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A developer, his deals and his McCain ties

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Donald Diamond, a wealthy Arizona real estate developer, was racing to snap up a stretch of virgin California coast freed by the closing of an army base a decade ago when he turned to an old friend, Senator John McCain.

When Diamond wanted to buy land at the base, Fort Ord, McCain assigned an aide who set up a meeting at the Pentagon and later stepped in again to help speed up the sale, according to people involved and a deposition Diamond gave for a related lawsuit. When he appealed to a nearby city for the right to develop other property at the former base, Diamond submitted McCain's endorsement as "a close personal friend."

Writing to officials in the city, Seaside, California, the senator said, "You will find him as honorable and committed as I have."

Courting local officials and potential partners, Diamond's team promised that he could "help get through some of the red tape in dealing with the Department of the Army" because Diamond "has been very active with Senator McCain," a partner said in a deposition.

For McCain, the Arizona Republican who has staked two presidential campaigns on pledges to avoid even the appearance of dispensing an official favor for a donor, Diamond is the kind of friend who can pose a test.

A longtime political patron, Diamond is one of the elite fund-raisers McCain's current presidential campaign calls Innovators, having raised more than \$250,000 so far. At home, Diamond is sometimes referred to as "The Donald," Arizona's answer to Donald Trump — an outsized personality who invites public officials aboard his flotilla of yachts (the Ace, King, Jack and Queen of Diamonds), specializes in deals with the government, and unabashedly solicits support for his business interests from the recipients of his campaign contributions.

McCain has occasionally rebuffed Diamond's entreaties as inappropriate, but he has also taken steps that benefited his friend's real estate empire. Their 26-year relationship illuminates how McCain weighs requests from a benefactor against his vows, adopted after a brush with scandal two decades ago, not to intercede with government authorities on behalf of a donor or take other official action that serves no clear public interest.

In California, the McCain aide's assistance with the army helped Diamond complete a purchase in 1999 that he soon turned over for a \$20 million profit. And McCain's letter of recommendation reinforced Diamond's selling point about his McCain connections as he pursued — and won in 2005 — a potentially much more lucrative deal to develop a resort hotel and luxury housing.

In Arizona, McCain has helped Diamond with matters as small as forwarding a complaint in a regulatory

skirmish over the endangered pygmy owl, and as large as introducing legislation remapping public lands. In 1991 and 1994, McCain sponsored two laws sought by Diamond that resulted in providing him millions of dollars and thousands of acres in exchange for adding some of his properties to national parks. The Arizona senator co-sponsored a third similar bill now before the Senate.

A spokeswoman for McCain, Jill Hazelbaker, said the senator, now the presumptive Republican presidential nominee, "had done nothing for Diamond that he would not do for any other Arizona citizen."

The campaign said in a statement that the Arizona land exchanges had broad support from local governments and environmentalists seeking to expand a U.S. government park, the statement said.

For the California projects, the campaign said the McCain aide arranged the introduction to an army official for Diamond's team as "a constituent matter." The campaign said it had no knowledge of the aide helping to expedite the sale.

In Diamond's other project at Ford Ord, the campaign initially said that the senator "would not have issued" the letter vouching for Diamond "if he knew at the time it would be used to favor any particular party in the course of a pending competition." Later, the campaign described the letter as "a character reference" and said it was included only at a "pre-competition" stage in the selection process. The campaign also noted that two other members of the Arizona congressional delegation provided similar letters.

Diamond, for his part, said McCain had only done his job. "I think that is what Congress people are supposed to do for constituents," he said. "When you have a big, significant businessman like myself, why wouldn't you want to help move things along? What else would they do? They waste so much time with legislation."

He said he often complained to McCain that he was "too straight" about refusing to provide U.S. government help for Arizona businessmen. "I tell him, 'You are an Arizona senator besides being the world senator. Loosen up, kid!' "

'A Love Fest'

Diamond, 80, met McCain when he was a former prisoner of war running for Congress in 1982. "I liked him right away because I respected what he went through in Vietnam," Diamond recalled. When he got to know McCain and his wife, Cindy, Diamond said, "it became a love fest."

Diamond was already a major player in Arizona real estate and Republican politics. A tenacious dealmaker who once visited a Mexican jail to close a sale with an inmate, Diamond had made a first fortune on Wall Street before turning his trader's eye to the Arizona desert in 1965. He eventually became one of the state's biggest landowners, picking up trophies that included the 12,000-acre Howard Hughes estate, stakes in two of Arizona's professional sports teams, the Diamondbacks and the Suns, and, for a time, a Tucson television station.

Over the years, Diamond and his wife, Joan, visited the McCains at their ranch in Sedona, Arizona, and entertained them in their Tucson home and in the Bahamas, where Diamond sometimes keeps his 134-foot yacht, the Queen of Diamonds. In 2001, the two men attended a Yankees-Diamondback World Series game together. "He is just very, very good company," Diamond said of McCain. "I knew all his

people and the staff."

Diamond and his family have given more than \$55,000 to McCain's campaigns (and more than \$600,000 to other U.S. candidates). More significantly, the developer has collected (or "bundled") hundreds of thousands of dollars in contributions from others, and is now serving as a national co-chairman of the finance committee for McCain's current presidential run. In the spring of 2000, when Diamond was in the thick of the negotiations for his California deals, he traveled with McCain through the early Republican primaries. Diamond was on the campaign trail again this year.

In building his empire, Diamond said he had struggled with local elected officials over land use and zoning issues just like any other developer. "They are a pain in the 'you-know-what,' " he said.

But associates say he revels in his ability to "work the system," as his friend and sometimes partner, Stanley Abrams, put it: "Nobody is as connected as Donald."

Diamond is close to most of Arizona's congressional delegation and is candid about his expectations as a fund-raiser. "I want my money back, for Christ's sake. Do you know how many cocktail parties I have to go to?"

To raise money for McCain, Diamond invites local Republicans to make fund-raising calls from his Tucson office. Ray Carroll, a member of the council that controls zoning in Pima County, Arizona, said Diamond followed up on one fund-raising session with a thank-you note "on behalf of McCain," sending a copy to the senator.

"To reciprocate, if you need any zoning in the county, let me know," Diamond wrote. (Diamond said it was the kind of joke he often made.)

McCain has campaigned as a critic of the corrupting influence of money and politics, saying he had learned a lesson from a late 1980s scandal over his part in an intervention with banking regulators examining a savings and loan controlled by a patron, Charles Keating. Since then, McCain vowed to embrace ethics standards that set him apart from many colleagues.

"I have carefully avoided situations that might even tangentially be construed as a less than proper use of my office," he wrote in his memoir, "Worth the Fighting For" (Random House, 2002).

McCain once publicly criticized Diamond as lobbying too hard for his own financial interests. In 1995, McCain called it "unheard of" that Diamond had hired a Washington lobbyist to try to block construction of a U.S. government building in Tucson that threatened to take away some of his rental income. "I didn't talk to him for one year," Diamond said of McCain. "I was annoyed."

Legislating Land Deals

McCain has been willing, though, to help sponsor bills authorizing U.S. government land exchanges that Diamond sought. Former Representative Jim Kolbe, another Arizona Republican close to Diamond, said Diamond often proposed such deals and impressed lawmakers with his frankness about the potential sensitivities, Kolbe said.

"He would tell you, 'I don't think you should get on this one, this one is too close to where you live, let another member of the delegation work on this one,' " Kolbe said. "He never tried to flim-flam you."

Such exchanges can serve a public interest by expanding parks or wilderness areas. But many environmentalists and other analysts have also concluded that such trades almost invariably give private developers a profitable bargain at public expense. Although U.S. rules stipulate that public land can be traded for private land only of "equal value," appraisals of unusual property or in fast-growing areas are highly variable and developers often apply political pressure to get favorable terms.

A study in 2000 by the nonpartisan Government Accountability Office cited "inherent difficulties" and "fundamental inefficiencies" in such exchanges and urged Congress to discontinue them.

The first two swaps involving Diamond that McCain helped sponsor were initially supported by local governments and conservationists, and Diamond argues the land would be worth far more today. But many Arizona conservationists later protested that the U.S. government deals gave away too much.

"Don Diamond has done very well through these land exchanges," said Sandy Bahr, director of the Arizona chapter of the Sierra Club. "It is the public that got shortchanged."

The McCain campaign noted that the bills left the terms of any acquisitions to the Interior Department, but environmentalists argued that the legislation set the parameters.

"It's not like there is some market mechanism at work," Bahr said.

The laws expanded what is now the Saguaro National Park just outside Tucson to insulate it from proposed Diamond projects, including one to build 10,000 houses and four resorts on the 4,400-acre Rocking K Ranch nearby. Diamond had bought the ranch for less than \$10 million in 1979.

In the first deal, McCain was the sole Senate sponsor of a 1991 law authorizing the Department of the Interior to acquire about 2,000 acres of the ranch, which local environmentalists valued at about \$5 million but Diamond and parks appraisers put at around \$30 million.

Over the next five years, the government paid him more than \$23 million for the land and traded him two parcels of about 50 acres in upscale Scottsdale, Arizona. And the expanded Saguaro also added to the value of the remaining Rocking K land, where Diamond is still planning to build 3,000 houses along with resorts and golf courses.

When The Arizona Republic linked McCain's support for the bill to Diamond's fund-raising, McCain called the implication "outrageous and disgusting."

In 1994, McCain sponsored, along with a Senate colleague at the time, Dennis DeConcini, Democrat of Arizona, another law expanding the park by again acquiring land from Diamond. To carry out the expansion, the Interior Department has so far taken over about 630 acres from Diamond in exchange for about 4,300 acres near Phoenix.

Last year, McCain co-sponsored another bill with Senator Jon Kyl, Republican of Arizona, that would grant Diamond about 1,250 acres south of Tucson in exchange for requiring him to contribute about 2,500 acres to other conservation areas — a scaled-back version of a 2003 proposal that collapsed under protests that it was too generous to Diamond. A Senate committee passed it to the floor this month.

A Deal and a Lawsuit

In the mid-1990s, Diamond set his sights on Monterey County, California, where the army was closing Fort Ord. It was a dream property — hundreds of undeveloped acres and two golf courses in the ocean-misted hills overlooking Monterey Bay, one of California's great tourist destinations.

Tipped off by a fellow Tucson developer, Diamond had snapped up a housing complex there that had been built on land leased from the army, giving him the inside track to buying the land when the base shut down.

After the army did so in 1994, Diamond asked McCain, a member of the Senate Armed Services Committee, for an introduction with an army official who could work out a sale. McCain's legislative aide, Ann Sauer, arranged a meeting with Paul Johnson, a deputy assistant secretary, a Diamond executive involved in the deal said.

When the talks stalled over price and water supply, Sauer interceded with the army, according to Diamond's deposition and others involved. "She showed up and got the thing resolved," Diamond said.

McCain's campaign aides said in a statement they did not believe Sauer's involvement went beyond setting up the Pentagon meeting. Sauer, who no longer works for McCain, said she could not recall details of her role. A spokesman for the army declined to comment.

Diamond finally bought the land for \$250,000 in 1999. He obtained an unusual guarantee from the army that provided a generous water allowance outside the standard allocation process — a bonus that continues to rankle municipal officials on the dry Monterey Peninsula.

"Those guys got a sweetheart deal," said Michael Keenan, whose family bought the housing complex from Diamond for nearly \$30 million two years later. Diamond acknowledged turning a profit of \$20 million.

Even before he completed his negotiations with the army, Diamond had begun turning his attention to an even bigger prize: the two Fort Ord golf courses, which had been sold to the city of Seaside.

Diamond and his partners imagined building high-end condominiums and a luxury hotel by the links, a project they described in an internal memorandum as a "World Series, final game, out of the park, grand slam home run."

When Seaside solicited submissions in 1998 from bidders competing to develop a world-class resort, Diamond sought to exploit his Washington connections. His package included the laudatory letters from McCain, Kyl and Kolbe.

"The folks that were there at the time were sort of, like, star struck: 'God, these people really know some high-up people,' " said a former senior Seaside official, who requested anonymity to speak candidly.

Diamond acknowledged that, as court papers show, he tried more than once to enlist McCain in assisting the city on other matters as the selection process continued. "I don't mind trying," he said. For instance, in 2002, Diamond forwarded to McCain an article from The Monterey Herald about Seaside's problems in a water dispute. "As per our conversation today," he wrote, "I would appreciate it if you would follow up and drop a line to the city manager of Seaside."

He added in a postscript, "Sorry you can't make it to the Yankees series,"

Daniel Keen, the former Seaside city manager, recalled: "Diamond had a relationship with McCain. He was offering to help."

McCain rejected that request as "inappropriate at that time" because he was poised to regain the chairmanship of the Senate Commerce Committee, Diamond said in the deposition. "John said that he would rather not get involved. He didn't think that it was right."

Diamond's courtship of Seaside almost unraveled the next year when a rival developer, Danny Bakewell Sr., a civil rights activist, filed a lawsuit charging that Diamond had conspired to rig the selection process. The company running the former army golf courses, BSL Golf, was acting as the city's agent to pick a developer, and Bakewell's lawyers presented documents showing that Diamond offered to give BSL a stake in the resort in exchange for helping him win the project. Diamond and BSL denied any wrongdoing and settled the suit for an undisclosed sum in 2004.

Though McCain helped with the Fort Ord deals, Diamond said, he still thinks that McCain is too worried about avoiding any appearance of a favor. "He doesn't bring home enough for the state," Diamond said. "It is a sore subject between us."

Kitty Bennett and Barclay Walsh contributed research.