Farish Street Group, LLC
David Watkins, Manager

October 9, 2013

Bishop Ronnie Crudup
Chairman
Jackson Redevelopment Authority
Hood Office Building
200 E. Capitol Street
Jackson, MS 39201

RE: Farish Street Group, LLC; Lease with JRA

Lady and Gentlemen of the Board:

My client has received the undated "Notice of Termination of Lease" by the Jackson Redevelopment Authority that purports to cancel the lease with Farish Street Group, LLC. The stated reason for terminating the lease is *"a result of Tenant's failure to commence and/or complete construction or renovation of improvements on [the parcels] within the time periods specified, in Exhibit 'B' to the Lease."*

Respectfully, on behalf of Watkins Development, LLC, (the Developer and managing partner of the Tenant, Farish Street Group, LLC), we object to and protest the action taken by the Authority and request a reconsideration of that action. Our companies have invested years of effort, expended a lifetime of good will and have spent millions of dollars on the project over the last 4 years. ***The company has been and continues to be in substantial compliance with the terms of the lease.*** We submit to you that that the termination will result in an unjust and avoidable forfeiture by numerous private individuals and will result in even more delays and more unnecessary public acrimony.

Let me begin by stating the obvious: We want the Farish Street project to come to fruition and blossom into the downtown object of beauty that has been methodically designed. We want that for Jackson, not just for us. We want it like we wanted the King Edward Hotel to lift our great city into an era of renewal. With our suggestions, that era is within an eyeshot.

But we must unfortunately begin with a summary of the adverse consequences that will result in the event the Authority's actions are not immediately remediated.

1. The loss of over $5 million in tax credits, and up to $4 million more in tourism tax rebates, that evaporate if Watkins Development is not a participant, at some level, in the Farish Street project. This makes the likelihood of any subsequent investor rescuing the project even more remote than anyone not involved in this business could imagine;

2. The institution of liens against the property, also in the $5 million range, most of which have already been filed with appropriate officials, making a rescue effort absolutely unimaginable; and
3. The inevitability of protracted litigation in federal court with the numerous entities and individuals responsible for this ill-conceived decision would delay even the most rudimentary consideration of the project by any legitimate developer. In the light of day that litigation brings, the governmental process that brought us to this point would also become a lasting deterrent to progress on any urban renewal project in the City of Jackson.

We are excited about reports that our new Mayor has a real vision and fear that we have done a poor job of gaining access to communicate to him the facts included herein. We believe that he, like you, have not been apprised of all of the facts and have not been given a full and proper assessment of the consequences of your actions.

It also appears that we have erred in not communicating with City Council members directly about the true story of this development. Under the prior administration, we were admonished to "stand down" and, essentially, told not to appear before the Council, to let the JRA staff and attorney speak on the project. Based upon media reports, it is evident that Council members have not been provided with the facts about this development. Some even have the mistaken belief that either the City has put money into the project. Thus, we regret that it appears that we have failed to properly communicate and tell the public what is really going on.

We formally request that you reconsider the action of the board and reinstate the lease. In support, we tender the following information.

1. Background. The amended and restated lease was taken over by Farish Street Group, LLC, in 2009, at the request of then Mayor Frank Melton, the JRA board and a group of community leaders, after 7 months of negotiations with the prior developer failed to produce a new partnership or joint venture. MDA, CMPDD and the City of Jackson all joined in to encourage our group to take over the failed project, primarily because the project was totally stalled, with no work being done and with millions in debts and liens on the property. For the public good and to move the project forward, Farish Street Group absorbed $1.5 million of those losses, including taking over the original $1 million mortgage from MDA and bringing the note current. Make no mistake, that action at that point in time stopped the project from being foreclosed and having the property sold off to settle debts. Notwithstanding our initial agreement to take over the project in late 2008, it was not until January, 2010, that we finally got a fully executed lease agreement from the JRA.
   a. The benchmarks set in the 2010 lease were based upon representations that Performa had sold FSG workable leases and term sheets that would give the development group a head start on completing the development. Those

benchmarks turned out to be arbitrary and, essentially, picked out of thin air. As it turned out, history has proven that they were unrealistic standards for devising a practical development and construction timetable for the project of this degree of complexity and difficulty.

   b. The initial goal was to take the leases and the potential tenants that Performa had been negotiating with for years and to implement the plan that Performa had been unable to complete. The developers began by making the structural repairs necessary to ready the buildings for tenant improvements. They also resumed negotiations with the list of tenants and started the process of securing Historic Tax Credits and New Markets Tax Credits, which they knew would be essential in making this kind of development work. However, major components of Performa's "development plan" turned out to be worthless and unworkable. In fact, in the end, the leases bought from Performa were unenforceable. The team had to restart the development from scratch with a new plan.

2. Delays. The alleged delays in performance under the lease have been primarily caused by external circumstances beyond the control of Farish Street Group (FSG) and Watkins; some have been a result of the actions of the Authority and its attorneys and representatives.
   a. The project was taken over in the midst of "the Great Recession", with nearly every commercial bank and lending institution in the country sharply cutting back on lending.
   b. This is a high-risk project that was inherited at a time when all financial institutions in the country were throttling down loans and investments, particularly in the hospitality sector. Even though commercial and venture capital funding had been plentiful in the decade before, those sources became totally dry at the same time the project was taken over by Farish Street Group.
   c. Skepticism and the lack of any reliable market data on whether or not a development of this nature could be financially viable in a city with the demographics, the economics and the population of the City of Jackson made financing more difficult because of the perceived additional risk of development of an unknown and untested market. Watkins spent significant internal resources developing an econometric market model to demonstrate to potential investors and tenants that Jackson could successfully host such a development project.
   d. The past development failures of other developments on and around Farish Street, unrelated to the entertainment district, inhibited many potential investors, tenants, CDEs and financial institutions from involvement with anything related to Farish Street.
   e. The continued criticism and negative publicity from high profile city officials and the well documented lack of financial support from the City and the JRA drove

away potential investors and had a chilling effect on many CDEs and potential tenants and investors.

f. The developer discovered significant faults in the water and sewer infrastructure constructed by the City a decade earlier, requiring substantial private funds to be injected to repair what should have been city funded repairs.
g. All parties agreed that it was essential to the success of the District to have a B.B. King Blues Club as an anchor for the District; because of the prior failures with Farish Street, the change in the economy and other internal issues within the B.B. King organization, it took two years (May 1, 2011) to finally negotiate a successful lease for a venue in Farish Street;
h. The inclusion of the legendary B.B. King required a larger project rather than a smaller one, eliminating the possibility of a piece-meal development. Mr. King wanted a position in a district with multiple entertainment options, not a singular club, and our research indicated he was right. The consumers will demand choices or this project will fail before it gets traction.
i. The most significant delay resulted from the discovery in June of 2012 of the hidden structural defects in the B.B. King Building foundation. The engineering and construction solution to the newly discovered structural flaw resulted in increased costs of over $1.5 million and months of delay.
j. The JRA was unwilling to renegotiate terms or otherwise compensate for the requirement that B.B. King be included as part of the development, or that the B.B. King structure was seriously flawed.
k. It took months of structural and geophysical engineering work and new financial analyses to determine the real cost of the structural flaw and to find workable solutions, particularly in the context of regulations relating to historic structures. In the meantime, the unfortunate delay, coupled with the inability of JRA bond counsel to close on the agreed upon JRA loan by the end of the year, resulted in missing the "window of opportunity" to close on the $5 million NMTC allocation which had been awarded by National Trust.[1] National Trust concluded that it would continue to work on the project, but would use future credits it expected to have available in 2013.
l. The U.S. Congress failed to renew the funding for the 2012 NMTC allocations until the "fiscal cliff" agreement was reached in January, 2013. This virtually stopped all NMTC projects in the country from closing until the new allocations were announced in April, 2013.
m. Numerous other failures by entities or individuals have contributed to the project slow down and Watkins Development will be happy to discuss them all in executive session.

[1] Watkins Development paid $100,000 in cash deposits to National Trust and U.S. Bank to secure the allocation and the commitment to purchase the tax credits.

3. <u>Recent Efforts by Watkins.</u> The JRA lawyers and certain board members gave a clear message that they did not want Watkins Development to be a part of the development. This ignores the substantial personal and property rights of Farish Street Group and Watkins and the civil rights of Watkins. Nevertheless, to accommodate the demands of the JRA agents, Watkins sought out other third parties to take over the development.
    a. In November, 2012, Watkins initiated negotiations with Yates Construction for Yates to be the contractor and to take over as the new developer and historic tax credit investor. After an exhaustive analysis of the project and the financial data provide by Watkins, Yates, in early 2013, made an oral offer to purchase the work in progress on the development and the leases in place for $6.4 million. While Watkins believed he was close to securing a term sheet for the sale, the deal mysteriously fell through, after a secret meeting was called by JRA Board Lawyer Zach Taylor with certain minor members of FSG and representatives of Yates, without participation or even knowledge of the managing member and developer. These minor members have proven to be of little or no value in raising capital and have added no value to the project due to the relative lack of experience in this sophisticated work.
    b. While still entertaining discussions with other potential developers and investors, Farish Street Group and Watkins submitted a refined and more comprehensive master plan to the JRA in March, 2013 that would have allowed the completion of the tenant improvements on 9 venues within 12 months, without relying upon the complex NMTC allocations, which had been so elusive. The plan was presented to the lawyers and staff of the JRA, supplemented with over 800 pages of detailed drawings, financial plans, term sheets, and planning documents. Unfortunately, neither Farish Street Group nor Watkins was ever allowed to make a presentation on this plan to the JRA board. And JRA attorney, Zach Taylor, openly stated to at least one observer at the meeting that the proposal was "dead on arrival."
    c. In early 2013, Watkins initiated discussions with a national firm, HWH Group, to assist in securing additional NMTC allocations from the 2012 round to be announced in late spring. On the day we planned to sign a contract, the 2012 allocations were announced and Hope Enterprise was awarded $25 million in NMTC allocations. With that occurrence, another path was taken, led by the JRA and Hope.
        i. Hope, along with minor members of FSG and representatives of JRA, CMPDD and MDA, began a series of meetings to put together a new financial plan for Farish Street, without involving significant JRA funding and without involving the resources or input of Watkins. In fact, Watkins was specifically asked to stay out of direct discussions. In the spirit of cooperation, and believing that Hope was sincere and motivated in its efforts to close the deal, Watkins reluctantly agreed.

ii. For a number of months, Hope, JRA and the ill equipped minor members of FSG worked in secret on developing a new plan using NMTCs from Hope and from National Trust.

iii. During that period of time, Watkins Development agreed to an audit of its expenditures advanced on behalf of the project (including a review by Hope staff and an independent CPA firm) that could be used to support the claim for Qualified Rehabilitation Expenditures (QRE). These advances were part of the expenditures made by Watkins for the construction and development efforts over the last 5 years. **The total amount of QRE substantiated is in excess of $10 million.** The total amount of construction and development work contribution by Farish Street Group and Watkins (including MDA loans) is **in excess of $12 million. By contrast, the total amount of JRA and City contribution to date on the development project is ZERO.**

iv. Unfortunately, notwithstanding all of the additional staff work and the intervention by Hope and others, they were unable to proceed to a closing because of, yet again, factors beyond anyone's control. The State of Mississippi (through the MDA) for the first time in the history of its tax credit program was "over-subscribed" for the amount of actual tax credits that it had available to provide for projects and could not guarantee that the new Hope/JRA model being advanced would receive any funding. Consequently, Hope concluded not to use its NMTC allocation and to withdraw from the project.

v. The result: **yet another loss of momentum and time from action by parties other than Watkins.** ***Almost six months had been lost waiting on the new Hope/JRA plan to materialize.***

d. The Watkins group has at all times been committed to modifying, refining and completing the redevelopment plan for the entire district.

i. A team of consultants was sought out to rework the financial model, without relying on the elusive and complex NMTC allocations. The revised financial model relies upon the use of the $12 million expended to date, an infusion of over $4 million in earned Historic Tax Credit equity, up to $9 million in Tourism Tax Rebate funding and a $12 million development loan from the JRA. This model will enable 9 venues open within 12 months and have a potentially debt free project in less than 10 years.

1. Watkins has not been allowed to present the model to the JRA; instead, he was given the message, through JRA lawyers and other intermediaries, that no plan including Watkins would be considered;

2. Watkins was even told by JRA lawyers that they would NOT communicate directly with him as the Managing Member of Farish Street Group, in spite of his written protests of such action.

ii. A new operating entity has been formed with the depth, experience and expertise to execute the operational plan for the venues in the entertainment district. Many of the individuals and companies that comprise this new enterprise are well-known public figures and successful businessmen and businesswomen in Mississippi. They bring great credibility and experience to the project. Yet, Watkins has never been allowed to brief the JRA, even on the existence of this group, much less on what it is committed to do.

iii. Over the last 2 months, Watkins has had numerous meetings with potential outside investors/developers that would inject additional capital and resources into the project and would take over the development rights from Watkins, including access to the tax credits earned by Watkins in connection with the project.

iv. At the time of the action by the JRA terminating the lease, our development company was in the midst of significant discussions with several substantial out of state investors/developers. The JRA and/or their agents and lawyers ***were aware of these pending negotiations***, yet still decided to terminate the lease, apparently because they did not want Watkins to have any part, or even any say so, in a new development company. Or perhaps there was fear that the group could be successful, thus precluding other favored potential developers and owners from taking the project.

v. At the time of the termination by JRA, the CMPDD had already orally agreed to stand down on the foreclosure by MDA and to work with the new development team to allow for a smooth transition. The new investment group was amenable to bring the MDA loan current and removing the default.[2] CMPDD had been advised by JRA lawyers that NO ACTION would be taken by JRA without advising them first. CMPDD was NOT notified of the termination action and not given an opportunity to speak to the board about the potentially divisive and destructive ramifications that the JRA action will likely have, on many fronts.

4. <u>Money talk</u>. For its own credibility, it seems necessary that the JRA recognize that this development has been difficult from the beginning. It is also important, however, for the JRA to recognize that successful development has been made nearly impossible by

---

[2] A large portion of the amount currently owed to the MDA/CMPDD is the principal and interest payments due under the $1 million loan to Elkington assumed by Farish Street Group.

the aggressive and adversarial conduct of some of its board members and agents. **The truth is that the JRA has not invested a single dime in this development project.** Yet, certain board members and agents have railed against the developers as if they were criminals. The simple truth is that the JRA has been unwilling to take on any substantial risk, in a high risk project. It has allowed people under its control to defame and tarnish the reputation of a local, well-respected business and community leader of this city. Relying upon expectations of good faith and fair dealing, **Watkins has invested nearly $5 million in this project compared to the City and the JRA's resounding ZERO.** The attached chart is compelling.

a. Initial investment:

i.	Watkins Development, LLC	$250,000
ii.	Robert Gibbs	$ 50,000
iii.	Dr. Claude Brunson	$ 50,000
iv.	Deuce McAllister	$ 50,000*
v.	Socrates Garrett	$ 50,000
vi.	LeRoy Walker	$ 50,000*
vii.	City of Jackson	$ 0.00
viii.	JRA	$ 0.00
ix.	MDA/CMPDD loan to Elkington	$ 1,000,000

(* funds loaned to these investors from Watkins; unreimbursed to date)

b. Subsequent Investment:

i.	Watkins and other 3rd parties:	$6.6 million
ii.	MDA Loans to FSG:	$4.4 million
iii.	City of Jackson:	$0.0
iv.	JRA:	$0.0
v.	TOTAL:	$12.5 million

c. **The project is going to lose even more money, perhaps as much as $9 million, in the form of earned tax credits and other subsidies that will simply evaporate if the Watkins/FSG debt is wiped out with this lease termination.**

d. The termination action taken by the JRA is the death-knell of any future potential for a B.B. King Blues Club to be a part of Farish Street. The requirements for a host site for B.B. King Club are substantial and have been elegantly and elaborately woven into the fabric of the development model. Any project plan outside of those contemplated and approved by entertainers such as B.B. King, risks alienating those essential elements of a genuine and authentic experience that will be unique to Farish Street, tightly woven with a financial management and operational plan that produces a successful outcome.

5. Fair Play by Public Bodies: In spite of the JRA and its agents and attorneys having actual knowledge of negotiations underway to sell the development project to third parties in a way to preserve the tax credits for the benefit of project and avoid large forfeitures by private parties, the JRA did not give Watkins or his partners notice of the termination before taking action or a reasonable opportunity to come before the board before taking such devastating action. The details and history of this development plan are many and complex. However, ***the underlying and undeniable truth is that the JRA has been given inaccurate information and bad advice and has acted on that information and advice resulting in substantial violations of the personal, property and civil rights of Watkins and others.***
    a. You have been led to believe that it is legally permissible to invoke the forfeiture of huge sums of private money, when it is avoidable.
    b. You have been led to believe that it is legally permissible to take punitive action against individuals, without fair process, fair notice and a fair opportunity to be heard.
    c. You have been led to believe that it is legally permissible for the JRA agents and lawyers to breach commitments to the developer and act as a gross impediment to meeting the speculative time frames offered, then claiming a breach of the agreement for failure to meet those aspirational time goals.
    d. You have been lead to believe that it is legally permissible for JRA agents and lawyers to secretly meet with potential business partners of the developer during active negotiations with those potential partners, further delaying project progress.
6. The Farish Street Plan. Unfortunately, what has really been lost in the behind-the-scenes skullduggery is that, over the last two years, the Watkins group has totally overhauled the entire development model and implementation plan for the Farish Street Entertainment District. Yet, they have never been allowed to present that plan to the JRA board or the public, even though the contents were known by JRA staff, attorneys and some board members.
    a. The comprehensive development model incorporates input from the community, informs about and celebrates the history of the Farish Street District, and includes deep components of workforce and life skills training that will provide new culinary and musical opportunities for locals and help institutions such as Peaches keep their doors open.
    b. The development model is a world-class project that will turn Farish Street into a true tourist destination, will create 400+ new full time jobs, 350 temporary construction jobs, and have a $30 million annual financial impact on the local community. Construction could begin within 30 days of financing and would result in 7-9 venues open for business within 12 months.
    c. Given the current condition of downtown Jackson, the size and demographics of the city and the economic conditions of the area, the developers realized that

the development plan had to actually be *better* than entertainment districts in other competitive cities if it was going to survive, that it had to be a center for entertainment and entrepreneurship. The development plan will not succeed if it is an uncoordinated collection of under-funded, low-budget clubs thrown up just to satisfy a few politicians clamoring for "progress." Such a development would not create a tourist destination, would be out of business in very short order, and would be the end of the entertainment district hopes forever.

d. The development model creates a financially viable, long-term sustainable enterprise that will be a catalyst for transforming Jackson. That was the goal and that is the plan. It has not been easy or without controversy. Yet, the plan is here, it is ready, it can be done, and will be successful; only if, however, the JRA and the City take a look at the facts and reconsider ill-advised action that will end up being destructive for all.

We respectfully request that the JRA immediately rescind all prior action of terminating any parcels under the original lease with the Farish Street Group.

Respectfully submitted,

WATKINS DEVELOPMENT, LLC

BY: ____________________

Lance Stevens, Counsel for Watkins Development, LLC, the managing partner of Farish Street Group LLC

cc: Honorable Chokwe Lumumba, Mayor
Honorable Phil Bryant, Governor
Brent Christensen, Executive Director, MDA
Clarke Holmes, Executive Director, CMPDD
Members, Jackson City Council
Member, Jackson Redevelopment Authority Board
Mr. Willie Mott, Interim Executive Director
Members, Farish Street Group, LLC