

### Proposed Term Sheet for Downtown Hotel Development

#### **Purpose:**

The city of Alexandria (“Alexandria”) wishes to collaborate to reinvigorate its downtown hotels and convention complex.

#### **Introduction to Process:**

Until a new process is established by ordinance, Alexandria shall negotiate under existing resolutions and ordinances in pursuit of the proposed plan for redevelopment of the Central Business District hotels, convention space and master site plan (known as the Downtown Hotels Initiative, or formally as the plan of work submitted by the ***Working Committee on Downtown Hotel Solutions and Mixed Use Options***), subject, however, to any modifications provided by this Term Sheet or any future Term Sheets. Hospitality Initiatives Partnership (“HIP”) has produced a measurable level of due diligence and information valuable to any potential partner with Alexandria with regard to the Downtown Hotels Initiative (“DHI”).<sup>1</sup>

#### **Terms and Conditions:**

The City of Alexandria submits the following as part of its follow up efforts with the DHI. During the DHI process, a competitive RFP was issued and a selection process produced a winner and awardee of a CEDA between Alexandria and HIP. Alexandria will consider the following Terms and Conditions, subject to claw-backs and the fulfillment of certain suspensive and resolutive conditions, as the beginning points of new or continued negotiations:

---

<sup>1</sup> This includes the RKG reporting, the HVS appraisal of the Alexander Fulton Hotel, environmental site assessments (Phases I and II), and a Master Site Plan by world-renowned 3north. The DHI-HIP relationship also produced “trued” costs for construction for both hotels—the Hotel Bentley and the Alexander Fulton. Finally, HIP exhaustively vetted relationships with potential partners, leading to a transferable \$17MM equity guarantee to be allocated in a deal involving \$24MM in debt. Alexandria also wishes to capitalize on the work to date, and if possible wishes to avoid a loss of momentum and “forced unbundling” of a large scale project in the downtown area. Therefore, in an effort to resolve certain issues—economic, temporal, and practical—the following revised terms are being offered for discussion purposes and the potential award of a modified cooperative endeavor and development agreement (“CEDA”)—with or without HIP—and/or a scaled-down offer. Respondents are encouraged to review the original RFP and other DHI material. These can be reviewed electronically (upon request), or in part as attached to the June 17, 2011 memorandum accompanying this Term Sheet.

*General*

1. As to all material in this Term sheet, you understand this Term Sheet and the June 17, 2011 memorandum in no way constitute an agreement, and are merely recitations of the goals of a potential development plan in achieving a binding agreement for development with Alexandria. Specifically, you understand until a valid ordinance is adopted, allowing for a contract, which is then negotiated and executed, any discussions, Term Sheets, or MOUs are merely expressions of possibility.

*Original CEDA (Merger/Consolidation, Novation, or New Partnership)*

2. Alexandria will negotiate with any new potential partner under the same conditions as set forth by Ordinance 144-2010 and the CEDA, with or without partnership with HIP.<sup>2</sup>

*Scaled-Down Options*

3. In a scaled-down scenario vis-à-vis the current CEDA, Alexandria would withdraw its guarantee to contribute \$4.3MM in infrastructure improvements as envisioned by HIP and designed by 3north, but would continue to offer a guaranteed \$2MM in infrastructure and capital improvements to the Alexandria Riverfront Center, in conjunction with the needs and plans of respondent or a modified HIP partnership envisioned by Item 2.
4. Alexandria would offer the value, by a fee simple (nominalized) transfer, of the title and interests it has in the Alexander Fulton Hotel tower and other properties as appraised by HVS at \$3.4MM and subject to conditions as outlined in a memorandum of understanding (“MOU”) between and/or among HIP and other parties. These special conditions would at minimum include the following general modifications to the original CEDA parameters:
  - The \$7.5MM in parking capacity infrastructure would be subject to a stricter “needs assessment” and would not be funded until at least year three of “commercial hotel operations” (with initial design plans not allocated until year two of such operations).
  - All architects and engineers must either be managed by local expertise or respondents may elect a minimum spend with local A & E firms—initially established at not less than 35% of the total A & E costs for the final approved project—subject to law and grant restrictions.
  - Alexandria considers its general “gap assistance” as the “nominalized” Alexander Fulton Hotel offered in long-term lease fashion or discounted purchase price, the rehabilitation

---

<sup>2</sup> It is noted any new partner may wish for HIP inclusion of some level to achieve conditions of indemnification and sale of part of HIP’s diligence. Substitutions might occur along several lines: a purchase of the assets and shares of HIP or merger or consolidation of HIP with another entity; a subjective novation substituting a new party in place of HIP; or a new partnership with HIP and another entity. HIP has expressed a willingness to negotiate these terms on a discounted basis in order to effectuate the goals of the DHI. Because HIP has significant equity sourcing complete, its value may be critical to new partnerships or arrangements—as well as its existing CEDA as a platform not requiring a new ordinance and negotiation process.

improvements accrued to date, and allocation of G.A.E.D.A.'s portion of the occupancy and use taxes generated by the DHI assets, through G.A.E.D.A.<sup>3</sup>

- Alexandria would place the Alexander Fulton's total sale proceeds estimated at approximately \$3.0-3.4MM in escrow.<sup>4</sup> At "substantial completion," to be mutually defined, title would transfer (known as the "Conversion Date"); at that time, the funds in escrow would flow back in part or in whole (depending upon the milestones met) to the developers. All improved interests would inure to Alexandria for related economic activity in the event milestones are not met.
  - In summary, the initial milestones require that:
    - The DHI hotels shall be flagged, with the former Alexander Fulton at 3-star status and the Hotel Bentley at a four-star or "clear" 3-plus status. Recall and contrast:
      - The original requirements of private expenditure milestones of an amount certain would be dropped in this scenario; however, the achievement milestones and flagged status would not be.
      - The public purpose goals are now achieved by operational/construction success as opposed to the amount of private dollars spent as in the case of the original CEDA. (The \$4.3MM and other funds proposed originally as City "contributions" to infrastructure would no longer be guaranteed.)
    - There would be no further capital expenditures on the Alexander Fulton; all improvements would inure to Alexandria in the case of default before the "Conversion Date."
    - Construction guarantees would be provided in favor of Alexandria.
    - All developer fees shall be deferred until achievement of milestones.
    - GAEDA's original participation remains intact.
5. During any initial lease term leading to the Conversion Date, or the escrow option leading to the Conversion Date, a developer shall operate no less than five (5) years as the final milestone for purposes of waiving all clawbacks and to ensure the value of Alexandria's contribution of the Alexander Fulton value. This temporal milestone shall be waivable provided additional

---

<sup>3</sup> Please see the Term Sheet forming the basis of the original CEDA. G.A.E.D.A. has agreed to defer any new tax stream in the form of its portion of occupancy and use taxes back to the City and/or its designee (e.g., the APA-CVB) for the purpose of city-wide marketing for the hotels (with greater than 50% of such funds to be earmarked solely for the two downtown hotels and the remainder for all city hotels and motels)(with an estimated 10-year value of approximately \$2M).

<sup>4</sup> The escrow would be per ordinance with special conditions to protect the private developer from "changing policies" of future councils and administrations in order that no obligation is impaired at a later date causing damage to developers. A court-administered (or neutral and indemnified third-party) escrow, some other "securitized" instrument, or equivalent would be put in place. The developer fees would be placed in this "escrow." Developer fees include any version of payment or incentive paid for "closing" or achieving commercial operations. Developer fees shall be paid last out based on a negotiated term of commercial hotel operations.

consideration in the form of cash or other acceptable equity or security is provided at a value commensurate with the unused portion of the total Alexandria contribution outstanding.

6. Alexandria would provide certain infrastructure improvements, including, but not limited to:
  - a. Extension and tie-in to all utilities;
  - b. Upgrades to the Riverfront Center as indicated; and
  - c. Commercial and development negotiated utility rates as indicated in #8.
7. Alexandria offers reduction of plan review fees, building permit fees, inspection fees, sign permits, or other similar administrative costs associated with the initial construction of the improved leaseholds and/or properties.
8. For the first five years of operations, the new operators would be eligible to receive discounts of 15-30% off all utility service charges. These discounts would not apply to any commodity, purchase gas adjustment, or energy cost adjustment charges associated with utility service. Additional utility offsets for Alexandria property until the Conversion Date are possible. These, however, would be subject to a cap of \$150,000 in value.
9. Alexandria would support creation of an Enterprise Zone, which is a tax credit program providing one-time \$2,500 tax credit per certified net new job, and either a 4% State and 2.5% City sales/use tax rebate on capital expenditures or an investment tax credit equal to 1.5% of qualifying expenses.
10. Alexandria would consider extending special public transit service to the facility area and other hotels and motels under certain conditions for the benefit of the overall development but certifiably for the “primary benefit” of the Alexandria Riverfront Center.
11. The developers would be required to hire approximately 110 employees with an average annual direct payroll of an amount certain to be determined by stabilized year five end.
12. Developers would be required to meet AFEAT requirements and commit that at least 80% of its construction labor force shall be hired: (1) from Rapides parish and/or (2) if Rapides Parish lacks sufficient skilled labor, then from the parishes immediately contiguous to Rapides Parish.
13. Coextensive management rights of the city-owned Alexandria Riverfront Center with the term of agreed-upon control of the Alexander Fulton. Developers or managers shall extend certain rights of first refusal to Alexandria with regard to property the subject of which would be the new CEDA.<sup>5</sup>
14. Within 30 days after executing an MOU, the developer shall provide proof of \$3MM in cash or cash-equivalent equities, over and above and separate from all senior debt, “soft” debt, or tax credits.

---

<sup>5</sup> Alexandria would be entitled to most favored nation status at the Alexandria Riverfront Center as well as other public incentive rates and favorable treatment for official events at the Alexandria Riverfront Center. However, the Center would enjoy a strong “noninterference” clause inuring to management.

15. The Hotel Bentley shall be purchased within 60 days from execution of a new CEDA, subject to Dean Bentley LLC's requirements and considerations.
16. As a completely separate alternative, the Alexander Fulton would be sold in a negotiated sale to highest bidder available to Alexandria.<sup>6</sup> The winning bidder could simply operate the hotel at that point and the DHI would cease.<sup>7</sup>
17. Alexandria would consider in conjunction with Item 16 another option to be exhausted before Item 18. In this scenario, Alexandria would lease the Alexander Fulton on its own "runway" deal, allowing for a contemplated sale to occur that utilizes the proceeds to expand the hotel complex on the Alexander Fulton footprint to absorb any additional capacity the local market needs with regard to occupancy. These proceeds could be placed in a special capital and/or escrow account with the Office of Community Development, administered by the Planning Division, with up to 85% of approved proceeds for an approved CEDA available to private developers for a downtown hotel project for the Alexander Fulton's expansion subject to Article VII of the Louisiana State Constitution. The other 15% would be earmarked for hotel and motel marketing in Alexandria for all hoteliers.
18. As a completely separate alternative—and only after a declared exhaustion of Items 1-17 and following a sale of the Alexander Fulton—in a negotiated or bid sale to highest bidder, the net proceeds would be placed in a special capital and/or escrow account with the Office of Community Development, administered by the Planning Division, with up to 85% of approved proceeds for an approved CEDA available to private developers for a downtown hotel project for the Alexander Fulton's expansion or Hotel Bentley complex with mixed use development—subject to Article VII of the Louisiana State Constitution. The other 15% would be earmarked for hotel and motel marketing in Alexandria, along with any increase or new occupancy and use taxes generated by hotel operations at either or both the Alexander Fulton Hotel and Hotel Bentley. This option is inchoate and would require more development and analysis as to feasibility. It is not yet an offer, and the previous discussion points must be exhausted before this option would be considered. Item 17 would have to be exhausted as well in terms of feasibility, and even then the sale of the Alexander Fulton might simply meet the needs of the City.<sup>8</sup>

---

<sup>6</sup> This option is the subject of a separate stand alone term sheet and offer solicitation.

<sup>7</sup> Obviously, in this scenario, the Hotel Bentley is left unaddressed by Alexandria. This was the status quo before the DHI and would be a return to leaving the Hotel Bentley to be dealt with in the private realm by its owner and any future purchaser. This Fulton-focused-only scenario was thought to require exclusion before Item 18 except that Alexandria elected officials were resolved to deal with the Bentley. Given the body of evidence produced by the DHI, it appears the cost basis for the Bentley's inclusion is prohibitive as currently modeled by the CEDA.

<sup>8</sup> Alexandria's policy position is its overarching obligation 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.