HUSCH BLACKWELL

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August 31, 2011

Patrick Urich
City Manager
City of Peoria
419 Fulton, Room 207
Peoria, Illinois 61602

Dear City Manager Urich:

EM Properties, Ltd. is in receipt of the letter to Gary E. Matthews dated August 31, 2011 (the "City Manager's Letter") purporting to terminate the Redevelopment Agreement by and between EM Properties, Ltd. (the "Redeveloper") and the City of Peoria (the "City"). The purpose of this letter is to put the City on notice that we believe the City Manager's Letter does not constitute a lawful cancellation or termination of the Redevelopment Agreement and that the Redeveloper is prepared and will pursue all remedies under the Redevelopment Agreement, including, but not limited to, specific performance and actual and consequential damages.

In the Letter, you state "the City hereby exercises its right to cancel the Redevelopment Agreement pursuant to Section 6.7 of the Redevelopment Agreement" for failure to satisfy the conditions set forth in Section 6.4. Specifically, the City points to Section 6.4(h) of the Redevelopment Agreement.

This assertion is false and a pretext. As stated in our meeting on August 25, 2011 with the City Manager and City Corporate Counsel, each of the items set forth in Section 6.4, including Section 6.4(h), has been satisfied and provided to the City.

Section 6.4(h) states as follows:

> "**(h)** Evidence that the Redeveloper has secured financing from a lender reasonably acceptable to the City or otherwise has sufficient funds to complete construction of the Project;"

In the Letter, you state that the letter from National Real Estate Advisors to the Redeveloper, dated August 17, 2011 (the "National Letter") "is simply not a financing commitment for $30 million and nothing close to what the City could prudently accept as Evidence of Financing for such amount". Per the language of Section 6.4(h) set forth above, it is

not necessary that the Redeveloper secure a commitment letter from a lender. Instead, Redeveloper must only provide "[e]vidence that the Redeveloper has secured financing . . . ***reasonably*** acceptable to the City. . ." You also state that "[e]ven if the National Letter were in acceptable form to qualify as Evidence of Financing for purposes of the Redevelopment Agreement . . ., there are still significant issues with the assumptions, terms and conditions set forth in the National Letter." The "assumptions, terms and conditions" language is industry standard for any financing commitment from a third party institutional lender for a project of any size or scope. As such, what is industry standard for such a project should be taken into consideration by the City in determining what is "reasonable" evidence that the Redeveloper has secured financing. It clearly was not.

Additionally, you state that "[t]he National Letter also recites that it has received term sheets from financial institutions for the remaining $18 million. The Redeveloper has not provided the City with copies of these term sheets nor has it disclosed the identity of these financial institutions." As stated in the National Letter, "National has received three term sheets in a form acceptable to National ("Participants") to participate in the loan facility in the amount of $18,000,000." As with any participation or syndication, it is not necessary or reasonable for the Redeveloper to provide the City with copies of such term sheets, given that the terms sheets have been deemed "acceptable" to National, the lead lender for the $30 million commitment. Please also note that per a telephone conversation between myself and John Elias on August 29, 2011, I addressed each of these concerns (as also set forth in your letter to Gary Matthews dated as of August 19, 2011) to Mr. Elias' satisfaction.

As you know, by the end of our August 25, 2011 meeting, the only issue of any concern to the City employee or its counsel with respect to any of the requirements set forth in Section 6.4 was the lack of an appraisal as required by the "Conditions to Closing" section in the National Letter. As discussed in our meeting, such appraisal will be completed by September 1, 2011. Again, as discussed in our meeting, the language set forth in the National Letter, including the 'Conditions to Closing' section, is industry standard for a financing commitment from a third party institutional lender for a project of any size or scope. As such, the National Letter is reasonable evidence that the Redeveloper has secured financing for this Project.

Further, you state that "the National Letter requires that the City Grant equals $37,000,000 and the Redeveloper secure $17,791,349 of Federal and State Historic Tax Credits and Federal and State New Market Tax Credits." These figures were based on earlier projections provided to National. Please note that since the date of the National Letter, National has reviewed and approved the updated Financial Projections, which counsel for the City was informed of on August 29, 2011. As such, your claim that these "requirements . . . do not seem achievable" and thus the National Letter is not a "financing commitment" is without merit.

Finally, you state that "[b]ased upon your June 29, 2011 submission to the City, Project Costs were reduced to $96,563,425". This is simply not accurate. The Redeveloper did not submit an updated Schedule 4, as allowed by Section 6.4(c) of the Redevelopment Agreement,

until August 24, 2011. You state that the City has not accepted the proposed revisions to Schedule 4. Please note that pursuant to Section 6.4(c), any approval of the updated Schedule 4 "shall not be unreasonably withheld". In light of these circumstances, it is not "reasonable" for the City to withhold such approval based upon these faulty assertions.

The Letter also points to discrepancies between the letter from Chevron to the Redeveloper dated July 19, 2011 (the "Chevron Letter"), and the Summary of Terms from Sarsen Capital Fund I, LLC dated August 12, 2011 ("Stonehenge Summary"), and the Statement of Rubin Brown's Forecasted Sources and Uses of Funds dated August 24, 2011 (the "Projections"). The Chevron Letter states that "[i]t is anticipated that the rehabilitation will qualify for approximately $6.4 million of federal historic tax credits . . ." The Stonehenge Summary similarly states, "Owner estimates that the Qualified Expenditures incurred during the rehabilitation of the Property will generate $7,960,000.00 of State Tax Credits." As clearly stated in each correspondence, these figures are estimates based on the financial information available at the time of the correspondence. Further, as the City knows, the Project has evolved over the past several months and, as such, the numbers have changed as commitment letters have been secured by the many parties involved. The language set forth in the Chevron Letter and Stonehenge Summary, specifically the due diligence language, is also industry standard for any commitment lender from a tax credit investor for a project of any size and scope. Further, in our August 25, 2011 meeting, counsel for the City acknowledged the City's approval of and satisfaction with the Chevron Letter and Stonehenge Summary. Accordingly, each correspondence, along with the National Letter, clearly satisfies Section 6.4(h) of the Redevelopment Agreement.

As stated above, the Letter does not constitute a lawful cancellation or termination of the Redevelopment Agreement. Regardless of the fact that the Redeveloper has satisfied the conditions set forth in Section 6.4 of the Redevelopment Agreement, pursuant to Section 11.2, "[i]n the case of an Event of Default or bankruptcy by either party hereto or any successors to such party, such party or successor shall, upon written notice from the other party, take immediate action to cure or remedy such Event of Default . . . within sixty (60) days after receipt of such notice." As such, the Redeveloper is entitled to a sixty (60) day cure period. The existence of the cure period was acknowledged by counsel for the City in our August 25, 2011 meeting. Accordingly, although not legally obligated to do so, the Redeveloper will provide additional information to the City to address the City's specious assertions.

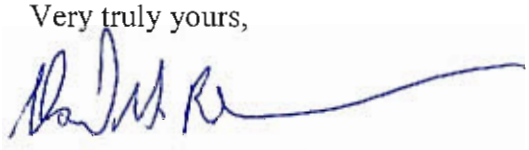
The City's purported termination constitutes a breach by the City of its obligations under the Redevelopment Agreement. As such, per the terms of the Redevelopment Agreement, the Redeveloper will be forced to "institute such proceedings as may be necessary or desirable in its opinion to cure or remedy such default or bankruptcy, including but not limited to, proceedings to compel specific performance by the party in default of its obligations".

Accordingly, in the event the City does not meet its obligations under the Redevelopment Agreement, the Redeveloper will exercise all rights and remedies available to it under the

Redevelopment Agreement and applicable law, including, but not limited to, the right to compel specific performance, and actions against each individual representing the City for acting in bad faith in its application of Section 6.4 of the Redevelopment Agreement, resulting in a claim for consequential damages, lost profits, and lost opportunity costs, and recovery of predevelopment costs. Note, nothing contained herein shall constitute an election of remedies or waiver or limitation of the Redeveloper's right. The Redeveloper reserves each and every equitable right to enforce the terms of the Redevelopment Agreement and to seek all damages and attorneys' fees incurred by the Redeveloper as a result of the City's material breach of the Redevelopment Agreement.

Should you have any questions, please do not hesitate to contact me at (314) 480-1718.

Very truly yours,



David G. Richardson, AICP

DGR/kls
Enclosure

cc:

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Gary E. Matthew
Jane E. Ohaver