



CITY OF  
**PEORIA**

**Office of the Mayor**

TO: Members of the City Council  
FROM: Mayor Jim Ardis  
DATE: August 31, 2011  
SUBJECT: Marriott Hotel Project

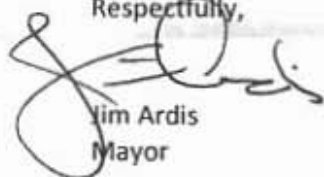
Council Members:

Please see the attached letter that I hand-delivered to Mr. Matthews this afternoon terminating our RDA with him to develop the hotel project downtown. Many of us worked very hard to make this project work under what turned out to be the worst economic time in recent history. No one worked harder than Mr. Matthews and I think we need to thank him for his hard work to try and put this project together and his vision for an outstanding Convention Hotel.

The Corporation Counsel believes this letter would serve as sufficient legal notice for termination, but I have asked the City Manager to place the item on the agenda for everyone's concurrence at our September 13<sup>th</sup> meeting.

Thank you all for your patience, support and due diligence throughout the process. I am hopeful and optimistic that a downtown convention hotel will still happen in the future and will look forward to discussions on how we can encourage private developers to assist us in making that happen sooner rather than later.

Respectfully,



Jim Ardis  
Mayor

JA/PU/lmc  
U:Memo.Matthews.council members110831

COPY



Office of the City Manager

August 31, 2011

Gary E. Matthews  
EM Properties, Ltd.  
GEM Terrace  
450 N. Main Street  
East Peoria, IL 61611

Hand Delivered

Re: Redevelopment Agreement between the City of Peoria and EM Properties, Ltd.,  
dated June 2, 2010 ("Redevelopment Agreement")

Dear Mr. Mathews:

After much consideration, this is to notify you as Redeveloper that the City hereby exercises its right to cancel the Redevelopment Agreement pursuant to Section 6.7 of the Redevelopment Agreement which provides as follows:

**"6.7 Termination of Agreement by City.** If the conditions precedent set forth in Section 6.4 do not occur on or before December 31, 2010, then the City may cancel this Agreement by notifying the Redeveloper in writing."

Repeatedly, since December 31, 2010, the City has alerted you of the need for the Redeveloper to make sufficient progress toward satisfying the conditions set forth in Section 6.4 of the Redevelopment Agreement; otherwise, the City would have no choice but to cancel the Redevelopment Agreement. The lack of progress in producing sufficient Evidence of Financing as required by Section 6.4(h) of the Redevelopment Agreement is one of the most significant reasons prompting the City to take this action.

With regard to Evidence of Financing, the Redeveloper recently submitted to the City a letter from National Real Estate Advisors to the Redeveloper, dated August 17, 2011, (the "National Letter"). The National Letter sets forth certain terms and conditions pursuant to which a client of National ("Investor") would be interested in making a commitment to participate in the amount up to \$12 million out of a total construction loan of \$30 million. The 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 to the City, despite the City's request. 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.

Significantly, the National Letter indicates that an application needs to be prepared and submitted which will require the Redeveloper to pay a \$50,000 application fee and \$150,000 initial deposit upon execution of the application. The City understands the application has not yet been executed by the Redeveloper and neither the application fee nor initial deposit has been tendered by the Redeveloper. The National Letter indicates that National requires a feasibility study and appraisal, each of which must be acceptable to National, before issuing any financial commitment. These items have not been submitted to the City.

Even if the National Letter were in acceptable form to qualify as Evidence of Financing for purposes of the Redevelopment Agreement (which it does not), there are still significant issues with the assumptions, terms and conditions set forth in the National Letter. For example, 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 do not seem achievable based upon your submissions to the City. Based upon your June 29, 2011 submission to the City, Project Costs were reduced to \$96,563,425. Since pursuant to the Redevelopment Agreement, the City Grant will be no more than 36.076% of Project Costs, the City Grant cannot be more than \$34,836,221, leaving a shortfall in the City Grant required by the National Letter of over \$2,000,000. Please recall that the City has not accepted your proposed revisions to Schedule 4 of the Redevelopment Agreement (which you proposed on August 24, 2011 and supplemented on August 29, 2011) purporting to increase the Project Cost from \$96,563,425 to \$102,780,422 (by increasing certain soft costs and reimbursement components). The City assumes this increase was proposed to justify a \$37,000,000 City Grant.

Your August 24, 2011 Statement of Forecasted Sources and Uses of Funds indicates that the Redeveloper, contrary to previous expectations, will not be receiving Federal or State New Market Tax Credits, and that the total amount of Tax Credit Equity that you will receive from the Federal and State Historic Credits will be \$14,983,623 (made up of \$7,576,117 from Federal Historic Tax Credits and \$7,407,506 from State Historic Tax Credits). This leaves a shortfall in the Tax Credit Equity required by the National Letter of over \$2,500,000.

In addition, based upon non-binding letters/terms sheets in support of the Tax Credit Equity submitted by you to the City, the assumption of Tax Credit Equity of \$14,983,623 in your Statement of Forecasted Sources and Uses of Funds may itself be overstated by over \$1,500,000, with the result that the shortfall in the Tax Credit Equity required by the National Letter is that much greater. More specifically, the non-binding letter from Chevron to the Redeveloper, dated July 19, 2011, indicates that Chevron will invest \$1.05 per dollar of Federal Historic Rehabilitation Credit generated by the Project; and that \$6,400,000 of Federal Historic Tax Credits is anticipated. This results in an investment in the Project of approximately \$6,720,000, which is at least \$800,000 less than the number set forth in your Statement of Forecasted Sources and Uses of Funds (\$7,576,117). Also, the non-binding Sarsen Capital Fund I, LLC/State Historic Credits Summary of Terms, dated August 12, 2011, indicates that the Redeveloper has estimated \$7,960,000 of State Tax Credits and that the investor will make a capital contribution

Mr. Gary Matthews  
August 31, 2011  
Page 3 of 3

of 83.5% thereof, resulting in an investment in the Project of \$6,646,000, which is approximately \$750,000 less than the number set forth in your Statement of Forecasted Sources and Uses of Funds (\$7,407,506).

The City also points out that your most recent Statement of Forecasted Sources and Uses of Funds indicates that the adjacent landowners may be providing seller financing. The City is not aware of any detail concerning this financing.

The City sincerely appreciates your efforts in attempting to rehabilitate the Pere and provide the Civic Center with a convention hotel. However, the City has patiently waited for this worthy project to come to fruition in the most challenging financing environment. Regretfully, the City will not wait any longer.

Sincerely,



Patrick Ulrich  
City Manager

PU/lmc  
U:Matthews.110831

cc: Mayor Jim Ardis  
City Council Members  
Randal Ray, Corporation Counsel