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COMPTROLLER GENERAL OF THE UNITED STATES

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11-30-70



WASHINGTON, D.C. 20548

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Dear Mr. Gross:

Reference is made to your letter dated October 1, 1970, in which you requested the General Accounting Office to obtain certain information concerning two new community projects in Minnesota--Jonathan and Cedar-Riverside--which are being planned for development under the New Communities program of the Department of Housing and Urban Development (HUD).

You requested that we obtain a copy of any contract or agreement on the Jonathan project and that we request HUD to identify the individuals having a significant amount of equity in the project. In addition, you stated that, in the event a Mr. Henry T. McKnight was involved in both the Jonathan and Cedar-Riverside projects, similar information should be obtained for the Cedar-Riverside project. A brief description of the HUD New Communities program and certain background information which describes the involvement of Mr. McKnight and the present status of the two projects is presented below.

The New Communities program, authorized by Title IV of the Housing and Urban Development Act of 1968 (42 U.S.C. 3901 et seq.), encourages the private development of entire new communities by providing financial assistance to private investors and local governments in the planning and development of new communities. Under this program, bonds, debentures, notes, and other obligations issued by private developers to finance the cost of acquiring and developing land for new communities may be guaranteed by HUD.

This program differs from most of the other HUD metropolitan development programs in that it is not predominantly a grant or loan program. Although local public bodies can receive certain financial assistance in the form of supplemental grants for water and sewer projects in new communities, the major role of the Federal Government under this program is to guarantee repayment of private borrowings that are made to finance costs of land acquisition and development.

The act limits the amount of guaranteed debt obligations that may be outstanding for a community at any time to \$50 million and the amount of the total guaranteed debt obligations that may be outstanding under the program at any time to \$250 million. As of November 16, 1970, guaranteed debt obligations of \$8 million had been issued and were outstanding under the program. These debt obligations were issued by the developers of the Jonathan project in October 1970.

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To provide for the repayment of liabilities which may be incurred by the Federal Government as a result of a private borrower's defaulting on a debt guaranteed under the program, the Secretary of HUD, pursuant to the act, has established a revolving fund and a schedule of fees and other charges which he estimates to be adequate to provide income sufficient for a self-supporting program. These fees and charges are assessed against the new community development organizations, such as the developers of the Jonathan project, and are deposited into the fund. Amounts recovered under subrogation procedures and Federal appropriations of funds required for continued program operations are also to be deposited in the fund. As of November 16, 1970, the revolving fund balance was \$644,999, of which \$350,000 represented fees that were collected from the developers of the Jonathan project.

As of November 16, 1970, HUD had offered commitments to federally guarantee debt obligations of up to \$75 million for three new community projects under the New Communities program--a \$21 million guarantee for the Jonathan project; a \$24 million guarantee for St. Charles Communities, Maryland; and a \$30 million guarantee for Park Forest South, Illinois.

Our review showed that Mr. McKnight was involved in both the Jonathan and Cedar-Riverside projects. He is president and director of the Jonathan Development Corporation--the organization established for developing the Jonathan project--and chairman of the board of directors of Cedar-Riverside Associates, Incorporated--the organization established for developing the Cedar-Riverside project. We are, therefore, providing certain requested information on both projects.

Pursuant to your request, we are providing a copy of the project agreement dated October 8, 1970, between HUD and the Jonathan Development Corporation, which defines the terms and conditions under which HUD is guaranteeing the debt obligations issued for the Jonathan project. (See enc. II.) With respect to the Cedar-Riverside project, however, HUD has not entered into an agreement or offered a commitment to federally guarantee debt obligations. We are providing also information which identifies the principal officers of the organizations that have been established to develop these projects and certain data on the amount of financial equity of Mr. McKnight in such organizations. (See enc. I.) For your information, we are also enclosing two illustrative brochures on these projects. (See encs. III and IV.) Following is certain background information which describes the present status of the two projects.

In February 1969, the Jonathan Development Corporation applied to HUD for a Federal commitment to guarantee debts to be incurred in the development of the new town of Jonathan, located near Minneapolis, Minnesota. The corporation plans to develop--over a 20-year period--a new community which will accommodate about 50,000 residents. Actual development of the land was started in 1968, and, at the present time, road and water and sewer facilities are being installed and additional land is being acquired.

In February 1970, HUD agreed to guarantee up to \$21 million of debt obligations to be issued by the corporation to help finance additional land acquisition and development during the first 10 years of operation. On October 15, 1970, the corporation offered for sale federally guaranteed bonds in the amount of \$8 million. Subsequently, the entire issue was sold.

HUD has agreed also to provide certain additional financial assistance for the development of the Jonathan project under the portion of the New Communities program that provides for supplemental grants to local public bodies for new communities assistance projects. In regard to these supplemental grants, the city of Chaska, which includes the eastern two-thirds area of the Jonathan project and most of the land currently being developed, has applied to HUD for funds for a waste collection system and a water system in connection with the development of Jonathan.

The following table shows, as of November 16, 1970, the amount of funds HUD has reserved for these facilities under both its Basic Water and Sewer Facilities Grant program and its New Communities program, as well as the city of Chaska's contribution, and the estimated total project cost.

	<u>Waste Collection</u>	<u>Water</u>	<u>Total</u>
Basic Water and Sewer Facilities Grant program	\$290,100	\$250,000	\$ 540,100
Supplemental grant under New Communities program	<u>116,100</u>	<u>100,000</u>	<u>216,100</u>
Federal funds reserved	\$406,200	\$350,000	\$ 756,200
City of Chaska contribution	<u>263,800</u>	<u>235,000</u>	<u>498,800</u>
Estimated total project cost	<u>\$670,000</u>	<u>\$585,000</u>	<u>\$1,255,000</u>

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In October 1970, Cedar-Riverside Associates, Incorporated, submitted to HUD portions of an application for a Federal commitment to guarantee debt obligations in the amount of \$24 million for the development of the Cedar-Riverside area which is located within the city of Minneapolis, Minnesota. According to the information submitted to HUD, the developers plan to construct--over a 15- to 20-year period--up to 12,500 dwelling units to accommodate about 30,000 residents.

As previously mentioned, this project has not been approved by HUD. HUD officials advised us that approval cannot be made until the developers submit additional information which HUD requires for fully evaluating the project proposal.

We trust that the above information will be of assistance to you.

Sincerely yours,



Comptroller General
of the United States

Enclosures - 4

The Honorable H. R. Gross
House of Representatives

INFORMATION ON THE NEW COMMUNITY PROJECTS
IN MINNESOTA--JONATHAN AND CEDAR-RIVERSIDE
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

B-170971
11-30-70

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Report to Congressman H. R. Gross pursuant to his request.

The report contained information relating (1) to the development of the Jonathan and Cedar-Riverside projects in Minnesota, (2) the involvement of Mr. Henry T. McKnight in these two projects, and (3) financial assistance rendered by the Department of Housing and Urban Development to these two projects.

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REPORT TO CONGRESSMAN H. R. GROSS
ON THE NEW COMMUNITY PROJECTS OF
JONATHAN AND CEDAR-RIVERSIDE

B-170971
11/30/70

RESTRICTED

Report to Congressman H. R. Gross pursuant to his request.

The report contains certain information concerning the new community projects of Jonathan and Cedar-Riverside in Minnesota which are being planned for development under the New Communities program of the Department of Housing and Urban Development.

No index prepared.

Revised