



Lincoln Place

February 13, 2007

Mayor and City Council Members
City of Loveland
500 East Third Street
Loveland, Colorado 80537

RE: *Lincoln Place (the "Project")*

Dear Mayor and City Council Members,

This letter accompanies your Council packets for the regular City Council meeting on February 20, 2007. At this meeting, you will consider an Amended and Restated Master Financing Agreement (the "Amended MFA") and a Resolution regarding the waiver of use taxes for a portion of the Project.

History. Many changes have occurred within the O'Connor Group since the MFA was approved in April of 2005. Most notably, the CEO of the O'Connor Group, Terry O'Connor, passed away. Following Terry's death a year and half ago, family members attempted to address the needs of numerous properties and projects, management structure, and other business matters, with which none of us had previously had any involvement. In fact, no one associated with the O'Connor Group today participated in the planning and development process of this Project. We weren't able to assume management of Lincoln Place until late this summer, and as such, we were probably somewhat late in realizing the significance of the problems with the Project. As you may know, we attempted to market this Project to third parties, only to discover that the Project was not marketable under the original financing structure proposed in the MFA. It became readily apparent that the success of the Project was contingent upon retaining private ownership of the \$4.25 million parking structure.

Proposal. The Amended MFA is intended to replace the existing MFA approved by the City on April 16, 2005. The key features of the Amended MFA include a reimbursement of the public improvements associated with the Project from the property tax revenues generated by the Project. The Loveland Urban Renewal Authority will retain all of the sales tax revenues from the Project and all of the property tax revenues from the Project after Lincoln Place, LLC, has received reimbursement for the applicable public improvements. The Lincoln Place Metropolitan District will be dissolved and the parking structure will be owned and maintained by the property owner or a property owners association. Accordingly, the Amended MFA will result in significantly less public assistance to this catalyst project than originally contemplated, and a substantially more contribution on behalf of Lincoln Place, LLC.

You will also be considering a resolution permitting the waiver of approximately \$82,000.00 in use taxes for the Project. In 2005, the City Council previously approved a waiver of this exact amount. However, this resolution referenced the parking structure as a public facility. It should be noted that Lincoln Place, LLC, has already paid to the City \$189,941.05 in applicable use taxes. Accordingly, this request is

not a complete waiver of all use taxes associated with the Project. The requested amount represents approximately \$66,000.00 for the parking structure and public improvements and \$16,000.00 for the core and shell of the commercial portion of the Project.

Discussion. We believe the success of the Project is contingent upon retaining ownership of the parking structure. As you recall, the Project consists of 200 residential units, 22,000 square feet of retail space and 292 parking spaces within the parking structure. If we conveyed the parking structure to the City, the Project's residents and customers would be competing with the general public for parking. We believe that this will create multiple issues for both Lincoln Place and the City. Without question, the easy decision in this case would have been to simply keep the status quo, issue the bonds and proceed in the manner contemplated by the MFA. If we had chosen this route, we would not have been required to significantly increase our existing equity stake in the Project nor would we have been faced with a new \$4.25 million funding gap for the Project. It was a much harder decision to walk away from the contemplated public assistance we would have received if we had conveyed the parking structure to the City. Ultimately, we knew we needed to make this decision to increase the potential of having a successful catalyst project for Lincoln Place, LLC, the City and the downtown community.

The history of this Project is deeply rooted in a public/private partnership. In 2000, the City identified the old Walgreen's site as a potential redevelopment site that could revitalize downtown. The City devoted valuable time and resources in an effort to implement the goals of City's Comprehensive Master Plan and the City's Urban Renewal Plan and invited proposals from qualified developers to partner with to bring its redevelopment plans for downtown to fruition. When the O'Connor Group submitted a proposal to the City in October of 2003, to assume responsibility to redevelop the old Walgreen's site, it committed to deliver a "catalyst project" for the redevelopment of the City's downtown. Several years and over \$26 million later, this is exactly what the O'Connor Group has delivered to the City. The Project boasts quality architecture, a mixture of residential and commercial uses and sense of place for residents and visitors. We are confident that this Project is only the first of many redevelopments that will inevitably take place in downtown Loveland. The O'Connor Group has fulfilled its commitment to the City of providing a quality, mixed-use development to revitalize downtown Loveland.

While in a different form than originally contemplated, we are asking the City to keep its commitment to invest in the revitalization its downtown. As part of the RFP for this Project, the City indicated that municipal incentives to the developer "may come in the form of one or more of the following categories: public infrastructure improvements, development and building related fee reductions or waivers, CDBG based loans or grants and tax increment financing." The RFP goes on to state "[d]uring the Strategic Planning Project, the preliminary pro forma generated by the City's consultant team indicated that an appropriate level of municipal incentives would make the redevelopment of this block feasible." Even in the early stages of this process, the City was aware that this Project would only work if the City provided the appropriate incentives to making it feasible. We are cognizant that some may feel less inclined to provide any form of assistance to a development that is, for the most part, complete. We are asking the City to recognize the change in circumstances that have occurred since this Project was originally conceived and retain its commitment to partnering with the developer to make this Project a success. It is our opinion that we all have a vested interest in seeing this Project succeed; the developer, the lender and the City. As mentioned above, we have significantly increased our equity stake in the Project while the lender has

increased the size of its loan. We need the City to fill the outstanding gap to ensure the Project is in fact a success.

We sincerely appreciate your consideration of the Amended MFA and resolution regarding waiver of the uses taxes for the Project. We also want to extend our thanks to your excellent staff for facilitating a positive dialogue and assisting us in finding an amenable solution to the challenges this Project has faced.

Sincerely,

A handwritten signature in black ink that reads "Vicki O'Connor". The signature is written in a cursive, flowing style.

Vicki O'Connor