

EXECUTIVE SUMMARY

INTERSTATE LAND DEVELOPMENT COMPANY, INC. ST. CHARLES COMMUNITIES

A. Background and Summary of Progress

In the Project Agreement between the United States of America and Interstate Land Development Company, Inc., dated December 15, 1970, HUD committed to reserve \$24 million of guarantee authority for a period of seven years. Such funds are to be used for financing the acquisition and development of land for St. Charles Communities under Title IV of The Housing and Urban Development Act of 1968. The Developer subsequently issued \$18.5 million of Debentures and now proposes to issue a Subsequent Series of Debentures in the amount of \$5.5 million. The proposed financing differs from the usual underwriting agreement in that First National City Bank (the Placement Agent) only has a "best efforts" commitment to solicit offers to purchase Debentures. Among other conditions, the Project Agreement specifies that prior to Closing Date no Default shall have occurred and be continuing and that the Developer shall receive \$1.375 million in cash from Interstate General Development, Inc. (its U. S. Parent Corporation).

St. Charles Communities comprises 7,408 acres, located twenty-five miles southeast of Washington, D.C. in Charles County, Maryland. It is planned to be developed over twenty years for 79,000 residents (24,730 dwelling units). Land within the project has been allocated as follows: Residential - 4,351 acres (59%); Industrial - 849 acres (11%); Commercial - 214 acres (3%); Recreation and Open Space - 1,551 acres (21%); Schools and Community Facilities - 108 acres (1%); Major Roads - 335 acres (5%).

Since the Project was approved by HUD (December, 1970), the Developer has experienced difficulty in dealing with Charles County officials. For example, the County has recently expressed concern about the pace of industrial and commercial development. Despite the receipt or expectation of a portion of the approximately \$14.8 million in federal grant funds (\$11,958,147-Basic: \$2,789,222-Supp.) approved to date (Exhibit A), the County delayed zoning approval for the Project until July, 1972. The FUD ordinance which was ultimately granted, severely restricts residential density, mix and pace of development and imposes conditions to development of the Project which increase the Developer's financial risk. (Exhibit B).

The Developer has to date sold land to four residential builders for construction of 1,055 dwelling units at a total contract sales price of \$7,946,150. However, due to a significant increase in land development costs over initial projections and contract terms which defer full payment to the Developer, it is difficult at this time to accurately estimate the cash flow impact of the residential lot sales program. In addition, the Developer has sold sixteen acres to three industrial firms for \$117,637 (average price \$7,350 per acre) and five acres for five service station sites at an average price of \$120,000 per acre (15% down, interest only

for three years, with the balance over a fifteen year period). The industrial land sales price approximates initial projections, although the pace lags considerably behind the 40 acres estimated to be sold by June, 1973.

B. Current Financial Status

Due in part to the circumstances described above, the Developer is presently in default under Section 5.06 of the Indenture of Mortgage and Deed of Trust, which requires that it maintain Liquid Current Assets of not less than \$1,850,000, or 10% of the aggregate principal amount of Outstanding Debentures, whichever is greater. Subject to certain conditions, the New Communities Administration (NCA) has agreed to recommend that the Secretary waive the above default as well as related financial defaults under Sections 5.17 and 5.24 of the Indenture. The conditions are as follows: 1) establishment and maintenance of an unconditional line of credit for a three year period in the amount of \$2.4 million; 2) conversion of St. Charles Utilities, Inc. to a Restricted Subsidiary on stated terms; 3) execution of the Management Agreement between the Developer and Interstate General Corporation (its Parent Corporation - located in Puerto Rico) in the form approved; 4) receipt of acceptable audited financial records and information specified in Section 5.08 of the Indenture.

The Developer has indicated that it would be unable to establish such a line of credit and proposes to cure the existing Liquid Current Assets default by borrowing necessary funds on reliance of NCA's willingness to subsequently guarantee \$5.5 million of debt obligations. In the event all defaults have been cured on or before Closing Date and the Developer has met the additional requirements of Section 4.02 of the Project Agreement, the Secretary is obligated to execute the guarantee.

The Developer has met its recent short term cash requirements by the sale of Bannister Neighborhood-303 acres (the first neighborhood to be developed within the Project) to Interstate General Development Corporation, Inc. NCA approved the sales price - \$2,901,425 and terms: \$561,425 in deposits under existing land sales contracts, \$1.5 million cash at settlement and a note for \$840,000. Interstate General Development Corporation, Inc. subsequently obtained a development loan in the amount of \$5.95 million from the First National City Bank using the land and existing lot sales contracts in Bannister Neighborhood as collateral.

C. Financial Projections

In determining its response to the Developer's request for a waiver of the existing Liquid Current Assets default, NCA reviewed the June, 1973 Financial Projections of Interstate Land Development Company, Inc. and compared them with similar previous submissions. Such comparison indicates that since November, 1970: 1) revenue from land sales contracts is projected to increase \$91.6 million over the Development Period; 2) operating costs (not including those incurred from November, 1970 - October, 1972) are projected to increase \$41.1 million over the balance of the Development Period; and 3) Net Income is projected to increase \$11.1 million over the Development Period (Exhibit C).

A detailed analysis of the Developer's Projected Land Sales Contracts was subsequently conducted by NCA (Exhibit D). This involved an examination of: 1) the terms and conditions of all land sales contracts and options which the Developer has executed to date with home builders and commercial or industrial firms (Exhibit A); 2) the provisions of the FUD zoning ordinance granted to the Developer and 3) other factors such as the availability and cost of construction and mortgage financing, economic and market conditions and Developer capability, all of which would have an impact on land sales revenue.

While the results of such analysis are not conclusive, they establish a legitimate basis for questioning the reliability of the Developer's projected land sales contracts - particularly over the short term. Accordingly, NCA is concerned that within a short period of time following the issuance of a Subsequent Series of Debentures, the Developer may be in default again under the Liquid Current Assets provision in the Indenture.

The June, 1973 Financial Projections indicate that the significant increase in projected costs of land improvement within the Project is primarily attributable to the inclusion of full water and sewer facility costs for St. Charles and a 33% increase in direct labor and materials costs. In order to meet FHA sub-division standards, additional development costs are anticipated. Efforts are under way to determine the extent and cost of required improvements.

The June, 1973 Financial Projections are of further concern to NCA to the extent they are based on an increased rate of land sales and a substantially different allocation of land within the Project for specific uses than is contained in the approved Development Plan. Substantial amendments to the Development Plan require the approval of the Secretary and should be based on sound development and marketing criteria. No justification for the proposed revisions to the St. Charles Plan has been provided by the Developer and market experience to date suggests that none exists. Furthermore, in order to support projections for increased residential land sales revenue, the Developer has significantly reduced the amount of low and moderate income housing to be provided within the Project. NCA has not agreed to such amendments to the approved Development Plan and has to date postponed satisfactory resolution of the various development issues noted herein.

Under Section 4.04 of the Project Agreement, the Secretary has authority to request and obtain from the Developer such additional opinions, reports, policies or other documents as he may reasonably request prior to any Subsequent Closing Date. Such request may only have the effect of delaying the Closing for some time and in all probability would result in the Developer being in payment default under the terms of the Indenture in the near future. Consequently, it can reasonably be expected that if the Secretary were to request additional information on matters unrelated to the Closing, the Developer would institute legal action against the Department.

D. Long Term NCA Plan

Following the Developer's issuance of \$5.5 million of federally guaranteed debt obligations in accordance with the terms and conditions stated herein, NCA proposes to:

1. undertake an independent economic and financial feasibility analysis of the Project.

Such analysis will include a detailed review of: a) costs incurred to date in development of the Project and projected costs during the next three years; b) the current and projected market for residential, commercial and industrial land in St. Charles Communities; c) the probability of financial success during the next three year period and over the long term.

It is estimated that NCA can contract to have such analysis completed within ninety days at an estimated cost of \$40,000.

2. resolve with the Developer all outstanding issues concerning the Development Plan and related financial projections.

Current major issues include: a) the number and schedule of dwelling units to be provided within the Project for low and moderate income families; b) the allocation and schedule for development of land within the Project for specific uses; e.g. residential, commercial, industrial and open space; c) the specific language to be included in the current One and Three Year Plan of the Development Plan; d) the acquisition of additional land for the Project without the approval of the Secretary.

3. develop and implement a Financial Reporting and Monitoring (FRAM) System which establishes a format for standard and systematic submission of financial reports from the Developer as well as guidelines and criteria for continuous project evaluation and monitoring and provides for early warning of potential financial problems or situations requiring government action.

The FRAM System is currently being developed by Arthur Young & Company under contract with NCA at a cost of \$111,000.

4. recommend that, if necessary, the Secretary exercise his rights and remedies under the terms of the Project Agreement and Indenture of Mortgage and Deed of Trust to assure adherence by the Developer to the Project as approved and to the achievement of the Purposes of the Act.

October, 1973

INTERSTATE LAND DEVELOPMENT COMPANY, INC. ST. CHARLES COMMUNITIESComparative Projected Land Sales Contracts
(Thousands of Dollars)

	Nov. - 1970 (Period-1972-1991)		June - 1973 (Period-1972-1991)		Net Change	
	<u>Units</u>	<u>Dollars</u>	<u>Units</u>	<u>Dollars</u>	<u>Units</u>	<u>Dollars</u>
Residential	24,730	\$77,650	24,730	\$143,729	-	\$66,079
Single Family	9,910	62,433	9,910	108,036	-	45,603
Townhouses	4,890	6,474	4,890	17,075	-	10,601
Apartments	9,930	8,743	9,930	18,618	-	9,875
Non-Residential						
Neighborhood Ctr.	60(acres)	1,200	45	2,880	-15	1,680
Village Ctr.	100	2,500	200	7,085	100	4,585
Regional Ctr.	54	2,160	120	3,600	66	1,440
Industrial	492	14,730	700	18,783	208	4,053
Special Use	-	--	675	13,500	675	13,500
Other	285	285	135	540	150	255
TOTAL		\$98,525		\$190,117		\$91,592

Source - Interstate Land Development Company, Inc. Financial Projections -
St. Charles Communities dated November, 1970 and June, 1973.

Interstate Land Development Company, Inc.

ST. CHARLES COMMUNITIES

Comparative Projected Land Sales Contracts
(Thousands of Dollars)

	Nov-1970 (Period--1972-1991)		Oct-1972 (Period--1973-1991)		Changes (from 11/70)		June-1973 (Period--1974-1991)		Changes (from 10/72)	
	Units	Dollars	Units	Dollars	Units	Dollars	Units	Dollars	Units	Dollars
Residential	24,730 du's	\$77,650	20,000 du's	\$125,360	-4,730 du's	\$47,710	23,450 du's	\$135,371	3,450 du's	\$10,011
Single Family	9,910	62,433	10,000	99,734	90	37,301	9,210	101,310	- 790	1,576
Townhouses	4,890	6,474	5,000	16,251	110	9,777	4,530	15,855	- 70	- 306
Apartments	9,930	8,743	5,000	9,375	-4,930	632	9,710	18,206	4,710	8,831
<u>Non-Residential</u>										
Neighborhood Center	60 acres	1,200	45 acres	2,740	- 15	1,540	42 acres	2,520	- 3	- 220
Village Centers	100	2,500	200	6,120	100	3,620	199	6,965	- 1	845
Regional Centers	54	2,160	120	3,000	66	840	120	3,600	-	600
Office Parks	-	-	675	13,500	675	13,500	675	13,500	-	-
Industrial Land	492	14,730	700	21,000	208	6,270	684	18,665	- 16	- 2,335
Other	285	285	135	540	- 150	255	135	540	-	-
Total		<u>\$98,525</u>		<u>\$172,260</u>		<u>\$73,735</u>		<u>\$181,161</u>		<u>\$ 8,901</u>

EXHIBIT C (2)

Interstate Land Development Company, Inc.
Comparative Projected Cash Flow Statements
St. Charles Communities

	1972-1990 Nov. 1970	1973-1991 Oct. 1972	1974-1991 June 1973
Cash Receipts	\$109,353	\$154,785	\$ 167,334
Cash Disbursements (Operations)	56,837	85,916	82,446
Cash Flow from Operations Before Financing Income Taxes	52,516	68,869	84,888
Financing Costs	14,930	25,294	23,528
Income Taxes	18,659	18,759	27,635
Cash Flow from Oper'tns	18,927	24,816	33,725
Additional Borrowings	--	6,875	6,325
Interest Income	12,702	--	--
Repayment of Debt	18,500	25,100	29,375
Cash Flow	13,129	6,591	10,675
Add Cash at Beginning	--	2,295	558
Cash at End	13,129	8,886	11,233

Interstate Land Development Company, Inc.Comparative Projected Income StatementSt. Charles Communities

	(1972-1990) Nov. 1970	(1973-1991) Oct. 1972	(1974-1991) June 1973
Land Sales	\$ 98,525	\$ 164,419	\$ 176,064
Operating Costs	56,837	97,908	94,305
Financing Costs	33,430	31,196	29,619
Income from Land Sales Before Taxes	31,788	35,315	52,140
St. Char. Utilities Operating Income net	--	151	30
Sale of Utility Plant	--	--	(270)
Provision for Income Taxes	18,659	18,759	27,635
Net Income	13,129	16,707	24,265