

The California Supreme Court (and Court of Appeal) – August 21-26, 2022

by Jessica M. Leano, Jill Gutierrez, and Faisal Zubairi

The California Supreme Court issued the following decisions:

Cam-Carson, LLC v. Carson Reclamation Authority, et al., Case No. B312729:

Plaintiff, a commercial real estate developer joint venture, sued the City of Carson (City), the Carson Reclamation Authority (CRA) and others for breach of contract and breach of the covenant of good faith and fair dealing. Plaintiff entered into contracts with the City and CRA to develop a 40-acre site after the City and CRA remediated soil and groundwater contamination, installed infrastructure, and built roads. Plaintiff alleged the City and CRA engaged in gross mismanagement and malfeasance that created a massive funding deficit which derailed the project, causing damages to Plaintiff of over \$80 million. The “project agreements” included a conveyancing agreement between Plaintiff and the CRA, a cooperation agreement between the CRA and the City, and a development agreement between Plaintiff and the City.

Plaintiff claimed the CRA breached the conveyancing agreement, and that the City, though not a party to that agreement, was liable as CRA’s alter ego. Plaintiff also alleged the City breached the implied covenant of good faith and fair dealing in connection with both the conveyancing agreement and development agreement.

The trial court sustained the City’s demurrer to Plaintiff’s breach of contract claim, concluding there were “insufficient allegations for alter ego liability,” and also sustained the demurrer to Plaintiff’s claims that the City breached the implied covenant of good faith and fair dealing.

The Court of Appeal reversed holding the alter ego doctrine may be applied to government entities where the facts justify an equitable finding of liability. The court further concluded that if all the material allegations of the second amended complaint were accepted as true, it could not say as a matter of law that Plaintiff would be unable to prove the City is the alter ego of the CRA. Consequently, it held the allegations in

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Plaintiff's second amended complaint were sufficient to survive the City's demurrer.

For the same reason, the Court of Appeal held the trial court erred in sustaining the City's demurrer to Plaintiff's breach of implied covenant claim. Because Plaintiff had alleged facts sufficient to state a claim for alter ego, it followed that the City could be liable for breach of the implied covenant in connection with the conveyance agreement even though the City was not technically a party to that agreement. Moreover, the Court held that apart from alter ego liability, the trial court failed to consider Plaintiff's allegations that the City breached the implied covenant in connection with a development agreement to which the City was a party.

The full opinion is available [here](#).