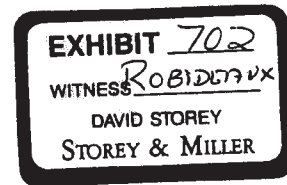


## Confidential Memorandum



DATE: February 1, 1996  
TO: Jim Cowles, Stacey Cowles and Mike Nielsen  
FROM: Betsy Cowles  
RE: Update on the River Park Square project  
CC: Bob Robideaux

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The River Park Square redevelopment project is progressing, but we have a lot of hurdles to overcome before any legally binding obligations will be entered into or any demolition or construction will begin.

Our initial ground rules for the project have not changed. Those rules are: (1) the project must stand on its own, meaning the only collateral available will be the assets of Citizens and Lincoln, not Cowles Publishing Co., (2) Cowles Publishing Co. will contribute a maximum of \$15 million dollars of additional capital to the project (generally, with the exception of the option payments for the Penney building, the money we have spent thus far counts against the \$15 million), (3) we need to get a reasonable return on the mall portion of the project, (4) we need to get a market price from the city for the existing garage, and (5) the project has to be economically viable, not built on numbers based on hopes and prayers. The project team members are aware of these ground rules and understand they are non-negotiable. If they cannot be met, we simply will not go forward with the project.

The following outlines the status of the project and the status of a plan "B" should the project not go forward. I will discuss this in more detail at our 1 PM meeting Monday. Rather than spending a lot of time on Monday going through the preliminary pro formas that I have in hand now, I would like to set up a second meeting when Bob can walk through the revised numbers in detail with us probably the week of 2/12.

### Status of the redevelopment project

1. Letter of intent from Citizens to be counter signed by Nordstrom

Because we feel we are very close to finalizing the details of the Nordstrom letter of intent, last week we geared back up on all aspects of the project. We did that because, while we want to make an announcement as soon as possible about a signed letter of

intent, we do not want to make any announcements before we have determined that we have a reasonable ability to meet the conditions Nordstrom has imposed.

Essentially the terms and ramifications of the letter are:

Terms:

20-year operating covenant and lease with 16 5-year options *why so long operating 20yrs -*  
\$1.3 million base rent, with percentage rent starting at \$40 million  
Building allowance of \$160, stepping up to a cap of \$175 per foot  
130,000 square foot store on 3 levels  
RPS must have 70% of the mall leased with specified tenants  
RPS must have a cinema or 70% of cinema space leased  
RPS must provide parking, and if we sell the garage to the city, RPS  
must work with the city to provide retail parking  
Nordstrom will open 9/98 or 3/99  
There is no co-tenancy with The Bon

Deadlines we must meet if we want to keep Nordstrom in the project:

7/1/96 - must have a signed lease with Nordstrom, evidence of financing,  
100,000 feet of co-tenants committed (EAC requirement)  
10/1/96 - all city approvals  
12/31/96 - 100,000 feet of co-tenants leased (Nordstrom requirement)

Citizens' liabilities:

We have offered to give Nordstrom 3 one-year options to extend their current lease beyond 1/31/99. This point is still being negotiated and I do not know where we will end up. I am holding tough on needing rent. Nordstrom had asked for an option with only base rent.

We will continue to incur on-going project costs,

Current contract obligations:

12-month contract with RWR for \$6550/month  
\$4,000 retainer with Terranomics, cancelable upon 30-days notice  
All other fees are paid on an as worked basis

No liability to Nordstrom until the lease is signed. The lease will contain an indemnification clause, meaning if we do not go through with the project, we would have to reimburse Nordstrom for the expenses they incur from the time they signed the lease. Similarly, if Nordstrom drops out, they would have to indemnify us.

Citizens will be the lessor. Citizens in turn will assign the lease to the City or to an independent entity for 20 years. That entity will manage the flow of money between HUD and Nordstrom. The current thinking is that after 20 years, Citizens would own the building and receive the Nordstrom rent should Nordstrom exercise its option.

## 2. Status of negotiations with co-tenants

Confirmed: Talbots, Children's Corner Book Store, Rings & Things  
Solid prospects: cinema, Eddie Bauer, Gap, Barnes & Noble  
On-going issue: Anderson & Emani

## 3. Status of the financing

### HUD section 108 loan and EDI grant

Points of discussion are: interest rate, quantifying the job creation and retention requirement, the flow of money from HUD to Nordstrom and from Nordstrom and property owners to HUD.

Collateral (in order): Nordstrom lease (assigned for 20 years by Citizens), property owner pledges, city HUD block grants

### Parking structure

We have not yet set a purchase price with the city, but we will need about \$5 million after tax to go back into the mall portion of the project.

City will use revenue bonds to pay for the garage

City will pay rent to Citizens and Lincoln on land under the existing garage and under parking that will go under the new Nordstrom store.

That revenue helps the return on the mall portion.

### Private financing

Collateral: assets of Citizens and Lincoln

Very preliminary discussions have been held with several entities

Pro formas under revision now will allow us to hold further discussions

A nonrecourse loan will be difficult to obtain, but it has been absolutely clear to everyone that that is a requirement.

## 4. Drop dead date

I have not set a drop date with the project team, but there are two critical points ahead. The first is the ICSC in May and the second is the July 1 date set out in the Nordstrom letter of intent. If we do not meet the July 1 deadlines, we will pull the plug.

### **Short-term plan should the project not move forward**

To date, we have not spent time or money on developing a plan "B" should the redevelopment project fall apart. We have not directed resources that way because (1) we have not had the time or money available to do that, and (2) we have a 3-year transition period during which Nordstrom has to remain open. During those 3 years, however, it will be difficult to hold the retailing together downtown.

If we pull the plug on the project, I see the following strategy being followed:

1. Try to maintain what we have in the east block as long as we can  
Nordstrom must stay open until 1/31/99  
Bon's valley store will not be open until 1997 or 1998  
Try to keep the corridor between Bon and Nordstrom leased
2. Maintain Burlington, which probably means keeping the skywalk connection to the garage open. Burlington can cancel their lease with a one year notice.
3. Generate more revenue by converting more stalls to monthly parking without significantly impairing retail operations. Take a hard look at the Nordstrom parking subsidy. They currently are paying only \$70,000 a year for an unlimited number of passes for 3 hours of free parking.

#### Long-term plan "B"

Derek Zimmer, who recently did an appraisal of River Park Square (see attached summary) for our pending property tax petitions, feels that once Nordstrom leaves our only real value will be the land and the parking garage. It is his opinion that demolition and rebuilding would be less costly than trying to retrofit the existing west mall and Nordstrom store for some other use. Certainly, one option would be to demolish those buildings.

Another approach might be to try to convert the buildings into office space. Realistically, I think the west block would be a difficult sell. The layout of the existing Nordstrom store is more attractive, but I do not know what the cost of conversion would be. The Penney building could also be attractive as office space. It appears that we could use the basement for parking, and punch windows out on the upper floors. This is not inexpensive, but doable.

Others have talked about the need for another downtown hotel. A hotel would fit on the west block and could be attached to the parking garage. Nevertheless, without retailing and with a lot of empty buildings surrounding it, this location may not be very attractive.

For any major project like a new hotel, apartment or office tower, etc., I would see us selling the land to another party who would take on the challenge of developing the property.

According to Zimmer, because it is so narrow and deep, the Talbots building has the most value clustered with the neighboring properties, as it is today. Thus, leaving that building intact, rather than demolishing it, seems to be the best option. In the long run, it would make sense for one party to own all three of those smaller buildings. Nevertheless, it is not likely that either the ownership of the Ambs building or Jack Saad would want to

purchase our building, nor can I see that we would want to buy theirs, given the uncertainty of the future.

At the moment, I think our resources are best focused on the redevelopment project. The point in time that we should shift and concentrate on plan "B" will be when and if we conclude that the redevelopment project is not going to happen.