



DEPARTMENT OF THE NAVY
BASE REALIGNMENT AND CLOSURE
PROGRAM MANAGEMENT OFFICE WEST
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SAN DIEGO, CA 92108-4310

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MAR 16 2009

Mr. David Brandt
Acting City Manager
City of Alameda
2263 Santa Clara Avenue
Alameda, CA 94501

Dear Mr. Brandt:

We have evaluated the revised joint SunCal and Alameda Reuse and Redevelopment Authority (ARRA) pro forma that was presented to the Navy staff on January 8, 2009. The Navy would like to reinforce that we have never waived in our commitment for the timely conveyance and redevelopment of Alameda Point. Since 2000, our dedication has been repeatedly demonstrated by our efforts on the Economic Development Conveyance process, the 2002 early transfer effort and the two years of negotiations spent on the "New Beginnings". Additionally, since its inception, the Lease in Furtherance of Conveyance has provided the redirection of over \$70 million to the ARRA in support of redevelopment efforts via interim lease revenue. Despite fluctuating market conditions, environmental conditions and many developer related decisions that have impeded the conveyance efforts to date, it is required that the Navy comply with the current base closure laws and regulations and seek fair market value for this property as determined by the Secretary of the Navy. Special legislation, introduced by ARRA and approved by Congress in Public Law 110-417 in October 2008, has not changed the Navy's requirement to receive fair market value for the property. Fair market value is generally determined through the development of an appraisal.

After the withdrawal of Alameda Point Community Partners in 2006, the Navy supported ARRA's decision to resolicit for a new master developer under the condition that the 2006 Summary of Terms and Conditions (term sheet), which we both worked hard to complete, would be the basis for selecting the new master developer. In the Request for Qualifications (RFQ) – Master Developer for Alameda Point (October 19, 2006), ARRA stated clearly that the new developer must comply with all terms and conditions of the term sheet. We understand that SunCal was selected, in part, as the master developer based on its commitment to abide by all conditions stated in the ARRA's RFQ, including the purchase price previously agreed to by the ARRA and Navy. At a meeting at my office in San Diego, representatives from SunCal reaffirmed their commitment to the \$108.5 million purchase price and payment schedule.

Following almost two years of analysis, SunCal and ARRA submitted what was to be considered a "final" joint pro forma in February 2009. At the onset, we were disappointed by the pro forma's conclusion. The new land plan includes "Parcel 3" that was agreed to be excluded from the transfer and triples the number of residential units and doubles the amount of commercial square footage beyond what was conceived in the previous developer's plan. In addition, the proposed compensation to the Navy is reduced by nearly \$50 million. A very

conservative approach was applied in many assumptions which significantly reduced revenues, increased costs, and placed downward pressure on the residual value. Upon receipt of the pro forma, the Navy team and our consultants reviewed the information and attempted to clarify all data gaps. It is disconcerting that even after the back and forth between ARRA/SunCal, significant data caps (particularly Adaptive Reuse) still exist.


The Navy and the ARRA share the common goal of successful conveyance and redevelopment of Alameda Point and we have worked together collaboratively for many years to reach that goal. We understand that SunCal Companies has come to a critical point in this Exclusive Negotiation Agreement period and it is imperative that the land value for NAS Alameda be decided in order for SunCal to proceed. While it would be our desire to quickly resolve the land value question and move on with conveyance, it is clear that the process we agreed to follow in 2006 has become distorted and does not follow the fundamental terms of the agreed-upon term sheet. To that end, if time were not of the essence, the only appropriate way for the Navy to rely on any conclusions of a pro forma analysis would be to first require ARRA and SunCal's submittal of all outstanding supporting documentation and assumptions.

Based on our initial review of the SunCal submittal, we do not agree that the current offer represents the fair market value for the property. However, given that the ARRA and its developer are under considerable pressure to come to terms on land payment in a short amount of time, we ask the ARRA to consider the valuation proposal discussed in the 2008 special legislation process. Particularly, we ask the ARRA and SunCal agree to provide the Navy with an up front payment at conveyance and a percentage of all future gross land, residential and commercial building sales.

This proposal does not resolve the considerable concerns the Navy has regarding the financial stability of SunCal and its current involvement in at least 27 bankruptcies. However, it is a reasonable approach that is familiar to the parties, does not require extensive negotiations regarding costs and assumptions, and will show the true return at the time of each sale. Alternatively, if the ARRA wishes to pursue the option of determining and agreeing to the fair market value through the appraisal process, the Navy is willing to further discuss this as an option.

We look forward to your response. Please contact Alan Lee, Base Closure Manager, at (619) 532-0905 to arrange any necessary meetings to further discuss this matter.

Sincerely,


Laura Duchnak
Director