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October 7, 2021

VIA EMAIL - aaron@piercecoleman.com

Aaron D. Arnson
Pierce Coleman
7730 E. Greenway Road, Suite 105
Scottsdale, Arizona 85260

Re: Reimbursement of Expenses

Dear Mr. Arnson:

I am in receipt of your letter dated September 24, 2021 requesting reimbursement of over \$1.7MM for direct expenses incurred by the Town of Tusayan ("Town") purportedly justified by the terms and conditions of the Stilo's Pre-Annexation and Development Agreement ("PADA") (Second Amendment at § 5 (e)(i)). On behalf of Stilo Development Group USA, L.P. ("Stilo"), please be advised that the Town is mistaken in its interpretation of the cited PADA provision. There is over a decade of history associated with the negotiation of the PADA, the zoning of the Stilo parcels and working with the United States Forest Service ("USFS" or "Forest Service"). Town's leadership and counsel have changed over the years (possibly contributing to the mistaken interpretation) but the parties' fundamental business objectives have not changed. The Town needs housing and Stilo needs to develop its property. Neither of the parties' objectives will be achieved if this partnership is unable to move beyond the recent barrage of unfounded assertions.

That said, Stilo has no obligation to reimburse the Town for the Town's identified direct expenses listed in the attachment to your letter (the "Reimbursement Request"). Instead, Stilo's reimbursement obligation is for internal staff time and direct costs solely related to processing the Forest Service application(s) on and after January 22, 2014. Stilo's position is based on the following:

1. The reimbursement provisions in the PADA were not effective until January 22, 2014, as amended on June 1, 2016. There is no basis for any request for retroactive reimbursement of any Town expenses (of any type or kind) prior to that date. In fact, the first USFS special use permit application was not submitted until June 5, 2014 and the Town's Reimbursement Request includes numerous invoices from the period of 2011-2013 totaling nearly \$400,000.

2. The reimbursement provision of the PADA at § 5(e)(i) must be read in context with § 5(e) and the Town's responsibilities related to the Forest Service permitting set forth on Exhibit 1 (see First Amended PADA). Stilo's obligations for reimbursement of the Town's staff time and

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reasonable direct expenses are limited to matters listed thereon. Nowhere on Exhibit 1 is there a requirement to retain and pay for the services of a lobbyist.

3. The Reimbursement Request contains nearly \$1.2MM in fees associated with the Town's retention of Brownstein Hyatt Farber Schreck, LLP ("Brownstein"). The Town made the unilateral decision to retain and terminate Brownstein. In fact, Brownstein worked for the Town on a variety of matters (including substantial efforts related to the provision of broadband utilities within the Town's annexed territory).¹ Stilo was never consulted regarding Brownstein's retention, termination, scope of work, or anything else relative to their services and there is no obligation to reimburse the Town for any expenses incurred as a result of Brownstein's work.

4. Historically speaking, neither Stilo nor the Town have ever sought reimbursement from the other party since the negotiation of the PADA. If such were the case, Stilo would have demanded evidence of the Town's contribution of \$100,000 toward submittal and processing the Forest Service applications (\$50,000 for the costs incurred between the First Amended PADA and the Second Amended PADA and \$50,000 for cost incurred after the Second Amended PADA). Stilo has not done so, nor would ever do so. In fact, the vast share of the burden of application submittal and processing costs has always been born by Stilo.

- For example, Stilo funded the entire cost of application preparation, submittal and Forest Service processing for the first special use permit application (including expending over \$400,000 just for third party contractor costs associated with NEPA scoping).
- In addition, Stilo did all the leg-work to prepare and submit the second special use permit application and to propose a response to the USFS's questions regarding application processing.
- Further, the primary reason for the USFS's acceptance of the second special use application were concessions by Stilo regarding density of planned development and sources of water (all directly impacting Stilo's vested rights and future return on its investment).

¹ See lobbying reports filed by Brownstein at <https://projects.propublica.org/represent/lobbying/300927050> reporting income from the Town paid to Brownstein for lobbying services from August 1, 2017 through February 28, 2021 in the amount of \$660,000 (rounded to nearest \$10,000 for each quarterly report filed). Those reported amounts stand in stark contrast to the invoiced amounts included in the Reimbursement Request which appear to be for a variety of matters unrelated to the submittal and processing of the Forest Service applications (e.g., Strategic Counsel; Professional Services (not labeled "Road Easement Project") and the Town of Tusayan ROW (presumably related to the existing Forest Service road to Ten-X), etc.).

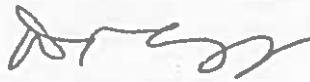
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If the Town would like to have a meeting to discuss budgeting for future processing of the second special use permit and associated environmental baseline collection data, Stilo is more than willing to do so at their convenience. In fact, Stilo's principals are now able to travel from Italy and have planned a trip to the United States in mid-November. They welcome an opportunity to meet and discuss a path forward relative to USFS application processing, which is where both of our clients' collective energy should be focused.

Sincerely,

FENNEMORE CRAIG, P.C.



Dawn Meidinger