



October 24, 2007

Mr. Bill Lindsay, City Manager  
Ms. Janet Schneider, Assistant City Manager  
Richmond City Hall  
1401 Marina Way South  
Richmond, CA 94804

RE: Point Molate LDA Status Report

Dear Bill and Janet:

This letter is intended to satisfy our requirement to provide a semi-annual status report on our progress under the Land Disposition Agreement dated November 9, 2004 between the City of Richmond and Upstream Point Molate LLC.

#### **EIS/EIR**

We understand that the environmental review under the EIS/EIR is proceeding in a diligent manner, and that the BIA's consultants are working on a thorough analysis of the proposed project and three project alternatives. We are informed that the EIR team has the information they need to complete their review. Since AES is under the managerial control of the Bureau of Indian Affairs ("BIA") under its MOU with the City, we do not control the pace of work under the EIS/EIR. However, Guidiville has been advised by the BIA that they anticipate that an Administrative Draft EIS/EIR will be available in November or December 2007.

#### **Federal Approvals**

Guidiville has filed all necessary applications with the National Indian Gaming Commission and the United States Department of the Interior to have Point Molate declared "restored Indian lands" eligible for gaming under the provisions of the Indian Gaming Regulatory Act. This is a legal determination that the Department of Interior will make based on the review of historical information concerning the Tribe. The federal government is under no deadline to make such an administrative determination. We are hopeful that we will be advised of their decision in the first half of 2008.

#### **Negotiations with Navy**

Upstream, with its environmental and insurance consultants, continue to work with the City staff and its consultants in negotiations with the U.S Navy leading to the conveyance of

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the remainder of the property to the City pursuant to an Early Transfer Cooperative Agreement (“ETCA”) and a Finding of Suitability for Early Transfer (“FOSET”). We believe that much progress has been made with the Navy on the significant cost issues related to the site except for the precise remediation methodology and cost for the remediation of Site 3, the site of the former oil separation ponds. We are hopeful to reach a conceptual agreement with the Navy on Site 3 by November 2007. Shortly thereafter we will approach the insurance companies for a proposal from them to include in the Early Transfer package we are jointly negotiating with the Navy. It is clear that an Early Transfer will facilitate the completion of remediation at the site.

### **Project Engineering**

Upstream and its engineering consultants have made great progress in identifying viable infrastructure routing and capacities to serve the future project. We have provided this information to the City and to the EIR/EIS consultant, and we understand that infrastructure routing and analysis will be further studied in the EIR/EIS.

### **Harrah’s Entertainment**

Earlier this year, Harrah’s and Guidiville reached a financial settlement whereby Harrah’s would discontinue its role as the future manager of the gaming facility for Guidiville when gaming approvals are secured. While Harrah’s is a great company, Guidiville is now concluding an agreement with a replacement manager. Based on that agreement and other funds available for the project, Harrah’s termination will not slow project progress in any way or diminish from the potential for the economic and environmental benefits that will ensue from the project.

### **Housing Market Impact**

As has been reported in the press, the major homebuilders are experiencing softness in outlying housing markets (Sacramento, East Contra Costa County, Central Valley, etc.). Similar trends have occurred elsewhere around the country and the “majors” have suffered severe declines in stock prices. This has led to tightening of overhead (staff layoffs) and project expenditures by the homebuilders. An obvious question is what impact this might have on the plans and funding for Point Molate.

The most significant impact of this nationwide situation is that Centex is no longer part of our project team, as they have almost across-the-board cut investment in new projects. Despite these factors, we believe Point Molate has enough intrinsic value (including access to San Francisco through planned ferry service at the site) for environmentally sensitive residential development in selected areas of the site. We have been advised by more than one of the major builders that while there may be a temporary “corporate” hold on project investment, interest in the project will be high when the project is ready to build. Since no

residential project can be moved through the design review and approval process until the EIR is completed, the only real impact the temporary tightening has had is that it forces us to use more expensive predevelopment funds from other sources.

### **Funding**

Including payments to the City of Richmond under the LDA and all other expenditures that we have made since the LDA was executed, over \$10 Million (\$6.5 Million of which has been paid to the City under the LDA and the prior Exclusive Right to Negotiate) has been spent on behalf of Upstream and Guidiville in our efforts to advance the redevelopment of Point Molate. Our project budget over the next twelve months indicates that we will expend in excess of an additional \$6 Million (\$4 Million of which is due to the City in January 2008 under the LDA) to continue to advance the project. With our various financial arrangements and partners, we will have adequate resources available to fund those costs as they are incurred.

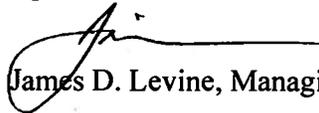
### **General Plan Update**

Over the past two months, we have been contacted by MIG, the City's outside consultant, to supply project information to assist in the City's General Plan update process. In August 2007, we met with MIG and City planning staff to review project status and direction. At the meeting, we received some important feedback and are in the process of revising designs accordingly. We will plan additional City staff meetings over the next three months as we expect to make significant progress on project design during this time period.

In summary, we are proceeding as anticipated under the LDA.

Please call me if you have any questions or comments.

Sincerely,  
Upstream Point Molate LLC

  
James D. Levine, Managing Member

CC: John F. Salmon  
Merlene Sanchez, Guidiville Band of Pomo Indians  
Walter Gray, Guidiville Band of Pomo Indians  
Michael Derry, Black Oak Development