

June 12, 2018

**Via Certified Mail, Return Receipt
Requested, First Class Mail, Postage
Prepaid and Fax**

Northside Regeneration, LLC
1001 Boardwalk Springs Place, #200
O'Fallon, Missouri 63368
Attn: Paul J. McKee, Jr.
Attn: William D. Laskowsky
Fax No.: (636) 561-3901

Re: NOTICE OF EVENTS OF DEFAULT

Amended and Restated Redevelopment Agreement dated as of May 13, 2014, as amended by the First Amendment to the Amended and Restated Redevelopment Agreement executed in 2016 (collectively, the “Redevelopment Agreement”)

Many years ago, Northside Regeneration, LLC proposed to redevelop a large area of the near north side of the City of St. Louis. City leaders believed this proposal was worthwhile, and the City ultimately entered into a Redevelopment Agreement with Northside. The City carved out and officially designated approximately 1,500 acres of land—over two square miles—as the Northside Regeneration Redevelopment Area and agreed to grant Northside exclusive development rights over the Area. The City approved \$390 million in public financing for Northside in the form of tax increment financing (TIF). In return, Northside promised to invest in rebuilding neighborhoods throughout the Area.

Northside's officers' interest in the near north side of the City began as early as 2002, when they quietly began buying properties. By 2006, more than 500 properties had been amassed. In 2009, when Northside suggested its proposal, it pointed to its officers' many suburban real estate development projects. It promised jobs. It promised reinvestment in numerous projects. It promised opportunity. City leaders decided to move forward based on those promises.

The City's land bank and other redevelopment agencies lent their support. In 2012, those agencies agreed to sell Northside more than 1,200 properties covering 160 acres of land in the Area—as well as an option to buy the former Pruitt-Igoe housing development site—for cash and the promise that redevelopment would start in earnest. In 2016, Northside exercised its option,

and the City's Land Clearance for Redevelopment Authority sold the 34-acre Pruitt-Igoe site for a little over \$1 million.

The State of Missouri also issued millions of dollars of taxpayer money: more than \$43 million in Distressed Area Land Assemblage (DALA) Tax Credits meant to be used for redevelopment. As revealed in the recent eminent domain litigation over the value of the Buster Brown building, the State concluded some of the underlying transactions were suspect. Shortly after they were issued, the State clawed back some of the DALA Tax Credits. The underlying transactions also have drawn the attention of law enforcement officials. Moreover, when Mr. McKee was asked at the trial, he was unable to give a single example in which he used any of the \$43 million that Northside realized from DALA Tax Credits for actual, physical redevelopment in the Area.

After all this time, and after failing to meet numerous deadlines, the sole redevelopment project involving new construction did not break ground until this year, over fifteen years after the initial property acquisitions in the Area. It is a gas station and food market—a project that came only after additional, significant subsidy from the City and other public agencies.

It is time to face facts. After a decade, the promised redevelopment has not come, nor is there any indication that it will.

Land lies fallow. Taxes go unpaid. Vacant buildings remain dangerous and unsecured. Regardless of Northside's intentions, and regardless of Northside's abilities, these are not the results the City bargained for when it granted Northside redevelopment rights for the Area. It is time to terminate the Redevelopment Agreement. It is time to allow other developers a fair chance to improve our neighborhoods and the lives of our fellow citizens.

By this letter, the City of St. Louis is serving Northside notice that it has failed to fulfill numerous promises to the City under the Redevelopment Agreement and is therefore in default. The most significant, material defaults are:

1. Default under Section 7.24 (use—and misuse—of DALA Tax Credits).

Section 7.24 of the Redevelopment Agreement provides “[a]ny funds generated through the use or sale of the DALA Tax Credits shall be used to redevelop the Redevelopment Area, in compliance with the statutory requirements governing the issuance of such DALA Tax Credits.”

- a. Northside has not used all of the DALA Tax Credit proceeds to redevelop the Area as required by the DALA statute. The only redevelopment that Northside has commenced in the Area is the Greenleaf market and gas station. Even if the limited equity provided by Northside for that project came from the DALA Tax Credit proceeds, it would be a small fraction of the \$43 million Northside has received from DALA Tax Credits. Northside's failure to use funds generated through the use or sale of the DALA Tax Credits to redevelop the Area constitutes an Event of Default under Section 7.27(b) of the Redevelopment Agreement.

- b. Several of Northside's purported acquisitions were fabrications to generate cash for Northside, not to redevelop the Area:
- i. Northside purportedly acquired the Pierce-Elkay building located at 1218-24 N. 15th Street for \$5 million in 2012. The seller was never paid for the property. At Northside's request, the State of Missouri issued approximately \$2.5 million in DALA Tax Credits to Northside based upon what the State then believed to be a legitimate transaction. Within months of the issuance of the credits, Northside deeded the property back to the seller at no cost. None of the DALA Tax Credits were used to redevelop the property. Northside did not notify the State that it gave the property back to the original owners, nor did Northside reimburse the State the \$2.5 million in DALA Tax Credits.
 - ii. In December 2011, Northside entered into a similar transaction with an affiliate of Jim Osher for 1516-30 North Jefferson (the "Buster Brown" building). The sale price was \$3.75 million with an understanding that, rather than utilizing the DALA Tax Credit proceeds for redevelopment, the proceeds would instead be split between Northside and the seller. Northside applied for and received nearly \$1.9 million in DALA Tax Credits. In addition:
 - a. Northside used a portion of the DALA Tax Credits from this transaction for its attorneys' fees, in direct violation of the DALA statute.
 - b. Northside also used a portion of the DALA Tax Credits it received from this transaction to pay McEagle Properties, LLC, a McKee-controlled company, a brokerage fee in the amount of \$206,250. Northside had previously been told by the Missouri Department of Economic Development (DED) that McEagle was ineligible to receive DALA Tax Credits because McEagle was a related party to Northside.
 - iii. In 2012, Northside represented to DED that it had purchased another building from an affiliate of Jim Osher located at 2830 Magazine Street for \$2.9 million. This building had been acquired by Mr. Osher a few months prior to the closing for \$35,000. Notwithstanding the application for DALA Tax Credits, Northside never intended to redevelop the building, but merely leased the property back to Mr. Osher and ultimately deeded the property back to another affiliate of Mr. Osher at effectively no cost.

Northside's noncompliance with statutory requirements applicable to DALA Tax Credits constitutes a default under Section 7.27 (b) of the Redevelopment Agreement.

2. Default under Section 3.4 (no development in RPA A and RPA C).

The City agreed to create a tax increment financing district for Northside's benefit because Northside promised to redevelop property within the district in an agreed-to timeframe. Northside has failed to commence redevelopment in RPA A or RPA C in accordance with the Redevelopment Plan and Exhibit J to the Redevelopment Agreement, which constitutes an Event of Default under Section 7.27(a) of the Redevelopment Agreement.

3. **Default under Section 3.4 (limited development in RPA B and RPA D).**

As noted above, the City agreed to create the TIF district because Northside agreed to redevelop property within the district in an agreed-to timeframe. Although Northside has commenced the development of the Greenleaf market and gas station, it has failed to commence any other redevelopment in RPA B and RPA D in accordance with the Redevelopment Plan and Exhibit J to the Redevelopment Agreement, which constitutes an Event of Default under Section 7.27(a) of the Redevelopment Agreement.

4. **Default under Section 6.6 (failure to pay taxes).**

Northside has failed to pay all of the real estate taxes due on parcels that it owns. As of June 8, 2018 it had delinquent taxes in the amount of approximately \$273,000. Section 6.6 of the Redevelopment Agreement requires Northside to take "all reasonable actions" to cause property taxes and other TIF revenues to be paid when due. Northside's failure to pay taxes deprives the TIF Special Allocation Fund of a primary source of revenue, and constitutes an Event of Default under Section 7.27(b) of the Redevelopment Agreement.

5. **Default under Section 7.19(a) (failure to comply with Property Maintenance Plan).**

Northside has failed to comply with the Property Maintenance Plan. Northside currently owns at least 205 buildings that have been cited for building code violations (the Building Division is in the process of canvassing all vacant buildings in the City, so the number of Northside buildings with code violations may be greater than 205). Those buildings are in various stages of the code violation/problem property processing system, and such violations constitute a default under Section 7.19(a) of the Redevelopment Agreement and an Event of Default under Section 7.27(b) of the Redevelopment Agreement.

6. **Default under Section 7.19(b)(a) (failure to demolish structures).**

Northside has failed to demolish buildings as provided in the Redevelopment Agreement. Specifically, Northside has not demolished 123 of the buildings that it was to demolish by December 31, 2016. Such failure to demolish constitutes a default under Section 7.19(b)(a) of the Redevelopment Agreement and an Event of Default under Section 7.27(b) of the Redevelopment Agreement.

7. **Default under Section 3.10 (failure to engage Co-Developer).**

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The Redevelopment Agreement was never intended to provide Northside a monopoly on development in the Area. The City required that Northside seek help to redevelop the Area by engaging one or more unrelated Co-Developers. Those partners were to receive development rights to at least 25 percent of the Redevelopment Area. Northside has failed to engage an unrelated Co-Developer to develop any portion of the Redevelopment Area as required by Section 3.10, and as a result, an Event of Default has occurred under Section 7.27(b) of the Redevelopment Agreement.

8. Default under Section 3.1 (failure to notify of property transfers).

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The City demanded that it have knowledge of Northside's activities, and so it required that Northside notify the City under Section 3.1 of all sales and changes of ownership of properties within the Redevelopment Area. Northside failed to provide notice of certain property transfers, so the City had no knowledge of the following property acquisitions:

- a. Northside failed to list its December 8, 2011 acquisition of 1516-1530 North Jefferson from JTO LLC;
- b. Northside failed to list its November 17, 2015 conveyance of 1516-1530 North Jefferson to James Townsend Osher;
- c. Northside failed to list its November 15, 2012 acquisition of 2830 Magazine from Queen Bee, Inc.;
- d. Northside failed to list its November 17, 2015 conveyance of 2830 Magazine to Wilsher Goodfellow, LLC;
- e. Northside failed to list its December 17, 2012 acquisition of 1218-1224 North 15th Street from CRP Holdings LLC; and
- f. Northside failed to list its June 17, 2013 conveyance of 1218-1224 North 15th Street back to CRP Holdings LLC.

Some of these transactions were ultimately unwound because the original intent was not redevelopment, but rather to obtain DALA Tax Credits that were ultimately challenged or disqualified by the State of Missouri. As a result of Northside's failure to report these transactions pursuant to Section 3.1, an Event of Default has occurred under Section 7.27(b) of the Redevelopment Agreement.

Northside now has the opportunity to remedy or cure monetary defaults within fifteen (15) days and non-monetary defaults within thirty (30) days after receipt of this notice, pursuant to the Redevelopment Agreement. Should these defaults not be cured within the time periods or any extensions granted by terms of the Redevelopment Agreement, the City will take any or all action available to it under the Redevelopment Agreement.

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This letter neither limits nor waives any rights or remedies available under the Redevelopment Agreement or available at law or equity, and the City reserves the right to modify or amend this letter or the recitations above.

Further, no course of dealing or performance before or after the date of this letter, and no present or future negotiations concerning this matter, shall be deemed to constitute a waiver of any of the City's rights or remedies, nor shall they negate any statement made or intention expressed by this letter. The City expects and requires Northside to strictly comply at all times with the terms and provisions of the Redevelopment Agreement, including, but not limited to, any terms or provisions that prohibit Northside from taking certain actions once an Event of Default has occurred.

This letter, and any remedies exercised by the City under the Redevelopment Agreement, are not designed to adversely affect any existing funding or financing associated with the Greenleaf project.

I call upon you to cure these defaults in accordance with the Redevelopment Agreement. If these defaults are not cured within the time periods called for under the Redevelopment Agreement, the City will terminate the Redevelopment Agreement.

Sincerely,

Julian L. Bush
City Counselor

Cc:

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