1. Assistance to Local Governments

a. Problems

One of the greatest obstacles to new community development in the United States is the resistance of local government to accepting new communities with their ambitious social goals. This resistance is best exemplified in Charles County, Maryland. Although there are overtones of prejudice and resistance to change in this opposition, the core of the opposition on the part of local politicians and citizens is the concern that the new community will inundate the school system and raise property taxes.

The Public Service Grant program was well suited to deal with this problem, which is of an interim nature only until the tax base of the new community becomes strong. However, I understand that the Administration is firmly opposed to this provision.

There is nothing in the current legislative proposals to correct this serious situation. The private bank will move in only when the political risks have been "defused".

Having state programs with power to override local veto of a new community would be most helpful. However, UDC, the only body with this authority in new communities, has found that lawsuits and political opposition grow if local groups oppose the new community in spite of UDC's statutory authority.

b. Solution

One solution would be to make a strong case to Secretary Romney to push for funding of this provision. However, in light of his firm position on this provision, I believe that such an approach would not bear fruit.

A second approach would be to obtain legislation to provide a subsidy payment to the local government for each unit of low and moderate income housing under the theory that persons living in such housing might not be able to afford equal services. The problem with this approach is that the Administration has already reacted to it negatively since it has already been proposed in a bill before Congress.
In addition, the subsidy would probably be too little during the early stages of a new community when it is needed the most.

A third approach would be to lump local governmental assistance into a general New Community Revenue Sharing pot. This suggestion has already been made to you in several forms. The advantage of it is that it is consistent with the trend of the Administration which is to reduce reliance on categorical grant programs and increase freedom of action by local government. It would also not have the negative connotations of either the low and moderate income housing payments or the Public Service Grants.

I recommend the third approach.

2. Industrial Location

In my decision paper on the National Bank dated December 7, 1971, on page 12, I outlined several options with regard to industrial incentives. This is a summary of the arguments presented for and against several industrial incentive proposals.

a. Problem

The entire feasibility of non-metropolitan new communities is dependent upon attracting an industrial base, and the pace and balance of metropolitan new communities requires consistent industrial development. However, unlike most of the advanced countries of the world, the United States has no industrial location controls or incentives at the Federal level, except for industrial loans and guarantees in EDA areas. These provide only a modest interest subsidy. If we are to make any headway at all in undertaking non-metropolitan new communities in particular, we must correct this deficiency. I understand that Secretary Romney has doubts about the effectiveness of location incentives. However, I also recall that there should be full discussion on this point.

b. Proposed Solutions

A widely accepted policy for industrial location in other countries is reduction in corporate taxation in return for locating in areas to be developed. Some experts argue that this has been successful in attracting industries to Southern Italy and Puerto Rico. However, there is much that is not known about the impact of differential levels of industrial incentives. Certainly research needs to be done in this field as part of a general approach to implementing national urban growth policy. However,
research is not as effective as actual demonstrations under controlled conditions in the United States.

Therefore, I propose an industrial location demonstration program in new communities which would include (a) research on incentives as well as the behavior of industries in seeking locations, (b) payments at different levels in lieu of tax reductions or actual tax reductions under controlled conditions, (c) the use of other incentives and guarantees as needed, (d) special training and technical assistance in industrial development, (e) special research in multi-story plant construction and layout for center city locations, and (f) evaluation and follow up as needed. The demonstration program could be used in any new community where industrial growth was lagging behind expectations or in non-metropolitan areas where industrial growth was expected to be a severe problem and the entire feasibility of the project was dependent upon establishing a job base. The program would be scheduled to phase out in five years or convert to regular program, using the techniques which were found to be necessary.

The usual provisions against "pirating" of existing plants which wanted to relocate from center cities would be included. And, in addition, to prevent criticism from existing cities, special incentives would be provided for growth centers and new-towns-in-town which are within the jurisdiction of existing cities.

The recommended approach would have the advantage over introducing a general incentive for non-metropolitan areas to implement national urban growth policy in that it would test incentives on a more limited basis before a broad national policy was enunciated.

An alternative solution would be to amend the definition of the area in which EDA may conduct its programs to include new communities. This would draw upon the established expertise of EDA and provide recognition that the establishment of industry in new communities is in the national interest, as well as in rural and depressed areas.

Still another partial solution would be to extend new community guarantees or private bank financing to cover construction of commercial and industrial facilities in non-metropolitan areas where conventional loans are not available at 2 percent above prevailing rates. This would have the advance of convenience for the developer in obtaining "single stop" financing, but it would increase the exposure of the Federal government or the National Bank, whichever was making the loan or guarantee. The Soul City developers are quite interested in this provision.
3. New Community Infrastructure

There has been considerable difficulty in obtaining assurances from other Federal agencies that funding will be forthcoming on programs for which new community supplemental grants are available. Frequently, funds of other agencies are tied up in formula allocations to the states or for one reason or another are not available to the new community when the critical need is there. Even with HUD programs, there is no assurance from one year to the next that funding for infrastructure will be available even though funding has been secured up to this point. Revenue sharing and special revenue sharing will reduce this confusion by reducing the number of programs and increasing state and local flexibility. However, revenue sharing (special and general) is allocated according to formulae which are biased toward solving problems of existing populations, not anticipating future problems and future populations. This makes these programs ill-adapted to the special needs of new communities. Although unallocated discretionary money can be used on a year-by-year basis, other new programs, such as TACLE could completely wipe out this discretionary money for purposes such as new communities.

For this reason, we propose special new community revenue sharing which would cover all of the programs currently covered by the supplementary grants, plus functions of local government currently covered by the Public Service Grants. Special revenue sharing would be available only if the categorical grants were not available. This program would be a logical position, consistent with the Administration's policy of consolidating categorical grants.

An alternative would be to obtain a hard "earmark" from other special revenue sharing and remaining grants programs, much as that proposed by the National Urban Growth Bank proposal. This has been difficult in the past.

4. Low and Moderate Income Housing

a. Problem

One of your original suggestions for insertion in the AIA speech was finding some method of providing long term housing assistance in new communities. We agree that the annual negotiation with FHA is a time consuming process and does not enable us to predict from year to year whether or not subsidies will be made available to new communities for low and moderate income housing. At the same time, developers must make long term commitments to use their best efforts to create a balanced community, which is virtually impossible with subsidized housing.
b. Solutions

There are several methods by which housing subsidies could be delivered on a more regular basis. The first would be to so define new community revenue sharing that it included housing subsidies or housing allowances on a long term basis. Funds would be provided to the local government for a long term commitment on housing subsidies.

A second approach would be the establishment of a special housing allowance system for new communities, much like that which is being tried on a demonstration basis in several cities. This would provide a fund which could be drawn upon by all potential residents of the new community meeting requirements Section 236 and public housing. The fund would be limited to the amount of housing called for in the plan. It would have the virtue to reducing the segregation of the lower income people and facilitating their integration into American society.

A third approach would be a firmer policy of "earmarking" housing subsidies of existing and proposed FHA programs for new communities. This would not require new legislation, but would still be subject to annual uncertainties. In addition, the problem remains of identifying the residents of subsidized housing and accompanied social stigma of their identification. Every effort should be to eliminate the obvious stigma and assure long term housing allowance system.

5. Proposals Considered in Drafting the Growth Report

Included in our recommendations for legislation should be:

a. New authorization to pay up to $\frac{2}{3}$ of the administrative costs of a state land development agency, such as UDC, for the first two years of operation.

b. Authorization to guarantee and provide interest differential grants for entire state programs on a multi-year basis, rather than approving each project at a time. This would permit the operation of a state revolving fund which would be maintained by sale of lands to private developers to undertake new communities according to state plan. The state would also develop some of its own projects so that the guarantee would also cover some development.
6. National Endowment on the Arts

Amend the law to permit supplementary grants for programs administered by the National Endowment for the Arts and Humanities. This is a recommendation of the HUD Arts and Artists Task Force. We concur in the recommendation. We have found that cultural facilities in new communities are an important component of a quality living environment. The Endowment has been most cooperative with us to date. It would be most desirable to supplement their assistance.

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