

September 2, 2011

Mayor Jim Ardis
Council Member Clyde Gulley, Jr.
Council Member Timothy Riggensbach
Council Member Dan Irving
Council Member Beth Akeson
Council Member Gary V. Sandberg
Peoria City Hall
419 Fulton, Suite 207
Peoria, Illinois 61602

Council Member Chuck Weaver
Council Member Barbara Van Auken
Council Member William R. Spears
Council Member W. Eric Turner
Council Member Ryan Spain

RE: Redevelopment Agreement between the City of Peoria and EM Properties, Ltd., dated June 2, 2010

Dear Mayor and Council Members:

In response to a copy of a letter addressed to me by the City Manager dated August 31, 2011, I would like to set the record straight with regard to this project.

By way of background, Article 6.4 of the existing Redevelopment Agreement (copy attached) sets forth a list of several items that I, as the developer, am to provide to the City in order for the City to proceed with bond issuance. Over the course of the past year, I have provided several of those items to the City during prior meetings with city staff and prior city managers. However, at the Mayor's suggestion, after several meetings, telephone conversations and correspondence, on August 17, 2011, I delivered to the City all of the items outlined in my letter (copy attached) including the previously submitted items, all with the understanding that the information and any missing items would be supplemented in the next few days. Subsequently, on August 19, 2011, the City Manager responded to my submittal (copy attached) indicating that certain items, namely the term sheet for the conventional financing and the historic tax credit purchase commitments did not meet his approval. He also indicated that, if we did not meet his conditions prior to September 5th he would recommend termination of the Redevelopment Agreement.

In order to address the City Manager's concerns, a meeting was held on August 24, 2011, with city attorneys (Ray and Elias), the City Manager and my team of attorneys, accountants and financial consultant. Prior to that meeting, additional financial information was provided to the City supplementing the previously submitted 6.4 documentation. At the meeting, my team was advised by

Mr. Elias that the historic commitments were satisfactory but there was still concern regarding the evidence of conventional financing as the financing commitment was contingent upon return of an appraisal and feasibility study. It was our understanding that if this information could be provided, that the City would be satisfied with this conventional financing commitment. My team reported to the City that the numbers for the appraisal and new feasibility study were to be in by September 1, 2011 with a final report in by September 9, 2011. It was our impression, upon leaving the meeting; this would be acceptable to the City.

We have now received the letter you were copied with dated August 31, 2011, indicating that the agreement is to be terminated. Please note that we do not believe the City legally has the right to terminate the Redevelopment Agreement and my attorneys have sent a separate letter (see attached) to the City setting forth the legal reasons why.

To further clarify inaccuracies in the City Manager's letter, please note the following:

1. The conventional financing lender has our application and initial deposit in the amount of \$200,000.00 and is proceeding with their underwriting (which is why the appraisal and feasibility study are arriving very soon).
2. The City Manager's assumption that the project costs were \$96,564,425.00 is inaccurate. That figure reflected other financing assumptions that did not come to fruition. The most up to date financial projections were provided to the City Manager on August 24, 2011, together with the only updated Schedule 4 we ever submitted. Due to the complexity of the financing for this project, and the number of sources involved, the financial projections were difficult to finalize until all sources were finalized.
3. Pursuant to the Redevelopment Agreement, the City is paying 36.076% of each pay request, for a total of \$36,821,979.00, not \$37,000,000.00. In addition, the City will be receiving its share of state historic tax credits after expenses in the amount of \$3,259,482.00 in December, 2013.

I know and understand we are all suffering from some "hotel fatigue." I apologize for adding to that fatigue but I feel it is necessary that you have accurate information. Yes, it has been a long, arduous journey, but we are on the cusp of what can be a very historic project. The budget has gone through many transitions as obstacles were confronted (e.g., the inability to secure new market tax credits for a hotel project in a middle sized city) but again and again, with cooperation from lenders (agreeing to better terms), sellers (agreeing to assist with financing), tax credit investors (agreeing to higher purchase prices) and us agreeing to defer the developer's fee, new options were created to make the project successful. Also, as you know, the State of Illinois adopted a pilot State Historic Rehabilitation Tax Credit program specifically for this project. Failure to close when we are so close will result in the loss of these credits and a missed opportunity for the City.

This project is a transformative and catalytic project for the Peoria region. Its construction will not only create jobs, but help also revitalize the downtown and surrounding Peoria areas by encouraging and influencing development resulting in a positive community and economic impact.

I appreciate the City Council and staff's support and efforts in working toward making the downtown a better place. I am happy to meet with you individually should you wish to discuss this project in more detail.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Matthews". The signature is fluid and cursive, with the first name "Gary" written in a larger, more prominent script than the last name "Matthews".

Gary E. Matthews
President

Enclosures

August 17, 2011

Mr. Patrick Ulrich
City Manager
City of Peoria
419 Fulton Street, Suite 207
Peoria, IL 61602-1217

Re: Downtown Hotel Project

Dear Mr. Ulrich:

Enclosed please find documents relative to section **6.4 Conditions Precedent to Project Grant** of the Redevelopment Agreement with EM Properties, Ltd.

- (a) **Plans and Specifications for the Project; approved by the City;**
- Please refer to enclosed City approval letter dated September 10, 2010
 - Please refer to enclosed Scope Summary
 - Please refer to enclosed letter prepared by Marriott International concerning their approval
- (b) **Organizational documents and filings for the Redeveloper and all resolution necessary to effect the obligations of the Redeveloper pursuant to this Agreement;**
- Please refer to enclosed EM Properties, Ltd. organizational documents
- (c) **An updated Schedule 4 setting forth any changes to the Costs of the Project and, if no such changes have been made, a statement to the City to that effect; the City shall have the right to approve any changes, which such approval shall not be unreasonably withheld;**
- Awaiting receipt of updated financial projections from Rubin Brown, LLP to finalize. We anticipate receiving tomorrow and then will be able to provide.
- (d) **Executed contracts and subcontracts covering the construction of the entire Project, to be approved by the City;**
- Please refer to enclosed Guaranteed Maximum Price contract. Core Construction, Inc. is the General Contractor and thus will have an umbrella covering all contracts
- (e) **With respect to subsection (d) herof, labor, material, performance and payment bonds issued by a company acceptable to the City for any contractor, subcontractor or subcontractors with the City named as a dual obligee or in lieu thereof a guarantee of performance of said contractors and subcontractors by the Redeveloper in such form as to be acceptable to the City in its sole discretion;**
- Please refer to enclosed performance bond letter issued on behalf of Core Construction, Inc. Bond will be issued at closing.

- (f) **Internal Revenue Service taxpayer identification number for the Redeveloper**
- Please refer to enclosed Fax Message from Tele-Tin Unit
- (g) **Such other documents, resolutions and other items reasonably required by the City and its counsel**
- Please refer to enclosed Confidential Feasibility Study. Financial Projections as prepared by Rubin Brown, LLP are expected to be finalized tomorrow and will be provided once we receive.
- (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;**
- Please refer to enclosed National Real Estate Advisors Term Sheet
 - Please refer to enclosed Chevron Federal Historic Term Sheet
 - Please refer to enclosed Stonehenge/Sarsen Capital Fund I, LLC Term Sheet
- (i) **Franchise Documents;**
- Please refer to enclosed The Marriott Peoria, Pere Marquette Management Agreement
 - Please refer to enclosed Courtyard by Marriott Management Agreement
 - Please refer to enclosed Shared Services and Pooling Agreement
- (j) **Executed Connector Agreement among the City, Redeveloper and Peoria Civic Center Authority;**
- Please refer to enclosed Connector Agreement as well as email approval
- (k) **Evidence of Redeveloper's ownership (either in fee or leasehold) of the Project Site;**
- Please refer to enclosed memorandum of purchase for the Pere Marquette and Parking Deck
 - Please refer to enclosed purchase agreement for the Courtyard block; members are meeting today at 4 to finalize an extension.
- (l) **The opinion of counsel for the Redeveloper, reasonable in form and content, relating to those matters set forth in Sections 7.1 through 7.5 below, and such other matters related to the Project, as the City reasonably determines; and**
- Please refer to enclosed opinion letter from Jane E. Ohaver
- (m) **A memorandum of understanding and agreement with West Central Illinois Building Trades, as referenced in Section 7.10, unless waived by the City Council.**
- Please refer to enclosed Construction Agreement

Please do not hesitate to contact me should you have any questions.

Sincerely,



Terri A. Ault

Cc. Corporate Counsel Randy Ray (with/out GMP enclosure)