



May 17, 2011

Mr. Paul Cooper
HIP Alexandria, L.L.C.
201 W. 7th Street
Richmond, Virginia 23224

Re: 3rd Request for Extension of Terms, Cooperative Endeavor and Development Agreement ("CEDA") Relative to the *Downtown Hotels Initiative* ("DHI")

Dear Paul:

I was happy to hear about your continued progress in March and April. As you know, the issue for the City is not so much about the time it takes to complete the deal—given this is a private-industry-driven decision—but rather ensuring protection of the City's asset, the Alexander Fulton Hotel, and keeping things moving on a clear track toward completion.¹ Of course, the timeline is subject to others' requirements that may have significant effects on the current development model.² I am going to take a moment to remind you of the City's policy goals in this DHI process.

- On August 5, 2008, this office outlined, in detail, expert opinion regarding a recessionary hotel market for the next few years.

¹ While the track set forth is appropriate to demonstrate the viability of this approach continuing, it is up to the private domain to make this deal happen, not the City. For me, this deal happening organically (without City subsidization of private assets) because it made good business and market sense was paramount. The make-the-deal-happen-at-all-cost approach is simply not the priority of this Administration, as you have known since we began our talks. On the other hand, it is a priority for this Administration to aid you in any way to facilitate the CEDA, as stated in my 2011 Forward Goals.

² Dean-Bentley LLC has an essential stake in the continuing viability of any deal contemplated by the DHI, or what is termed the global approach.

Jacques M. Roy
Mayor



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- With the national and global recessions, the timing was the perfect storm against this particular initiative in a sub-tertiary market, perhaps making the problems even more pronounced.
- The predictions made in that 2008 analysis caused my office to avoid subsidizing a single private hotel entity with tax increment financing *while we owned a struggling and competing asset*. Those predictions came true, and thus I believe the right decision was made then.
- For that reason, I maintain the right decision today is not to bring the City into the private realm of hotel operations—which I believe you have shared with the City and was, frankly, part of the basis for your scores on the RFP: less or little public contribution when compared to the private contribution.
- The City was neither equipped in 2008 nor is it now to be in the hospitality business; I will maintain the policy position that the City of Alexandria's overarching obligation is to secure a return of the former Holiday Inn and now Alexander Fulton to full function. In the absence of the DHI, energy should be directed to bringing that hotel back into appropriate commerce to secure the City's investments. Conjunctively, it would be irresponsible for City officials to focus independent assistance toward the Hotel Bentley without securing the City's own asset; indeed, this would constitute fiduciary neglect.
- On the other hand, in the absence of the DHI, it would be responsible of the City to assist its own asset, the Fulton, in returning to private commerce as quickly as possible and without unneeded entanglement with the City.³

That being the case, the City's approach to the DHI-CEDA has been appropriate, careful, and places no additional risks on the public than existed prior to the DHI. The DHI-CEDA actually aided the public in its attempt to secure the Alexander Fulton's title to the City.

³ This includes separation of that asset from the DHI and allowing its ultimate state to be determined in the private realm.

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Because of the DHI's policy being upheld, the City is better off now than the existing status quo when this administration started with this project in earnest. We thank you for that.

Turning to the issue of granting a new extension, the City of Alexandria considers the Alexander Fulton as taking precedence as the more reasonable and immediate goal for the City of Alexandria. The City of Alexandria must protect its assets, ownership interests, and the future convention business of the City first and foremost. To the extent you are making progress, however, the City should consider such progress in any decision about continuing (or not) the DHI-CEDA.

1) As long as HIP Alexandria LLC demonstrates the continuing ability to manage and operate the Alexander Fulton during the extended period, while agreeing to aid the City in all appropriate contingency measures to transition the property in case the DHI winds down and cannot be completed, there is no material risk to the City. Any proposal you have about the current lease is thus appreciated and welcomed. We understand the current lease will not be renewed and will terminate on or about July 31, 2011. This understanding will direct our future action.

2) Our transition plan needs to flow from an in-person principals meeting as we discussed. As long as HIP continues to manage and operate the Alexander Fulton on its "dime," continues to seek closure in measurable ways, and neither exposes the City to jeopardy in having to assume operations of the Alexander Fulton nor to financial support of hotel operations, then there were no appreciable risks posed to the public relative to extensions.⁴ With the date pending in just over two months for cessation of DHI activity in the absence of an agreement or extension caused by activity sufficient to continue the lease of the Alexander Fulton at no risk to the City, the City will begin asset protection measures.

⁴ In fact, the City is better positioned while the DHI continues to move forward because the City is not exposed to financial subsidization of Fulton operations.

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3) If other (potential or current) partners wish to speak with the City, we will encourage them to speak to you and will be open to any other partnering arrangements that bring closure to this deal as it is currently struck.⁵ As you already know from the previous discussions with Dean Bentley LLC, if others wish to purchase the Bentley it could be removed as a partnering asset, ending the global deal.⁶

Your March report to me was as follows:

- You had continued diligence efforts to secure a partner capable of providing all guarantees needed for total project financing on the "debt side."
- It was my understanding you secured a letter of commitment from another partner on the debt side, which, subject to conditions, would guarantee \$12MM of the debt side with funding as the deal stood. This has since been determined unfeasible based on market conditions and the cost basis for renovating the Hotel Bentley.
- You continue to see challenges in the hotel capital lending markets nationally and pairing your capital partner with a group that has the capacity to guarantee the rest of the debt still needed.
- The biggest obstacle still revolves around the cost to update the Bentley.
- Cost estimates dating back to the beginning of your efforts are now further confirmed by current estimates.
- Most importantly, you received written "re-confirmation" from your equity partner it is still committed to providing the \$17 million in required equity to complete the deal.

On May 4, 2011, I met with Dean in Baton Rouge. Dean agreed an extension was in the best interests of all parties. I verbally agreed and authorized the extension on the spot and confirmed with you. Late on May 16, 2011, I received your notice of an agreement with Dean.

⁵ At the same time, we will not limit such discussions to the current CEDA or parties to the CEDA.

⁶ Despite this risk to the DHI underlying assumptions, the issue presents no different a dilemma than would exist without the DHI. If the DHI were ceased now, the new status quo would look as the scenario presented prior to the DHI: one closed asset in the private realm and two struggling assets in the public realm.

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Accordingly, I grant any needed extension effective May 6, 2011, until July 31, 2011, at midnight, but allowing the City to terminate as early as July 15, 2011, at 4:30 p.m., if it so pleases the City. The process may continue without preferences or exclusivity. The City reserves all rights to separate the Fulton out of the process and begin a process to solicit offers for its potential sale—subject to title requirements.

The terms of the CEDA more fully set forth the terms and conditions allowed by that ordinance, but our commitment to the success of this endeavor is a priority for my administration and the City of Alexandria. On October 27, 2010, this office granted an extension of terms not to exceed January 17, 2011, subject to certain conditions. As provided by the Cooperative Endeavor and Development Agreement ("CEDA"), and its exhibits and schedules, the continuing viability of the CEDA is triggered by due diligence and good faith efforts, including pursuing the "Bentley Improvements," meaning its purchase and the execution of a construction contract—among other triggers. On January 17, 2011, this office granted a second extension subject to the conditions of the first. The authority to extend is contained in Ordinance No. 144-2010, adopted by the Alexandria City Council on June 1, 2010.⁷

This extension is subject to the (i)-(iii) *conditions of extension* contained in the October 27, 2010 and January 17, 2011 letters. Number (i) formerly stated "not to exceed 120 days from January 17, 2011," and shall now state "not to exceed July 31, 2011, at midnight, but allowing the City to terminate as early as July 15, 2011, at 4:30 p.m., if it so pleases the City." Number (ii) shall be incorporated as if fully set forth verbatim herein. In addition, I will begin a recommendatory process for diminishing the scope of the current DHI by approximately 50%, and taking out most if not all of the City's contributions to town square activity (\$4.3MM) and parking (up to \$7.5MM upon certification).⁸

⁷ See Section III of *Alexandria City Ordinance*, 144-2010; and the CEDA, §§3.01, 3.05, and 8.05 (as agent and contract monitor of the CEDA the mayor is required to consider the "reasonableness of due diligence and whether such efforts toward financing requirements are being pursued appropriately").

⁸ This would leave potential incentives of the value of the Fulton (predicated on milestone achievement) and \$2MM in improvements to the Riverfront Center, but not necessarily grant exclusive management of the center to a scaled-down DHI.

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With best wishes, I remain

Sincerely,

A handwritten signature in blue ink, appearing to be "Paul Cooper", written in a cursive style.

cc: City Council