impractical. So we went with Five Nights of Christmas.

BRETON: Later you did have a Silverado Days, didn't you, or a Mission Viejo Days in September.

STEARNS: Yes, and it actually was given the name that I had first proposed to Jim Toepfer.

BRETON: That was on the golf course on the north side of Oso [Parkway] with the states, people organized by states.

St. [Patrick's] Patty's Day Parade.

STEARNS: That was one of the later events. When I first talked to Jim in my pitch to set up an Activities Committee, I mentioned all the obvious ones, Cinco de Mayo and St. Patty's Day—

BRETON: Fourth of July.

STEARNS: —Fourth of July and Mission Viejo Days, that I felt the committee could do. I didn't think about the Five Nights of Christmas, the only I hadn't thought of. But he agreed to all of

those, and that became part of a long-range plan. We did one starting out, then another, then another, and finally we had about five events going.

BRETON: Wasn't the key to the success of the St. Patrick's Day Parade the fact that everyone in the community could march, could participate, could be involved somehow or another in the parade?

STEARNS: The whole idea of all these events were to get community participation in one way or another, to either attend or to become part of the program. I can't say that we thought about all those things from day one. I think that sort of evolved. We began to realize just how important the residents were to us, and I have to say that as the company grew, many of the employees were like me. They started out as residents, got involved with community activities, and were hired by the company to do specific tasks. [Gerard D.] Gerry Ognibene was another one like that.

BRETON: It wasn't a requirement of the company that its employees live in Mission Viejo; it just happened that way.

STEARNS: Oh, I don't think that it was an ironclad requirement, although Phil made big issue with me on that, but I think it was very strongly encouraged.

BRETON: Didn't he live in Newport Beach? Where did Phil live?

STEARNS: He started out, but when the Monterey Master Homes were completed, he bought one of the first Monterey Master Homes and lived there.

BRETON: And his mother lived in Casta del Sol.

STEARNS: Much later in 1973.

BRETON: Of course, to a lesser extent, you have the New Year's Eve dance at Montanoso, the boutique, the Christmas boutique at Montanoso, the Bunny Days, Easter egg hunt, Balloon to the Moon contest.

STEARN: So much of that was all the work of our recreation center people and our community, our citizens.

BRETON: [Gregory P.] Greg Currens and Jim.

STEARN: Yes. All those things were incredible.

BRETON: Five-hundred-foot-long banana split, Movies in the Moonlight, the Halloween haunted house. All of these benefited the community and the company.

STEARN: Oh, very definitely. By the time that we had reached our zenith, we had nine hundred employees in California. Now, we later scaled that down because as a developer, even a community the size of Mission Viejo, you only need, at the most, a couple hundred employees to get the job done. But we had a huge recreation center. We had a homeowners association. We had all these peripheral community adjuncts that made Mission Viejo what it is, and many of those were drafted from the community itself.

BRETON: Didn't you also have to run the Casta del Sol Golf Course for a while?

STEARN: Initially, yes, we did. We didn't find an operator for quite a while.

BRETON: Getting back to the Lake, wasn't one of the strokes of genius the formation of the Lake Association so that you could spread the costs of maintaining the high quality of the Lake among so many thousands of people that it became ridiculously low-cost and affordable for each family?

STEARN: I would say that that idea probably started with both Phil Reilly and Jim Gilleran. Jim was always conscious of ways to improve the financial performance of the company. I'm

sure that some of that conversation also emanated from Van Stevens at the time, and maybe Jack Raub. But I think that it became a reality because of those four gentlemen. It was a master stroke.

BRETON: Finally, sales and marketing. What was your overall marketing plan?

STEARNS: Well, the marketing plan was driven by a need not only to be profitable, but to produce a kind of rate of return that Philip Morris would find acceptable, and that was always one of the main challenges from the beginning. They bought us hoping that that would wind up being the case, not fully appreciating just how much cash it would take to develop Mission Viejo to its full extent, and we knew that we had to keep them happy.

So the marketing plan was to diversify the product offerings, residential, and try to handle all the segments that we could possibly attract to Mission Viejo, which, with the Lake in place and Tres Vistas, went finally from the lowest entry-level housing all the way to custom home lots and a number of luxury condominiums, plus some affordable condominiums. By the way, as affordable housing became increasingly an issue in California, a lot of my attention was turned to developing affordable housing that was also attractive and something that people would want to live in.

BRETON: You included in many units—

STEARNS: All the way through. We had a requirement imposed on us, I think, 20 percent, something like that, of all our future housing had to be affordable to people earning below a certain income level.

BRETON: Lower- and moderate-income housing, and the city was able to piggyback on that.

How aggressive was your ad campaign?

STEARNS: Well, initially it was fairly low-key. We never spent a great deal of money on advertising in the early years. I remember the early budgets were sort of in the 350,000 to half-a-million-dollar range, a lot of money, but we had a lot of programs to market. What happened in 1982 with the build-up of 1,100 homes completed and then sold and the need to start moving a lot of homes quickly and the subsequent need to develop and sustain substantial market share and housing sales levels, there was an obvious need to boost advertising and PR to its next stage.

At that point I developed the California Promise Campaign. I think this is the right time to talk about that. I know we needed to boost the advertising budget substantially in excess of a million dollars, which was more than a doubling of what we had been spending, and it took a little bit of convincing on my part of first Jim Gilleran and later Phil Reilly to spend that much money on it. But the problem was that with 19 percent mortgage rates and people losing jobs, there wasn't much appetite to buy houses. There still was some there, but most people couldn't afford to buy a house. They couldn't get a mortgage. We solved that problem with Philip Morris' help in providing financing that people could afford, because they still wanted to come to Mission Viejo if they could find a way to finance it, and with Philip Morris financing, we were able to do that. But in addition to that, I first had to let them know that we had that financing and Mission Viejo was a great place to live and our housing was some of the best housing in the western states, which, by that time, we were winning many, many awards.

I knew that traditional advertising wouldn't cut it because people weren't reading the real estate section or the classifieds anymore, so I had to go to intrusive media, and I laid out a campaign that was well over a million dollars that would involve the use of billboards to get people's attention when they're commuting on the freeways and sitting in traffic and also television spots to reach our market, because they weren't looking at the traditional media, and

also magazines, regional issues of major magazines at that point. So that took care of the advertising structure, but what was the message going to be?

Cochran Chase, Livingston & Company, which was the ad agency I brought in a year or two earlier, came back with a campaign that was really kind of a warmed-over version of what we had done the previous year, and I felt with 1,100 houses sitting there I didn't have the luxury of using a tired ad campaign. In fact, I got quite upset with them, and they kind of hemmed and hawed, and finally they said, "Well, what would you do?" I stopped and thought about that for a minute, and I went back and I thought about what brings people to Mission Viejo. What really is the essence of Mission Viejo? One of the key aspects of Mission Viejo was the incredible beauty of the area and the sense of openness, not the clutter, the visual clutter, that we had in Garden Grove and Anaheim, the early tract development in North Orange County.

I had moved to California in 1964 to Fullerton. Fullerton was a pretty nice city, actually, but I was a little bit disappointed. I had been to South Orange County in 1951 as a youngster with my parents, and I fell in love with California. I had always planned on going back to Colorado where I lived as a younger kid, but California had something really going for it, and so when my wife, Bobbie, and I decided to move here, it was that vision I had in mind of a very beautiful genteel California, and I didn't experience it for the first two years until Mission Viejo opened up its gates for the first housing in 1965 and I came here and saw what the future was going to be, and I fell in love with it and became one of the many campers and one of the early residents.

At that point when Cochran Chase, Livingston asked me what I would do, I realized that that's what I had to relate the campaign to, particularly because South Orange County was getting built up. We had crowding on the freeways. The early residents had the luxury of all

these wonderful amenities with very few people, no crowds, nothing, including the stores that started early on. But as we started building up more and more, there were more and more people wanting to use those amenities, and the bloom started to be off the California rose a little bit. I decided that we were going to market Mission Viejo as the example of why the California lifestyle was still alive and well, so I laid out the campaign in terms of what the media would be and how much money we would spend and who we had to reach. I did all kinds of research to do cost-effective advertising and frequency and reach and all that stuff. I had it all laid out, but the message was not the message that I wanted in terms of what Cochran Chase proposed.

BRETON: It hadn't been crystallized yet.

STEARNS: They didn't even come close at that point. They were a good advertising agency, but they hadn't achieved it.

I had just finished reading a book by [David M.] Ogilvy. Ogilvy was one of the greatest advertising men in history. He typified Madison Avenue, and he wrote a very, very important book on advertising strategy. One of the things that impressed me was he said that when you come up with an advertising campaign, it should have a message that echoes top-of-mind issues for your target market. It can't be something trivial. It has to tie in with a major issue that impels your market to buy your product or service.

What I was trying to do was not merely to sell houses. Because I was so much a part of Mission Viejo, I was trying to get others to come and see for themselves what Mission Viejo was all about. So I came up with the right message by going back to my roots, but importantly, the message was not just a sales tool, it was an attempt to get people to understand what Mission Viejo really offered, promised, and so that's why I came up with the idea that it was going to

promote Mission Viejo as the last bastion of the earlier California lifestyle that everybody had read about and was seeking to obtain if they possibly could.

I told Cochran Chase, and Livingston, I said, “You come back with a three-word tagline that basically says the California lifestyle is alive and well in Mission Viejo, and that’s going to be our campaign.” So they came back with three and a half typewritten pages of three-word taglines, and I know they spent like two or three days crashing on it with all their people offering their suggestions. They came back with the three and a half pages, and I went down the list. I got to the bottom of the first page and it said “The California Promise,” and instinctively I said, “That’s it. That’s the campaign.”

I think I may have mentioned to a few people, including you, that I had a brother-in-law who was Senior Vice President for Corporate Planning for [R.J.] Reynolds Tobacco [Company], which is ironic because I worked for Philip Morris, and I told him about the campaign. He had a lot of experience in advertising. He said, “That campaign is actually preemptive. You’ve carved out a position for yourself, a brand, a market position, that nobody else will ever be able to claim, for Mission Viejo.”

I nodded my head yes, because I was so excited about what I knew was about to happen, and the rest is history.

We spent quite a bit of money on advertising. We were in all the magazines, important ones, on the billboards and the media. I tied up all the billboards I could get, which was a trick, and I hired Jay Maisel out of New York, a well-known photographer, to do the photography for our advertising. Jay came to my office. At that time I’d been a photographer almost all my life. He looked at some of my photographers, he said, “Why are you hiring me?”

I said, “Because you’re the guy with a reputation.” [laughs]

He went and did the work, did a very nice job. The next year, instead of laying out a huge fee for doing it, I did the photography myself for the billboards and everything.

BRETON: It seems like the California Promise is a shorthand for utopia, for Camelot. It distills the essence of what we're all about here in Mission Viejo, which is you don't just buy your home; you buy a home that's surrounded by all of the amenities.

STEARN: Yes. In the mind, in the minds of the rest of our company, in the minds of our citizens, it was a utopia. You had to be careful using that word because to so many people it's a hackneyed expression, and you get a lot of derision for attempting social engineering, but that is what Mission Viejo was about.

When *Seventeen* magazine came here, there was an article that appeared in one of the media, one of the magazines, that talked about Mission Viejo and how it was sort of very much vanilla, not too many minorities, it was relatively affluent people, lacked culture and lacked the cities. It was supposed to be a new city, a new town, but it wasn't the way eastern cities grew up with their culture and melting pot.

BRETON: Diversification.

STEARN: Diversification, and I took great exception to that because we were getting there.

BRETON: How about TV advertisements?

STEARN: We did television advertising for two years after that, and then we didn't need to do it any longer. It was very expensive.

BRETON: I'm going to read very quickly some of the slogans, and you just tell me if you were responsible or if that was after you or before you. "It's so nice to have Mission Viejo around the house."

STEARN: That was a Cochran, Livingston, and Chase campaign, and I was involved with that, yes.

BRETON: “Mission Viejo does not just build structures, but a better place to live and grow.”

STEARN: My sense is that was early on, because we were pushing the community very, very hard. It was a large part of what we were selling.

BRETON: “Beautiful Mission Viejo.”

STEARN: That probably started with Larry Manzo and John Martin early in the game. Oh, as a matter of fact, I think I was onboard when that started, and Manzo was reporting to me, but I’m not going to claim credit for that one.

BRETON: “The world changes for the better when you enter Mission Viejo.”

STEARN: I don’t remember it. It might have been an early ad campaign.

BRETON: “Mission Viejo: Where home is a hometown again.”

STEARN: That was early on, and that was definitely the initial management team of Mission Viejo Company [unclear].

BRETON: “There’s a place where everything you like about California is everywhere you look.”

STEARN: I don’t think that was as heavily promoted a tagline as the hometown and the California Promise. It existed maybe for one year.

BRETON: Then a sort of a variant, “The California Promise: Live it in Mission Viejo.”

STEARN: That became an additional tagline within the first year of the campaign.

By the way, that California Promise campaign, in 1983 the American Marketing Association awarded that campaign as the best real estate advertising campaign in the United States.

BRETON: Congratulations.

STEARN: I wasn't in New York to receive it—Cochran Chase, Livingston was—but I still have that trophy.

BRETON: Good.

STEARN: It's a big brass "E."

BRETON: "When it comes to quality of life, Mission Viejo invented it." That's sounds like a cute phrase, but not really an ad.

STEARN: Yes, I don't know the extent to which we used that. I think Phil and many of our managers believed that, but—

BRETON: "Mission Viejo: A magical environment that makes people feel good whenever they step out the front door."

STEARN: Well, number one, that's way too long an advertising jingle. I can't imagine we ever did that. It might have appeared in some of our lengthy write-ups.

BRETON: This is one that we have used as a city, "Mission Viejo: A world-class community."

STEARN: That was starting to be used by Mission Viejo Company and by our advertising campaigns after the Olympics, at the time of and after.

BRETON: "Mission Viejo: Cradle of the good life in South Orange County." "Mission Viejo: A family-oriented community in a state of happiness." [laughter]

STEARN: I don't know that that one lasted very long either, but the family-oriented community was very definitely one of the main thrusts of the community development from day one.

BRETON: It was the keystone of your image. The last one, "Mission Viejo: where you'll find everything under the sun built right into the landscape," sort of a hint that here's where we blend the environment—

STEARN: I mean, that was probably one of the—I can't say for sure. My memory isn't that good, but it sounds like one of the taglines used by—one of the agencies I used came up with that.

BRETON: Now to close, first of all, tell us about Jim Gilleran.

STEARN: Well, as I may have mentioned earlier, Jim was truly my mentor. He was a remarkable executive, and Phil, in large part, can be credited with bringing him over. He specifically asked for Jim when he was meeting with Philip Morris. They were going to maybe bring in a few people at staff levels to be available to help the company evolve into their kind of organization, and Jim was assistant treasurer at the time. Jim was much more than an accounting finance guy. He was a true chief executive type, maybe different background, but in the mold of a Phil Reilly, equally strong. Where Phil did a lot of things by instinct and with passion, Jim was more measured and more analytical.

BRETON: Cerebral.

STEARN: More cerebral, and we worked real well together because of that. I tended to be a little bit that way. I think as I got older, I got a little more passionate than I was in the early days.

But I admire Jim a great deal, and he really gave me a lot of support in the things that I wanted to do and felt were necessary to do to make the company and the community achieve its potential. He became President of the California Division at the time I became Senior Vice President in Charge of Sales, Marketing, and Home Building, and then when Phil Reilly retired in 1987, Jim stepped up to CEO of the company in charge of California and Colorado and commercial and I took Jim's old spot and became President of Mission Viejo Company California in charge of all Mission Viejo, Aliso Viejo, and our ancillary projects which we had going, other small tracts we had going, in Riverside and San Bernardino Counties.

BRETON: What did you enjoy most about your work with the company as you rose all the way to become president? What did you enjoy the most?

STEARN: It's a hard thing to choose between. There's probably at least a dozen things I could say most, but one of the things as a young executive who had a lot of confidence in his abilities, perhaps more than I had any right to be, I was given the chance to do things that ultimately proved successful. I was given the chance, but also nurtured in a way where it wasn't likely I was going to make any mistakes. Some of the things I proposed Phil was uncomfortable with, but he was fairly satisfied that if Jim Gilleran was comfortable with it, that we'd at least try it, and they proved successful. Over time, Phil began to develop his own confidence level in my abilities. I told you the story where I almost got sacked, but eventually, I think, he was very happy.

BRETON: How was your personal life affected by this whole process?

STEARN: My two daughters were born while living in Mission Viejo. My son was eight months old when we moved in. My son ultimately got his degree from Cal Poly San Luis Obispo [California Polytechnic State University, San Luis Obispo] in urban planning because his exposure to the planned community of Mission Viejo is all around him, and I was able, because of Mission Viejo Company, to expose him to both planning and engineering, civil engineering, and other things as career alternatives. He chose planning, and then wound up getting his master's at USC's [University of Southern California] School of Real Estate Development, and today he's Senior Vice President of—I always get choked up when I think about this—Land Acquisition and Planning for D.R. Horton, which is the largest homebuilder in the country. He's sort of following in my footsteps. None of that would have happened if we hadn't lived here.

My daughters got a wonderful foundation here, they went to schools here, as my son did. Who knows what might have happened. I know that drugs were a problem when my daughters were in high school, and my older daughter, in particular, was exposed to a lot of things. She went to, first, Capo Valley High [Capistrano Valley High School], and then later to Dana Point High [School].

But the foundations they all got in Mission Viejo were key, I think, to them growing up into remarkable kids. I have three wonderful children that I'm extremely proud of. They're not children any longer. The youngest, my baby, is forty-one. My older daughter's forty-three. My son is forty-six. It's just remarkable to think of all that has transpired in the forty-eight years that I've been in California and the forty-some-odd years since I first moved to Mission Viejo.

BRETON: What advice would you give to other city planners or to would-be city planners who may be viewing this oral history interview and other interviews as part of the project? What advice would you want to share with any future city planners?

STEARNS: Probably one of the single-most important aspects of Mission Viejo's success was the fact that the general plan it developed was flexible and allowed us to move within the framework of that plan and still take into consideration changing markets, changing tastes. We very rarely ever had to go in for an amendment, and the amendment was always within the spirit of the original master plan, so it was easily approved. I wouldn't say easily. I mean, [David] Dave Celestin, Van Stevens, and Tom Blum before them had to do the work, but the way was paved.

It is so important for a city to take a parallel attitude to the attitude the company took, to strive for the best possible community that satisfies needs, is sustainable, economically sustainable as well as sustainable from a standpoint of resources, and not to have preconceived ideas as to what that plan should look like. The city's planning department and the developer's

planners should be partners. There should always be a partnership, not an adversarial position, and having been on a City Council for four years and worked with our planning director, I tried to make sure that he was imbued with the same principles in working with emerging development in the City of Sedona, but Mission Viejo was my model.

BRETON: Thank you very much, Harvey Stearn.

STEARN: Thank you for having me. It's been a pleasure to reminisce and go over all that.

BRETON: It's been very worthwhile for us and a rich source of insight that you provided to us, and we hope that in the future you'll always come back and visit us, and that if you feel so inclined, you share with our library some of the memorabilia that you have from [unclear].

STEARN: Oh, I fully intend to do that, so next time I'm back I'll bring some things.

BRETON: Many of the awards that you have received, we'd like to at least make copies of them.

STEARN: Before I left Mission Viejo Company to start my own company in 1989, my assistant, Elaine Fults, put together several albums of magazine and newspaper clippings and things. Now, she did it from the standpoint of me. It's going to look awfully self-centered, so I'm not going to give you those albums because they don't show the full spectrum of Mission Viejo, but there is a lot of important information about projects that we had going and new programs and things.

What I will do is try to get those copied, and I'll give them to you along with the complete set of the *Mission Viejo Reporters* that I have in that wooden volume and the trophies and awards.

BRETON: Thank you. We will take good care of them and treasure them. Thank you very much.

[End of interview]

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