Lancaster County Convention Center Authority

February 16, 2007

Kathleen Smarilli, President
Wachovia Bank Central Pennsylvania Region
600 Penn Street
Reading, PA 19602

Tel: 717-234-2882

Re: Proposed Wachovia Letter of Credit for
Lancaster County Convention Center

Dear Ms. Smarilli:

We three members of the Board of Directors of the Lancaster County Convention Center Authority currently make up a minority of three county appointees on the seven-member board. On September 15 will be joined by a fourth county appointee, shifting the majority from City to County appointees. We share with the others a desire to generate a suitable public facility to accommodate large gatherings; but we believe that must be done in a size, at a location and at an expense that would not violate our fiduciary responsibilities of ensuring its financial viability.

We want to share with you our extreme concern about actions taken by Wachovia in issuing a Commitment for a Letter of Credit to credit enhance $63,990,000 of "low floater," tax exempt, bonds to finance, partially, the construction of a convention center in downtown Lancaster.

We are submitting (see below) excepts from the PKF Consultant's Market Feasibility Study, Proposed Hotel / Convention Center Facility, Lancaster, Pa, May, 2006, in part modified to reflect debt service expenses for an additional $20 million as reported in the LCCCA Plan of Finance by GK Baum and Company & Susquehanna Capital Advisors, December 13 - 14, 2006. (Copies of the above referenced documents are enclosed herewith.)

As is evident from the calculations that follow this letter, there is expected to be an annual cash flow deficit of $1,744,220. Since the Center itself is projected to lose $1,405,000 before property taxes and debt service and the annual subsidy from the Hotel Room Rental Tax is prioritized for debt service and related reserves and is sufficient not to trigger the county guarantee, it follows that $1,744,200 of $2,264,000 in Operating and Fixed Expenses will go unpaid.

The Wachovia Commitment requires that the construction period interest be capitalized into the construction loan and that an additional debt service reserve fund be established to protect the bondholders, another year separately escrowed, so there is little risk of actual default during the five year term of the Wachovia Letter of Credit.

However, technical default is actually likely within three years and, without these sources available for interest and principal payments, it is clear that no responsible lender would be willing to step into Wachovia's shoes to credit enhance the bonds for an additional five years.

From a lender's standpoint, the Hotel Tax and the county guarantee does provide some protection, however unpopular and contested, to Wachovia. But it appears that Wachovia's Commitment is predicated largely on the revenue from the Hotel Tax and the partial County guarantee rather than the inherent merits of the project. Why is Wachovia ignoring the project's lack of feasibility? What are the business/banking ethics that speak to a situation like this one?

It also appears that Wachovia's Commitment is predicated almost solely on the revenue from the Hotel Tax and the partial County guarantee rather than the inherent merits of the project. From solely a Lender's perspective, that may somewhat protect Wachovia.

Since there will not be sufficient Convention Center revenue to cover most of its expenses, is Wachovia holding the continued operation of the convention center as hostage to some future board of county commissioners to provide additional financial aid? The LCCCA has no taxing power. It's own financial advisor, Thomas Beckett, recently acknowledged in a public meeting that after five years the Authority might have "to go begging to the commissioners" for a bail out.

We note a similar situation concerning Wachovia's proposed guarantee of Hotel bonds. The PKF Study for the stabilized year indicates only $124,000 in Net Operating Income After Reserve and Before Property Taxes and Debt Service. (Property taxes are likely.) Debt service on the $24 million in hotel bonds at 5% will amount to $1,925,822 per year, creating a short fall of at least $1,801,822. Debt service for the $13.6 million IFIP Bonds amounts to $1,091,299. State rebates for the IFIP Bonds revenues will not cover debt service if the corresponding sales tax revenues do not meet projections. The hotel Bonds debt service is guaranteed by the City and the IFIP Bonds annual debt service is partially guaranteed by the City.

We again have a situation whereby Wachovia is protected for a few years by line item interest payments in the construction loan and escrowed interest reserves. Later the City will be called upon to service $1,925,822 on the $24 million in hotel bonds and half of any shortfall of state contribution to debt service for the $13.6 million IFIP Bonds.

The hotel tax revenue projections by the LCCCA advisors are not based on any tourism or occupancy studies, but merely on speculation concerning the growth of the average room rate over six years. This, in a region where the tourism isn't much commercial or high-income, but, instead, lower-income bus tourists and families from the Mid-Atlantic States. Another example of how the LCCCA projections have been massaged is the proposed budget which includes no funds for litigation despite significant ongoing litigation.

So what we are looking at for both the convention center and hotel are projects doomed to default. Wachovia must anticipate this.

Further, it's likely that the LCCCA bonds will not be eligible for a federal income tax exemption due to the IRS's 10% Rule, which allows only 10% of a tax exempt public project to be set aside for private use. About 30% of the convention center is shared space for use by the hotel. By state law, this situation disqualifies the convention center from receiving the $15 million state grant that remains on hold.

We are also told that there will be additional litigation, due to the PKF study and the cost-benefit ratio, if the Lancaster County Commissioners attempt to raise the hotel tax as may well be needed in the future. The commissioners would then have to have county taxpayers foot the bill – and if the commissioner don't provide for that – the bonds would then go into default at some point.

I'm sure that you are well aware of the unresolved litigation with regard to both the county bond guarantee for the convention center and for Act 23 as it applies to the private lease-purchase of the hotel. It only takes one adverse court decision to doom the project. Equally important is that the LCCCA's "balanced budget" required by Wachovia does not include any legal fees to cover this impending litigation.

As you know, conventions are booked many years in advance. At this point there are no commitments scheduled for the proposed center, therefore any kind of meaningful revenue stream from the rental of LCCCA convention space is a long way off, and is, in fact, very unlikely ever to occur. Therefore, the pro forma can get much worse.

When Fox 43 / Opinion Dynamics polled 500 Lancaster County residents in October, 2005, of those with an opinion, 78% said they opposed the county guarantee county guarantee of convention center bonds. Given subsequent heavy media coverage, we think a current poll would show close to 90% opposition. Is Wachovia knowingly going to force this financially compromised and unpopular project upon our citizenry just because Wachovia will earn huge fees and is protected by subsidies and guarantees?

In short, we cannot but presume that a department in your bank is knowingly and purposefully entering into unsound guarantees in full recognition that the convention center and hotel are not financially viable and in anticipation of default and further subsidy at a later date at the expense of the Lancaster City and County taxpayers. With all due respect to Wachovia, this is the stuff of Wall Street Journal articles about unethical banking practices – about banks that are motivated by fee income rather than being exercising a consistent social conscience. Worse, about banks who seek short-term fee income without regard to long-term financial risk.

We believe that Wachovia's name will be damaged if the Convention Center and Hotel Project move forward because the public is becoming aware that the projects will require future bail outs to avoid closing their doors.   Wachovia's local reputation will be damaged as the projects under perform the Authority's and Penn Square Partners projections over the years. And within five years Wachovia will be publicly disgraced when the PKF projections prove accurate. Wachovia will make calls on the County and City to make good their respective guarantees, the already overtaxed City taxpayers will strain under the yoke of still more taxes to meet City guarantees, and the LCCCA members will go "begging" to the county commissioners for a general tax increase to cover LCCCA operating deficits.

We are bringing these matters to your personal attention because we suspect that you as Regional President have a broader perspective of what make good business sense for Wachovia. We recognize that this transaction will result in substantial fee income for Wachovia but it is our hope that you share our concern for what obviously constitutes a poor investment for Lancaster County and Lancaster City. From a business standpoint, however, the short-term rewards could also be costly to the bank in achieving its long-term business objectives.

In short, it appears that your bank is knowingly and purposefully supporting two unsound municipal projects that are destined to fail. You must recognize that the convention center and hotel are not financially viable and that, no matter how secure Wachovia's Letter of Credit is, Wachovia's support of this entire project will precipitate a huge financial burden and economic blight on the Lancaster City and Count taxpayers for decades to come. The fallout from the collapse of this project and subsequent financial burden will land squarely on Wachovia's ability to do business in this region.

We ask that you intercede in this matter and have Wachovia re-underwrite its financing commitment for the project. We can supply additional information for your consideration and, if you would care for one or more of us to meet with you, we would be pleased to do so.

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May we have your response in the near future. Thank you very much for your time and consideration.

Respectfully,

Jack Craver

Laura Douglas

Debra Hall

Enc: PKF Memorandum, May 17, 2006
LCCCA Plan of Finance, December 13-14, 2006

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Proposed Convention Center: Representative Year of Operation

(Page II-11, PKF Consulting Market Feasibility Study, May, 2006)

Net Operating Income After Reserve and before property taxes and debt service (PKF)	(1,405,000)
Hotel Tax Revenue: (PKF)	$3,389,996
Operating Income before Debt Service and Real Estate Taxes	$1,984,995
Annual debt obligations:	
40 Year Series 2003 - $40,000,000 / 5% inc. fees (LCCCA)*	$2,331,126
40 Year Series 2006 - $23,990,000 / 5% inc. fees (LCCCA)*	$1,398, 093
*(Per LCCCA "Plan of Finance", December, 2006)	($3,729,220)
Funds Available Before Real Estate Taxes	($1,744,244)

Total Operating and Fixed Expenses

Total Undistributed Operating Expenses (PKF)	$2,028,000
Total Fixed Expenses (PKF)	236,000
	$2,264,000

Therefore $1,744,244 of $2,264,000 expenses will go unpaid.