

FEDERAL AID FOR NEW COMMUNITIES

In July 1968, the Congress passed legislation authorizing major new Federal assistance for private developers in the construction of new communities--known to many people as new towns. The Congress passed this legislation because of the widespread belief that well planned new cities offer one of the nation's best hopes for improving city life and for meeting the needs of our growing population. In the next 30 years the population will grow by about 100 million people. New communities can help provide high quality housing in a well planned urban environment for many people.

The Department of Housing and Urban Development is now authorized to guarantee the bonds, debentures, notes and other obligations issued by private new community developers to help finance new community development projects. The Federal Government will not build new towns itself; all of the new community construction will be performed by private builders, and financing will be through the private financing market.

The New Communities Assistance Program will assist developers and local governments in two ways: (1) private loans will be guaranteed--putting the full faith and credit of the Federal Government behind the development loans; (2) special supplementary grants to the local governments in which new communities are being built to help build water and sewer systems and acquire and develop open space areas.

The New Communities Act of 1968 imposes several requirements on Federal assisted new communities to support the seven goals expressed by Congress. The goals are to:

- contribute to better living conditions,
- promote sound and economic growth of the areas in which new communities are located,
- add to the supply of housing, including a proper balance of housing for families of low and moderate income,
- support opportunities for innovative housing and community development technology and in land use planning,
- enlarge the opportunities and choices in housing and employment,
- sustain a diversified local home building industry, with broad participation by builders, particularly small builders,
- promote improved technology, techniques, materials and methods in housing construction, rehabilitation and maintenance.

WHAT IS A NEW COMMUNITY?

A new community is usually a large scale comprehensively planned development which will, when completed, contain a diverse and balanced variety of residential, commercial, cultural, recreational and service facilities. New communities (~~sometimes called new towns~~) may be independent small town areas formed largely from existing cities, or they may be additions to existing population centers. New communities are not simply large residential sub-divisions, even if they contain shopping centers and industrial parks. New communities are planned communities, either beginning from bare land or as a major expansion of an existing small town or village.

New communities should have a sufficient industrial and commercial base in or near the community which will offer employment to a substantial segment of their working population. They should also have sufficient housing for those who live and work in the community.

WHO CAN RECEIVE FEDERAL ASSISTANCE?

Loan guarantees under Title IV are available only to private enterprises--any qualified private corporation or business--approved by the Secretary on the basis of financial, technical and administrative competence to carry out the proposed new community project. The law gives particular emphasis to projects that will utilize small builders in developing a new community.

Supplementary grant assistance for water and sewer development or open space can only go to public bodies--a local government or agency. The law requires close cooperation between the builder and the local government in the area of the new community.

WHO PLANS A NEW COMMUNITY PROJECT?

The plan for a new community is a comprehensive program developed by the private business developer in cooperation with the local government's planning organization. A new community plan is designed to make the best use of modern planning techniques, to improve the quality of the design of a city, to reduce costs and be sure that the new community fits into the overall comprehensive development of the metropolitan area or county and state within which it is located. Private development plans must receive the approval of all governments required by State and local law before they can receive Federal approval and assistance.

HOW MUCH FINANCIAL ASSISTANCE IS AVAILABLE?

The Federal Government may guarantee loans and other obligations amounting to as much as \$50,000,000 for any one new community project. In addition, regular water and sewer and open space grants, plus supplementary grants may be made to local public bodies for approved new community projects. The amount of such grants would depend on the size of the project and available appropriations.

The Federal guarantee which covers a loan to a developer in an amount not to exceed the lesser of (1) 80 percent of the Secretary's estimate of the value of the property upon completion of the development, or (2) the sum of 75 percent of (1) above and 90 percent of the estimate of the actual cost of the land development. Private developers will, of course, expect to make a "normal" profit return from any community developments and investments.

Loan guarantee assistance under the New Communities Act is designed to permit the issuance of "cash flow debentures," a new loan instrument that will permit the repayment of principal and interest on a schedule tied to anticipated expenses and revenues. Normally, the costs of new community developments require high initial expenses while returns from the sales of property and other community developments do not come in until several years later. Cash flow debentures are taxable.

Cash flow debentures and cash flow financing are a new procedure in government programs. They are being utilized in the New Communities program because of the large initial investments necessary before a positive cash flow begins, and the extended time period over which there is little or no positive cash. The cash flow procedure offers the necessary flexibility required by new community developers.

Cash flow projection is a crucial tool for the fiscal management and control of large scale real estate developments. The New Communities program now guarantees the repayment of approved obligations on a cash flow basis.

Debentures, bonds or notes will be "sold" by the developer to investors approved by the Department of Housing and Urban Development. As this is intended to be a flexible financial arrangement, there are a multiplicity of ways that income and expenditures may be structured. Approvals will be tied to the cash flow budget with realistic lead times.

The obligations will be "sold" as needed to supply the negative cash flow, including interest payments in the interim of limited income.

The positive cash flow (income) is used first to defray expenditures for planned current projects in the new community. The residue is applied to interest and principal payments.

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The debentures, bonds and notes are scheduled for "repurchase" based on the cash flow budget. For example, the budget might indicate that the developer would have adequate cash for all operating and current capital expenditures and pay off \$1 million in year five, \$3 million in year six, none in year seven, \$10 million in year eight and so on. The five-year repayment could be called for in year seven, the six-year in year eight and so forth. The repayment could be permitted on the budget schedule with no penalty. However, the developer would probably be required to declare his intentions in advance.

As much as 50 percent of the obligations can be sold as long term or straight serial bonds with repayment over an interim of 15 to 25 years.

WHAT LAND DEVELOPMENT COSTS ARE COVERED BY THE GUARANTEE?

For purposes of computing the total guarantee, land development includes the process of grading land, and installing water, sewer, gas, steam and electric lines and installations. It also includes the construction of streets curbs, gutters sidewalks, storm drainage facilities, and other installations necessary to prepare the land for urban uses. And, finally, it includes the construction of facilities for public uses.

The costs of buildings cannot be included in the estimate unless (a) it is a building needed in connection with the utilities mentioned above, or (b) a building, other than a school, which is to be owned and maintained jointly by the residents of the new community or is to be transferred to public ownership, but not prior to its completion

WHAT ARE NEW COMMUNITY HOUSING REQUIREMENTS?

The New Communities Act of 1968 is part of the total major program for building six million new houses in the next 5 years. The program requires that new communities assisted contain a proper balance of housing for low and moderate income families. Of course, all housing and all other facilities must be available to everyone on an equal opportunity basis.

CAN TITLE IV BE USED FOR RESORT OR VACATION HOMES AND COMMUNITIES?

No. Only permanent, year-round communities are eligible. Developments associated with resorts such as golf courses, boating marinas, and ski lodges may be included in a new community plan, however.

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WHAT ARE THE CRITERIA FOR RECEIVING A NEW COMMUNITY LOAN GUARANTEE?

The Secretary must determine (1) that the community will be economically feasible in terms of economic base and particularly growth, (2) the community must contribute to the orderly growth of the area, (3) there must be a practicable plan for land acquisition and land development, (4) the planned new community must receive all approvals required by State and local law, (5) the plan for the community must represent sound land use planning, (6) the community must include a proper balance of housing for low and moderate income families, (7) the community must have adequate shopping centers, schools, recreational areas, transportation and other project services and facilities, (8) there must be adequate jobs in the community or accessible to it, and (9) the construction and growth of the new community must be consistent with the overall comprehensive planning of the metropolitan area.

HOW MAY ADDITIONAL INFORMATION BE OBTAINED?

For further information about new communities assistance write the Department of Housing and Urban Development, 451 Seventh Street, S. W., Washington, D. C. 20410, Attention: Division of New Communities and Land Development.