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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D. C. 20410

ADMINISTRATIVELY CONFIDENTIAL

OFFICE OF THE ASSISTANT SECRETARY  
FOR METROPOLITAN DEVELOPMENT

IN REPLY REFER TO:

November 4, 1967

MEMORANDUM FOR: Honorable Joseph A. Califano, Jr.  
Special Assistant to the President  
The White House

SUBJECT : Task Force on New Towns

Attached is a report responding to your October 27, 1967, request for additional information on the Report of the Task Force on New Towns. The items are in order of those in your memorandum of that date.

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Assistant Secretary

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Supplemental Information

REPORT OF  
THE TASK FORCE ON NEW TOWNS

November 4, 1967

Question No. 1

"Cash Flow Debentures--through consultation with Treasury, an estimate of the interest differential required to create a private market for this type of financial instrument and the impact of this differential on other financial interests and commitments of the Federal Government."

We estimate that the interest differential between a cash flow debenture and the basic FHA rate may be approximately  $\frac{3}{4}$  to  $1\frac{1}{4}$  percent. This higher rate would be due to the newness of this type of financing device and the higher risk assessment by private financing institutions.

However, we have been informed by some of these institutions that a lower rate might be charged in return for other benefits to the lender--such as some equity in the project or an agreement from the community developer to finance home mortgages through the financial institution.

We would like to stress two points. First, even with the differential, the interest rate under the guaranteed cash flow debentures will be well below the conventional rate charged present private developers. Secondly, we and the Treasury are in complete agreement on the desirability of reducing the differential--and we will continue to consider any new measures for doing so. The measures that we have explored up to this point would, in essence, substitute a public lending approach for our proposed reliance on a system of private financing. We believe that the latter system is essential to the success of the program.

Question No. 2

"A detailed description of alternative kinds of 'New Towns,' with special attention to the problems addressed and benefits gained from the establishment of each type..."

The Task Force believes that the aids contained in its proposed program can be used to assist in the development of new communities of a wide range of types and locations. We will describe, first, the completely new community built on the fringe of an existing metropolitan area. This type will be useful as a reference for certain aspects of the other following types.

1. "The new town built on the fringe of an existing metropolitan area, a la Reston and Columbia."

This kind of new community most nearly fits the popular version of a "new town." It is built on a site of several thousand acres; is developed for residential, commercial and industrial purposes; is well supplied with recreational and open-space facilities; and is designed with the amenities and public improvements necessary to have a strong market appeal. Although the new community will contain a number of employment generating enterprises it is within commuting distance of other jobs in the metropolitan area. This is particularly important in the formative years when the

community's own economic base is being established and expanded.

These "satellite" communities provide benefits that respond to a number of problems inherent in the present unstructured, sprawling kind of metropolitan development:

- The volume of housing possible under the unified, large-scale operations of developing new communities should result in absolute increases in the supply of housing-- thus contributing to national housing goals.
- Within this supply will be housing, on an open occupancy basis, at prices within reach of families who are now essentially confined to central cities. This will alleviate some of the housing pressure on central cities, permitting them to use their scarce land resources for other needed purposes.
- The scale of new communities also will permit the provision of a broad range of public facilities, facilities that cannot be financed by small developments.
- The unity of the design and development of large areas--vs. the scattered, uncoordinated development of small tracts--can create vast improvements

in the housing and neighborhood environment in areas of metropolitan growth, and at a lesser public and private investment.

- Less land will be necessary for equivalent populations, thus permitting the conservation of more open space, areas of natural beauty, and areas required for protecting land and water resources.
- New technologies for housing and city building will be given a chance to achieve their potentials.

Existing efforts by private entrepreneurs to develop this type of community have foundered on three basic problems:

- An enormous amount of capital is required because of the scale of the development.
- The carrying costs of this capital, and other costs, is far in excess of income during the initial years of planning and basic development.
- Existing municipal regulations and operating policies are often not geared to the unique needs of new community development.

### How the Program Would Work.

Described below are the steps in building a new satellite community under the proposed program. We will outline the procedure for a limited dividend corporation using private loans to finance the entire land acquisition and development process. Subsequently we will describe some alternative procedures under other elements of the program.

Land Acquisition. The limited dividend corporation would secure control (through options or other means) of parcels of land needed for a site. The site would be selected on the basis of normal market analyses, economic feasibility studies, and the relationship of the site to governmental comprehensive development plans in the area.

Planning. The corporation would prepare: (1) a general plan for the physical development of the site, and (2) a financial plan, including estimates of costs, and financing schedules. It would work closely with local officials and planning agencies on matters such as highway access, zoning requirements, and platting approvals. HUD could make an urban planning assistance grant to the local planning commission to assist them in developing any information and plans needed to mesh the new community plans with the public plans for development of the broader area to be affected by the new community.

Application for Program Assistance. The corporation would file an application with HUD for assistance under the New Communities Development Assistance Program--for Federal guarantees for the necessary private loans to finance the estimated costs. (For a limited dividend corporation the guarantees would cover 90 percent of land acquisition and development costs, 80 percent of financial and carrying costs, and 90 percent of the corporation's risk fees.) The application would include the general plan for the site, feasibility studies, cost estimates and all the information necessary to determine that the plans meet eligibility criteria such as a broad range of housing types and prices, economic feasibility, and consistency with local comprehensive plans).

Approval of the application would, in effect, be a commitment to guarantee the private loans made by the corporation.

Financing Arrangements. The corporation would arrange for financing, under the Federal guarantee, from one or more lending institutions. The cash flow debentures issued by the corporation to the lender would be in the amount in the approved application, including an amount necessary to pay the annual interest over a period of the first few years when expenditures would exceed income

(a negative cash flow). The loan agreement would permit the corporation to actually borrow increments of the total loan amount as needed--in accord with the staging of the development over 10-15 years.

Development. The initial construction would be of the basic facilities and the amenities necessary to support the development of the first stage of residential and commercial building. These would include water and sewer facilities, major streets, and recreation facilities. Construction in later years would extend and add to these facilities as needed to develop the entire site.

Sale of building sites. Sites for housing, shopping centers, and industrial buildings would be sold to private builders who would be required to build in accord with the new community plans. The sale of these sites is, of course, the corporation's source of income. Federal criteria would require that small builders be given a reasonable opportunity to purchase sites. Other sales would probably be in acreage quantities for subdivision and development by large builders.

Public lands and facilities. Most public facilities (water and sewer lines) and sites for such public uses as parks and schools must eventually be taken over by a governmental unit. The arrangement for doing this, probably agreed to before the new community is initiated, could

include dedication or sale to a city, county, special district, or other public authority. Any funds received from this source would, of course, be considered as income and be available for loan repayment.

In some cases, particularly open spaces and recreational facilities, an association of residents might be the eventual owner of some facilities.

Project Close-Out. The new community would be completed for Federal purposes when substantially all of the land for private development had been sold and the guaranteed loan repaid.

#### Alternatives and Additions

Other elements of the Task Force proposal could be used to vary and supplement the above process of new community development.

Public land acquisition. If a State had the authority and an agency to acquire land for later disposition for private new community development, HUD could assist the agency by making a grant covering up to five years interest on the loans used to pay acquisition costs. The State agency could dispose of the new community site to a single developer, who could apply for assistance under the New Communities Development Assistance program, as described above.

Alternatively, the State might choose to plan, partially develop the site (basic facilities such as water and sewer lines would be eligible for Federal loan and grant aid), and sell or lease building sites similar to the procedure described above. Builders who acquire large sites under this process could apply for assistance under the New Communities Facilities Assistance program--guarantees for private loans necessary to finance their costs for neighborhood and community facilities.

Governmental Provision of Basic Facilities. When a local unit of government chooses to construct some of the basic facilities needed for the development of a new community, it would be eligible for: (1) the basic Federal grant for the facility; and (2) a supplemental grant in the amount of up to an additional 20 percent of the project cost (the Federal share in no case to exceed 80 percent). For example, a county could construct a trunk sewer line to connect the new community to the existing system. If the cost of the line were \$3 million, the county would receive a basic grant of \$1.5 million and a supplemental grant of \$0.6 million.

We envision that the supplemental grant will prove to be an incentive for a locality to cooperate and participate in the development of new communities. At the same time

that HUD received an application from a developer for New Communities Development Assistance, we would expect to receive an application from the locality for a "package" of Federal aids--for example, covering water facilities, neighborhood health and recreation centers, and open-space lands. A central administrative unit in HUD would take the necessary steps to assure the locality that funds--basic and supplemental--would be reserved or otherwise allocated for the facilities and be available for "delivery" at the proper times.

Moderate-Income Housing. The Task Force proposals include two programs of aid for moderate-income housing. One of these would provide guarantees for cash flow debentures issued by non-profit and limited dividend builders to help them finance the site development and construction costs of such housing built on new community parcels. The other program would subsidize the mortgage interest rates paid by a moderate-income family purchasing a home in the new community.

2. "The complete new town in the wilderness (Weaver model)."

The process for building this type of new community would be substantially the same as type #1. However, the isolation from existing urbanization creates some problems that make certain approaches more likely, if not essential.

A community built in the "wilderness" cannot "lean on" an existing metropolitan center during its formative years--for labor to build it, for jobs for its residents, etc. The economic base becomes a crucial element. Housing, supporting shopping facilities, and job generating enterprises must somehow be built almost at the same time. The implication is that this kind of community would need strong governmental support--probably public land acquisition, and an initial economy based upon a governmental installation (a new State university, for example). A new Federal water supply-power reclamation project might provide the opportunity for such a community. Some may be initiated by private corporations having the necessary resources and lasting power--a General Electric or General Motors. A community might also be initiated by lesser private entrepreneurs as a recreation oriented community--a ski resort, for example--with industry being developed more gradually as the community matures.

In any case, the aids in the Task Force proposal would be available to assist in both the public and private aspects of development.

The benefits of this type of community are related to those in types 4 and 5 below--a measure of relief for existing urban regions from the continuing pressure of

rural-urban migration and internal population growth. In addition, the "wilderness" conditions permit the creation of brand new cities, using innovative technology unfettered by existing urban problems and constraints.

3. The new town in-town.

As indicated in the August 30 news release on the National Training School site: The President recently directed Administrator Knott to "seek, find and make available" surplus federal land to meet critical urban needs: housing, education, park land and industry. "This new venture," the President said, "will be first and foremost a partnership--a partnership between local and federal governments, between public officials, private developers and the people of the city. The creative involvement of private enterprise will be a most important single element in the project." This new project could be the pioneer effort of a new program involving the comprehensive development of surplus federal land. "With this idea in mind, I have today named a special Task Force composed of Administrator Knott, Secretaries McNamara and Weaver and Attorney General Clark to survey surplus federal properties throughout the Nation, and with State and local leaders, to evaluate the prospects for transforming these lands into vital and useful community resources."

In effect, these developments will resemble new communities, within the restrictions of limited areas.

Indications are that local urban renewal agencies and an urban renewal process will be used to develop these sites. Thus, the land will be sold by the Federal government to a local renewal agency, the agency will develop the plans and install basic improvements, and the land will be disposed of for private and public uses. Financing for the process can be provided by private loans guaranteed by the Federal urban renewal loan reserve. Any net cost may be shared by the Federal government by an urban renewal grant.

The aids proposed in the Task Force program can supplement this process, and, in some cases provide an alternative approach to development. The proposed assistance for moderate-income housing, for example, could be used to reduce the construction costs and the monthly amortization costs to the purchasers.

It may be that some of the surplus Federal sites will not be legally eligible for urban renewal grants (open-land sites are not eligible). In such a case a combination of guaranteed cash flow debentures for private development and a package of facility grants, including supplemental grants, for the public development would provide the necessary financial aid for creating a new community on in-city sites.

The purposes and benefits of this type of community are principally:

- Increasing the supply of low-and moderate-income housing in cities with urgent needs.
- Building a community that will foster economic and racial integration.
- An opportunity for rapid production.

4. "A New town built at a pre-existing city about to grow rapidly--the EDA model."

This type of new community is directed to the problem of the self reinforcing push of population into the large metropolitan areas from the hinterlands.

EDA believes that one approach is in the use of the strength of existing growing cities distributed throughout the nation, with strong potential for continued economic growth, as poles to attract the flows of people displaced from some rural areas by declines in employment opportunities. The growth centers should become in effect new towns attractive and strong enough to provide permanent jobs and homes for rural migrants and their own citizens or to prepare them for life in other urban centers or metropolitan areas. A system of growth points, in a very real sense, could be compared to induction centers or way stations to process rural migrants for urban living.

The new town concept applied to growth centers appears to offer a workable mechanism for the development of

existing cities. Through the new town concept it should be possible to:

- Create an organization through which resources of existing Federal and other governmental programs can be directed and massed on specific places.
- Achieve a set of common objectives and a system of priorities and goals.
- Develop an organization that can mobilize private capital for private and semi-public goals (using such devices as cash flow debentures) but supported by public capital for purely public facilities by existing governmental programs.

It should be recognized at the outset that EDA's development district and growth center strategy is not a program for the development of new towns per se. A by-product of the direction of investment toward a growing center within a relatively weak economic area will be the accelerated expansion of the center's urban complex. It is in this sense that EDA's development district program is related to programs fostering new towns. The economic and social criteria governing the program are generally the same as those for completely new communities.

We should make it clear at this point that EDA does not believe that it can foster growth centers without

cooperating with other Federal, state, and local agencies. To the contrary, we believe that only through cooperation can the growth center concept as a development tool pay off in increased employment opportunity, higher levels of income, and a better urban environment.

The basic premise upon which the growth center concept can be sustained. While we are principally concerned with growth centers in our development projects, the type of growth to be fostered in these centers is of the same kind which is occurring on the fringe of large urban centers. The New Towns proposals for support for "spillover" cities close to existing centers will provide support for sound planning of growth which will occur even without Federal subsidies. Looked at this way, the selection of an EDA growth center as a new town investment site really rests on the same rationale as the selection of a suburban area for this purpose. This is not to argue that this approach should be adopted instead of the encouragement of orderly growth near large urban centers but rather in relation to this phase of the program.

Generally, this concept would not mean selecting an existing city with growth potential and building a new city next to it--although some variation of this may be possible in some cases. It would mean the use of the city itself as a foundation and then building a new city within it, on top of it, as well as around it. What this implies is using whatever strengths the city might already have and building with these strengths while at the same time culling out whatever weaknesses that might be present and replacing these, with the assistance of Federal and other resources.

A development program that might be formulated would begin with an agreement by participating Federal agencies on a designated city for "new town" assistance and the creation of an organizational device through which Federal and other funds would flow to carry out an agreed upon comprehensive plan for new town development. This is in a very real sense the basis of the use of the new town approach to developing urban growth centers in that it affords a framework or program funnel through which Federal and other resources can be massed on specific places.

The following activities could be related by EDA to a program of new town-growth center development:

Business Investment (Working Capital Financing)