

# Confidential Memorandum

- update performance  
- contingencies #  
- taxes & guarantees on time line  
- Terry bonding  
- Jund #1.2 AMC ?  
- Seafirst Mich. takeout & length of loan

To: Jim, Stacey, and Mike  
From: Betsy  
Date: January 12, 1998  
Re: River Park Square update

## 1. Nordstrom and Nordstrom Co-Anchor Leasing

Nordstrom - lease is signed by Nordstrom, but not by us. Once we sign, if we do not move ahead on the project, we will be on the hook to them for all their expenses to date, but not lost profits. That could be as much as \$2 million. Again, before Nordstrom has to open their store in Aug. 1999, we must have signed leases with AMC (done, our indemnity liability exposure goes from \$600,000 to \$1.2 million on 2/1/98), Eddie Bauer (done), Talbot's (done), Williams-Sonoma, Ann Taylor (done), Restoration Hardware, the Gap group or the Limited group, Pottery Barn & Borders. The on-going operating requirement calls for us to have 70,000 square feet of tenants like the just listed. (See attached chart showing status of leases and square footage).

The Bon - For \$3.5 million, we can get a 10-year operating covenant from Federated. Bob Ferguson cannot recommend that deal, but continues to negotiate with them. To eliminate the on-going co-anchor requirement (70,000 square feet) for Nordstrom, we need a 20-year operating covenant.

Williams-Sonoma - The final draft is being done by their attorney. We can expect that lease to be finished fairly soon. -

Valley - Gap, Gap Kids, Banana Republic - The Gap and Gap Kids lease is nearing the final stages. I am reviewing a copy. The Banana Republic lease will be essentially be the same, but has to be reviewed and signed by a different person (same attorney, different real estate person), meaning it will take slightly longer to complete. These leases are very favorable to The Gap due to their strong negotiating position.

Victoria's Secret, Bath and Body, Abercrombie & Fitch - Duane has sent leases out but has not gotten comments back. As it stands today, Victoria's Secret may not be part of the project because they are already at Northtown and the Valley. They worry that the market cannot support three stores.

Restoration Hardware - A letter of intent is done. Our draft lease has been sent to them for comment.

Godiva Chocolate - I have not seen anything on Godiva, but they have our standard lease. They will take 300 square feet.

W. 4/99  
Betsy  
Galt  
- Borders - We still have a letter of intent with Borders, but it is not very favorable. We are holding them in reserve and have suggested they take the corner northeast corner of the Penney's building.

Another option is to put them in Abercrombie & Fitch's spot and take a harder stance with the Limited group, moving them to a less desirable location.

Pottery Barn - Terranomics says Pottery Barn is actively pursuing the project. We, however, do not have a letter of intent in hand.

## 2. Financing

Parking Garage - Compass and Tax-exempt Bonds - Compass has approved a \$20 million construction loan. The only conditions to the loan are that we use a union contractor and that we guarantee construction completion (the construction guarantee may not be required by Compass, but it certainly will be by Seafirst). I feel we can control the construct guarantee risk with a guaranteed maximum contract with Terry and with a close eye paid to the project during construction.

Bob also has negotiated a \$26 million long-term loan with Compass, should we need it. The deal here is not very attractive because they are asking for a guarantee from Cowles Publishing Co. for 50% of the loan amount (\$13 million). I have told Bob that we will not go that route because of the guarantee, but will issue bonds. Before we issue bonds we need to reduce the fees and extras. We are pursuing that with the city and by getting a second opinion from another underwriter. The other issue pertaining to the bond route has to do with a document called "Parking Covenants," which outlines how the garage will be run. We, the city and Nordstrom want those to transfer to the city once the garage bonds are paid off and the city owns the garage. To achieve tax-exempt status for the parking bonds, this "encumbrance" cannot be imposed. Nordstrom's concern is that in the 21<sup>st</sup> year, without the parking covenants, the city could do anything it wanted to with the garage. Therefore, in the event that the city does not adopt those parking covenants in year 21, Nordstrom's rent will drop to \$520,000. The concept is to place a great deal of incentive on the owner of River Park Square to be sure the city continues to operate the garage in a manner that encourages short-term parking.

The other issue we have is providing Seafirst with the comfort they need that the \$6 million from the sale of the garage will be there in August 1999. Instead of paying for a bridge loan or letter of credit for that amount, Cowles Publishing Co. could guarantee the \$6 million. Our risk would be that the garage would not be completed, but we already have to guarantee Seafirst and Compass that it will be. The other is that Nordstrom does not open and therefore the garage is not sold to the nonprofit. If we have co-anchor leases signed by April 1, Nordstrom must open unless we do not construct the rest of the project.

Retail and Entertainment - Seafirst: The appraised value is \$53.6 million, meaning we can borrow up to \$36 million. We had asked for up to \$40 million. Bob is meeting with the appraisal people next week to work on moving the appraisal up. At the same time, we are looking for places to reduce the budget. I think we will be able to close this \$4 million gap.

We do know Cowles Publishing Co. must guarantee the completion of construction, just like the guarantee to Compass. Again, our risk should be controlled because of our contract with Terry and daily monitoring of the construction. In general, to date everything has been within budgeted or projected costs, except our legal and public relations costs due to all the unanticipated lawsuits and public hearings.

We also know that Cowles Publishing Co. will have to guarantee some portion of the debt. Seafirst had asked for 50% of the loan amount. We responded by offering 10%. We will hear Seafirst's

response this week. Bob thinks the range is now between \$13 and \$4 million. He believes \$13 million is the worst case and thinks they may come back at \$10 million.

Nordstrom Building - HUD: HUD has indicated verbally that the loan can be made subject to an appraisal putting a \$18 million value on the Nordstrom building. If the appraisal is less than that the city has agreed through a special contract provision with HUD that it will cover up to \$5 million of the collateral shortfall. This is one year of the city's block grant money and program income, which does not actually have to be set aside unless the HUD 30-year block grant program is eliminated.

If the appraisal comes in under \$13 million, we would have to make up the difference. Our obligation would trigger only (1) if the block grant program was being eliminated, (2) at that time a review of the project put the value of the Nordstrom lease low enough to make the loan to value ratio higher than 80%, and (3) the city's \$5 million was not enough to cover the gap.

We do not think the building will appraise at \$18 million, however, the worst case scenario puts the value at \$12 million, with a more likely value of about \$15 million.

Collateral value under the Gonzaga report submitted to HUD:

- \$4 million for the land rent (HUD accepted)
- \$4 million for connection fees (more information need, to be resolved this week)
- \$18 million for the building (appraisal needed, but can fund before that is done)

#### 4. Construction

Within about 10 days, we will need to commit to an additional \$2 million in project construction costs in order to keep Terry on schedule. The big items are shoring the hole, ordering transformers for the project, and moving utilities in Post Street.

#### Summary of our current position and financial liabilities:

While we have tried to keep Cowles Publishing Co.'s investment in the project to the assets of Citizens and Lincoln and \$12.5 million, it is clear we will not be able to stay within those bounds. Without taking into consideration the income tax issues that are under analysis now, Cowles Publishing Co. will need to:

- put \$12.5 million in cash into the project
- guarantee construction
- guarantee the \$6 million proceeds from the garage sale
- guarantee a portion of the Seafirst loan (\$13 to \$4 million)
- guarantee any collateral shortfall from the Nordstrom appraisal (0 to \$3 million)

**For your review:**

Spent to date (including Eddie Bauer)	\$7,000,000
Additional estimate between now and 4/1/98	<u>\$2,000,000</u>
TOTAL	\$9,000,000

Addition liabilities should we pull out (AMC, Nordstrom)	\$2,000,000
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Penney's building	\$4,100,000
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**1997 Budgeted net income before tax**

Penney's	\$93,534
RPS	<u>\$135,244</u>
TOTAL	\$228,778

**1997 Budgeted cash flow**

Penney's	\$157,590
RPS	<u>\$647,764</u>
TOTAL	\$805,354

## RPS Project Trust Account

Callison - Architects/Consultants	1,516,194.44
Witherspoon (legal)	535,255.71
The Rocky Company - public relations	423,239.91
R W. Robideaux	353,674.34
Ernst & Young	252,582.00
Terranomics (leasing agent)	209,239.25
R. L. Ferguson	133,525.81
Ferguson Associates	150,485.08
DeBartolo	123,636.00
Goebel Construction	749,857.02
Mr. Gary Anderson	120,000.00
Mr. Massoud Emami	120,000.00
Real Estate Economics-RPS development economic impact studies	77,008.76
Anakko Toys-lease cancellation fee	50,000.00
Bankers Real Estate Counseling Group	46,197.87
Claire's Boutique - lease cancellation fee	40,000.00
LaSalle Advisors ( W. Maher)	90,657.07
AGRA Earth and Environmental	46,786.20
Alliance Pacific, Inc. -Focus Group Project	20,350.00
The Spokesman-Review - advertising	27,867.40
Walker Parking Consultants	50,302.39
Seafirst Bank (appraisal fee)	14,000.00
C. H. Hill-traffic and air quality studies for RPS expansion	10,369.62
ALSC Architects	12,429.79
Tyler and Associates	9,600.00
Wm. H. Maher-real estate consultant	9,129.00
Taylor Engineering	16,135.01
Roen Associates	15,307.50
Robinson Research -parking perceptions study	6,000.00
Thomas Mnich ALA	5,556.49
Adams & Clark, Inc.	5,107.64
Lane, Powell, spears, Lubersky	5,000.00
SECOR-Phase 1 environmental site assessment	4,200.00
Bell Boyd & Lloyd	4,775.01
Preston Gates & Ellis (Legal)	3,685.56
Hieber properties (fee for unexecuted lease)	3,000.00
Huprich & Krasnove (legal lease fee)	2,475.04
Professional Services, Inc.	1,936.84
Thompson Associates	1,245.40
Lerch Bates North America	1,872.00
Sedgwick James	1,500.00
Jennifer West - Public Relations	1,780.40
Robideaux*Wamer (supplies-file folders and signs)	1,565.00
F. O. Berg	959.93
AGRA Earth & Environmental	932.10
Ikon	1,989.89
Night Rider (color copies	836.15
CDA resort meeting	600.43
Dakotah Direct, Inc. (Telemarketing services)	593.00
Standard Printing	520.52
ABC Office Equipment-copies	382.81
Standard Blue Print Company	310.79
Rings & Things - advertising	287.88
Major Jack Gehery	261.52
Libby Photographers	180.90
Rental and Sales, Inc.	180.29
The Valley Herald	175.00
SIEBE Environmental Controls (Maintenance)	122.48
InterDecor, Inc	3,448.95
U.S. West	20.54
Copy-Rite (printing)	18.90
USA Shippers-priority mail	17.50
PIP Printing	6.48
	<u>5,285,375.61</u>
Limited- Lease Cancellation Fee	200,015.00
Eddie Bauer Allowance	1,033,215.00
Cost to Vacate Post Street	474,648.04
Cash Fund	20.00
Total	<u>6,993,273.65</u>

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