MEMORANDUM

OFFICE OF THE CITY MANAGER

TO: THE MAYOR AND MEMBERS OF THE CITY COUNCIL OF THE CITY OF RICHMOND

FROM: Phil Batchelor
City Manager

DATE: November 9, 2004

SUBJECT: Proposed Disposition of the Point Molate Property

Recommendations

CONSIDER APPROVING either the purchase and sale agreement as attached in order to sell the property to the Chevron/Texaco Corporation and realize an immediate infusion of cash, a smaller continuing stream of revenues, a one time source of revenue for a jobs program and the potential for some economic development, or

CONSIDER APPROVING the Land Disposition Agreement (LDA) with Upstream Investments, pursuant to the attached resolution, in order to develop a resort and casino at Point Molate and realize a smaller immediate infusion of cash and a larger continuing stream of long-term revenues, and the opportunity for economic development and a significant number of jobs for the community.

The City Council may want to review these proposals from the standpoint of whether or not they meet the basic objectives of the Navy Record of Decision and the Base Reuse Plan that includes the consideration of jobs, economic development, open space, public access, historic preservation, and long-term sustainability of the plan.

Fiscal Impact: Chevron/Texaco

If the City Council agrees to sell the Point Molate property to Chevron/Texaco Corporation the City will realize an infusion of $5 million in the next ten business days. The City will also receive an additional $50 million at the close of escrow, which will occur no earlier than December 23, 2004 (and could occur later if the City requests additional time to complete the documentation) and $1million dollars per year beginning July 1, 2005 and each year thereafter, for a 25-year period. Chevron also agrees to lease to the City a 25 acre parcel of land off the Richmond Parkway for a period of fifty years. The City would attempt to use this property for port related purposes (in connection with auto importation) and depending on the business arrangements that could be worked out, this property could potentially generate $1 to $1.5 million in revenues annually; however, no definitive arrangements have been negotiated with the Port's customers at this time. There would also be a positive economic benefit to the City from any development that might take place on the site. Chevron has also offered to make available for Shoreline Trail and Park land it currently owns that is adjacent both north and south of Point Molate but the extent of this offer is not quantified at this time.

Fiscal Impact: Upstream Development

If the City Council agrees to enter into a LDA with Upstream it will realize a million dollars within 21 days of execution of the LDA and will receive an additional $1 million a year until escrow closes (for a maximum of 5 years).Upon close of escrow the City will receive $20 million less any deposits previously made. After closing, the City will receive an additional amount of $30 million; plus interest, which will then be paid to the City over the following 15 years pursuant to a promissory note guaranteed by Harrah's. The City will also receive additional revenues estimated to be about $15 million per year for the first 8 years after commencement of operation of the project, increasing to about $17 million per year for the next 12 years, in each case indexed for inflation, as a result of the service agreement. There will also be a beneficial direct and indirect economic impact on the City due to the addition of a number of new jobs and the indirect spending that will be realized as a result of the development.

The Need for One-Time Revenues

If it is the desire of the City Council to have an immediate infusion of cash into the City's General Fund then it should carefully examine the

Chevron/Texaco proposal which provides a lump sum payment of $5 million dollars within the next 10 days, and a lump sum payment of $50 million dollars this fiscal year, plus an additional annual payment of $1 million per year for twenty five years beginning July 1, 2005. If the proposed lease for the 25 acre parcel of land off the Richmond Parkway is executed, it could provide an additional stream of revenue to the City for up to a fifty year period, which could be in the range of $1.0 to $1.5 million dollars annually. However, these payments would be contingent upon entering into satisfactory arrangements with port customers.

In the September 14, 2004 report to the City Council entitled *Initial Assessment of the Fiscal and Organizational Stabilization Needs of the City of Richmond,* many of the following items were identified which require a one-time infusion of revenues:

Item	Amount in Millions Dollars
Road Improvements (Harris & Associates Report)	209
Construction of a permanent EOC (estimate)	2.35
Establishing an Appropriation for Emergencies	8
Restoring the Worker's Compensation Reserves	21
Restoring the General Liability Reserves	3
Seismic reinforcement of City buildings (estimate)	50
Relocation of computers and telephone switching equipment to seismically secure location(estimate)	1
Repairs to the City sewer system (estimate)	50
Computer system upgrades	1.5
Repairs to City Parks (estimate)	6
Refurbishing City recreation facilities (such as the Plunge)	4
Total	355.85

Although the estimated costs associated with the items mentioned above are very rough, nevertheless they demonstrate the City's pressing need for cash to build, repair, and refurbish its assets.

The Need for a Continuing Source of Revenue

If it is the desire of the City Council to maximize the potential yield on the sale of the Point Molate property, including one time and ongoing revenue streams, and the addition of employment opportunities and economic development, then it should carefully examine the proposal from Upstream. This proposal may potentially provide revenues in excess of $350 million. If Upstream can obtain the necessary approvals to build an 1,100 room resort, with retail shops and a major casino. Upstream has also provided a backup development plan; in case the casino is not approved, which they believe could potentially generate a revenue stream of $250 million by building housing, retail shops and a hotel.

The revenue stream estimates for both the main proposal and the backup proposal cannot be guaranteed at this time. However, it is important to point out that although there is no assurance that a casino will be built, the approvals required for the backup proposal reside primarily within the City.

If the City approves the Upstream proposal it will receive a $1 million payment within 21 days of execution of the LDA and an annual payment of $1 million a year for four additional years totaling $5 million over the next five years. The City could receive an additional payment of $15 million at the close of escrow ($20 million less previous deposits of $5 million) in approximately five years, assuming the approval process moves ahead without major setbacks.

Although, the Upstream proposal does not immediately provide a large infusion of cash into the General Fund, it will in time, (estimated to be 5 to 7 years), provide a continuing stream of revenue estimated by Upstream at up to $17 million dollars a year (indexed for inflation), that can be used to rehire positions laid off from the police, fire, library, parks and recreation functions and infrastructure maintenance. In addition, while not estimated, there would likely be significant additional tax revenues to the City as a result of the increased economic activity created by the Upstream project.

Other goals of the Base Reuse Process

<u>Major Provisions: Chevron/Texaco Proposal</u>

1. Revenue Generation

Chevron/Texaco indicated that:

a. The City will receive $5 million that will be non-refundable (except in the event of a City breach of the Agreement), within 10 days of signing the purchase and sale agreement (Nov. 19, 2004), to be used by the City for jobs. The City has full discretion to use these funds for any enterprise(s) that will stimulate the economy and create additional employment opportunities.

b. The City will receive $50 million on or about December 23, 2004.

c. The City will receive $1 million annually for 25 years beginning July 1, 2005; however, if the Remainder Property (defined below) is not conveyed by 2011, these payments may be suspended until Chevron is reimbursed in full for the Remainder Property.

d. The City will potentially receive $1 - $1.5 million annually for a period of up to fifty years, if an agreement can be executed to lease to the City a 25 acre parcel of land off the Richmond Parkway, across from their main entrance which could be used to relocate certain existing business activities of the Port of Richmond. It is estimated that approximately 100 full and part time jobs can be created from this enterprise assuming the property is used as a staging area for automobiles that are off loaded from the Richmond docks.

2. The Chevron/Texaco offer is generally a no contingency offer subject to Warranties and representations.

3. The Chevron proposal does not include any indemnification to the City in the event the City is sued by any third party as a result of entering into the Chevron Agreement or any related matter. Thus, if a suit is brought, the City will have the obligation to pay for defense costs and any damages that are awarded.

4. Chevron will establish a $2 million fund (financed by five annual payments of $400,000 each) to be used for the development, construction and maintenance of a shoreline park and trail system. Neither Chevron nor the City have any obligation to pay for construction or maintenance of any such improvements beyond the amount of this fund.

5. Chevron will establish a $1 million account to be used for the development of a comprehensive land use plan, in concert with the City and other interested parties that incorporates the light industrial and supports commercial elements of the Navy's Reuse Plan for Point Molate and which takes into consideration historic preservation, open space and recreational uses. Neither Chevron nor the City have any obligation to pay for any such costs or the implementation of the land use plan beyond the amount of this fund. Chevron has been unable to demonstrate to date that their proposed economic development of the site (as light industrial commercial development) is financially feasible.

6. In the unlikely event the 51 acres of property still owned by the Navy are not conveyed to Chevron by January 1, 2011, Chevron may at its option seek reimbursement from the City of an amount equal to $184,500 per acre of such land that is not conveyed. The City may elect to pay such reimbursement in cash, or to have the payments deducted from the $1 million per year services payments described above and thus the City would be the beneficiary of a multiyear, multimillion dollar interest free loan.

7. Additional revenues will be realized by the City when the Point Molate Property is place on the tax rolls by the County Assessor. Although the purchase price of the Property would be $50 million, the City cannot estimate the property tax revenues at this time because (i) it is yet undetermined whether or not the Property would be in a redevelopment project area (and in any event, such an area could not be established prior to December 23, 2004, the expected closing date) and Chevron may appeal its assessed value of the property.

8. A result of accepting the Chevron/Texaco offer is the potential healing of a strained relationship between the City and Chevron/Texaco.

Major Provisions: Upstream Development Proposal

1. Revenue Generation

The LDA negotiated with Upstream provides for

a. The City has received $500,000 for an exclusive right to negotiate with Upstream and a one time extension for 60 days.

b. The City will receive $1 million when escrow is opened, plus $1 million annually for 4 years to extend escrow for a maximum of 5 years.

c. The City will receive, at the close of escrow, $20 million, less the payments made to the City after escrow opened.

d. The City will receive the sum of $30 million in a 15 year period as Upstream and Harrah's retires their 15 year note. The note is guaranteed by Harrahs or another investment grade guarantor.

e. The City will receive $8 million per year for the first 8 years, and $10 million per year for the next 12 years, in each case indexed for inflation, starting at the commencement of operation of the project.

f. The City will receive non-gaming area community benefit payments estimated by Upstream to be $7 million annually, plus adjustments for inflation, starting when the overall project commences.

2. The City will potentially receive revenue from this proposal in excess of $350 million dollars in the first twenty (20) years of operation.

3. The City will also receive a potential of $17 million (adjusted for inflation) annually, if this agreement is extended after the first 20 year period.

4. The project will provide significant economic development improvements for the City.

a. Upstream believes their project will create a potential 3,000 onsite jobs, and an additional 3,600 offsite jobs plus 1,000 construction jobs.

b. Upstream estimates their proposed plan will produce a potential revenue stream to City in excess of $350 million dollars over twenty years plus future revenue.

c. Upstream believes their plan will create a business spending opportunity approaching $100 million per year.

5. Infrastructure

a. The Upstream plan will create an approximately 33 acre shoreline park and will finance the construction and maintenance of the Bay Trail.

b. The Upstream Plan will create an approximately 155 acre hillside open space and will fund the construction and maintenance of the open space trail and habitant restoration. There will also be guaranteed ingress and egress for the public.

6. Historic preservation

a. The LDA provides that Upstream will fully restore Winehaven and the historic cottages to the Secretary of the Interior standards.

b. Upstream will guarantee lead and asbestos abatement for the historic cottages.

c. Upstream estimates that their park properties will be open to the public sometime in the 2007-2009 time period.

7. Transportation infrastructure

a. Upstream has agreed to provide for the renovation of the fueling pier that will accommodate ferry service linking the Richmond shoreline with San Francisco.

b. Upstream has indicated they will widen Western Avenue to facilitate ease of egress off the freeway. The LDA also provides that Upstream will pay for all other required traffic mitigations determined to be necessary by the City upon conclusion of the EIR process.

8. Environmental Concerns

a. Upstream has indicated that they will provide for the acceleration of the environmental cleanup of the site in 3 years rather than 6 years, and will provide for early entry for public shoreline use.

9. Backup Development Plan

a. Upstream has provided a backup development plan should they be unable to obtain the needed approvals to build a casino. The backup plan replaces the casino with 800 units of multi-family housing, still maintaining the resort, retail and hotel elements of the proposal..

b. Upstream believes that their backup development plan reduces the estimated number of on-site jobs from 3,000 to 1,000 and indirect jobs from 3,600 to 1,200.

c. Upstream believes that their backup proposal reduces local business spending opportunity from $100 million per year to spending of $30 million a year.

d. Upstream believes that their backup proposal reduces the estimated potential income from $350 million to about $250 million during a twenty year period.

e. Upstream indicated that all other items in their backup proposal remain essentially the same as in the main proposal.