



**March 30, 2005**

On Monday evening, we attended a presentation by Charles Simms, chairman of the Redevelopment Authority of the City of Lancaster to the Finance Committee of the City Council of Lancaster. Mr. Simms presented a financing plan that, if approved by the full city council, will allow Penn Square Partners to re-commence our work on the Lancaster Marriott at Penn Square. He, Senator Gibson Armstrong, Representative Mike Sturla and Mayor Charlie Smithgall created this plan. We are grateful for the support they have demonstrated for our entire community by doing so.

**The plan is essentially the same as the plan that we announced jointly in December of last year with the Lancaster County Convention Center Authority. We've come full circle.**

I recognize that this is an *incredibly* complex and politically charged process. You could well receive –and in fact already *have* received – inaccurate information. So that you have the information you need to speak knowledgeably about this plan, here's the information pared down to its essentials:

The financing structure announced in December would have transferred ownership of the Watt & Shand Building *and* the new hotel tower to the Redevelopment Authority of the City of Lancaster. This would have removed *both* properties from the tax rolls. To reduce the impact on local taxing authorities, Penn Square Partners *volunteered* to make payments in lieu of taxes to the School District of Lancaster and to the City of Lancaster and to share our profits with each of them.

Shortly thereafter, we learned that the legal structure required would have been open to challenge, potentially exposing the hotel portion of the project to additional taxes, which would have made our participation economically unfeasible. So we asked the Redevelopment Authority to *voluntarily* make the hotel portion of the project taxable and to apply for a local real estate TIF. Had this been approved, the legal structure would have been unassailable; the agreements we made today would have endured for the entire period of time that our lease payments to the Redevelopment Authority would be made; and the School District and City of Lancaster would have benefited from substantial revenue increases from the property.

As you know, the School District of Lancaster did *not* approve the Redevelopment Authority's TIF request and seemed unwilling or unable to approve the compromise we offered or additional financial incentives offered and arranged by our elected officials.

At the same time, two of our County Commissioners issued 57 questions to which they demanded answers. In our judgment and that of scores of other business, government and civic leaders as well as many citizens who wrote or called us, the two Commissioners' questions had *nothing* to do with the TIF request. By asking questions about issues and information that have been on the public record for years, they essentially demonstrated their intention to derail the project.

Last week, however, we met for two hours with Commissioner Shellenberger and re-answered all of the questions he had about Penn Square Partners' role in this project.

Answering the remaining questions on the original list, should they chose to do so, falls to the Lancaster County Convention Center Authority.

Following that meeting, we reached the unavoidable conclusion that two of the three commissioners were not likely to support the Redevelopment Authority's request for the TIF. Our elected and appointed officials then developed this current plan.

**Our concern and position *always* has been that agreements we make today for financing the project must, in a business-like way, remain intact for the intended life of the agreements. The TIF that the Redevelopment Authority requested would have provided that certainty. Now, under the current plan, our concerns are addressed by the Redevelopment Authority's and the City's proposed plan that any future challenge regarding the Redevelopment Authority's tax immunity or property tax liability will be the responsibility of the Redevelopment Authority and the City. .**

As proposed to us, Penn Square Partners will *continue* to make voluntary contributions of \$200,000 per year and to share 30% of our profits once we have achieved a 12% cash-on-cash return on our equity. However, since the city and Redevelopment Authority are assuming additional risk, we would make these payments to the city, which will determine how those funds are used.

As you know, this is essentially the same structure employed by the Lancaster *County* Redevelopment Authority to build a ballpark, which it in turn has leased to a private-sector company resulted in widespread community economic growth and development.

All of us are grateful for your continued support of the project and for the incredibly hard work of our elected and appointed officials.

Cordially,  
Nevin D. Cooley  
President  
Penn Square General Corporation