

Recommendations Concerning New Communities and National Urban Growth Policy

1. Background

a. Accomplishments of the Current Program

- In the past several years, six new community projects have been approved and offers of commitment made for a total of \$124 million. The population at peak development for all of these projects will be 370,000.
- Another six projects are in the advanced planning stages and could be approved within the next several months, one of which is a community of 150,000 and another, the first free standing new community in a rural and depressed area.
- Some 56 applications and pre-application proposals have been submitted (including the six advanced projects), a large portion of which could be approved during the next several years.
- Of this number, some 43 are in or near metropolitan areas and, by themselves would serve a peak population of 2.3 million.
- As a condition of approval, all projects will have a minimum of 20% or 25% low and moderate income housing (generally subsidized) and an affirmative action program for equal opportunity; they will be well planned and have few negative impacts on the environment.
- If these projects are approved, we will have double the number of new communities initiated in the United States that were initiated in England in the past 25 years.

b. Outstanding Problems

In spite of the accomplishments of the program, problems remain which serve as obstacles to insuring that they can be effective instruments of national urban growth policy:

- (1) Metropolitan areas. Within metropolitan areas the following problems exist:
 - There continues to be resistance by local governments to accepting large-scale new communities on grounds of increasing taxes and burden of services.
 - There is little effective control over the land outside of new communities which continues to develop in a sprawl fashion.

- Effective coordination on a region-wide basis among transit, open space preservation and a chain of new communities is lacking. Seldom does rapid transit connect with new communities.
 - The economic competition between new communities and surrounding developments, often closer in to center cities, limits industrial and residential development of new communities.
 - Competition for scarce housing subsidy and infrastructure assistance costs between new communities and center cities could become a real problem.
- (2) Non-metropolitan areas. There remain large obstacles to undertaking freestanding new towns and small town growth centers outside of metropolitan areas for the following reasons:
- There are no assurances that industry will move to these communities in the absence of industrial controls and incentives.
 - Many people prefer large metropolitan centers.
 - There is a shortage of capable developers and private capital in non-metropolitan areas to undertake the land acquisition and development of new communities or finance their commercial, industrial and residential development.
 - Continued decline of employment opportunities in rural and depressed areas with industrialization of mining and agriculture makes non-metropolitan projects risky.

(3) Results.

Because of the above-mentioned problems, probably only a handful of pilot projects can be undertaken by Title VII in the next several years in non-metropolitan areas.

2. Proposals

- a. Dealing with local government. If the ambitious social and environmental objectives of new communities are to be achieved, a better method must be found to reduce the fears of the local governments. Their negative attitude could become one of the key bottlenecks in the development of an effective program. Among the options in solving this problem are the following:

(1) Proposal.

Option A: Fund the public service grant program already authorized by Congress, but heretofore opposed by the Administration, which would assist the local government by paying service costs in a new community for an initial period of not to exceed three years.

PRO. This is a program covering a limited period and would meet the critical need for the local government until the new community tax base began to grow. Essentially, it is similar to revenue sharing which would also pay for operations of local government.

CON. Some are concerned that it might set a dangerous precedent for the Federal Government.

Option B: Provide an "overspill" or a subsidy payment for every unit of low and moderate income housing to the local government, recognizing that much of the opposition to subsidized housing is economic and that low and moderate income residents will have difficulties in obtaining equal health, recreational and other services requiring fees.

PRO. The use of "overspill" payments is common in Europe. It is a simple device for new communities to reduce suburban economic opposition to relocation from center cities.

CON. There are many service demands on the local government during the first three years not related to low and moderate income housing.

(2) Recommendation.

We recommend a combination of Option A and B, recognizing the two different problems.

Approve _____ Disapprove _____ See me _____

b. Industrial Incentives

An essential part of making new communities effective is providing viable industrial location incentives, wherein corporate taxes are reduced for a select period of time. The options for industrial location incentives are discussed in another initiative paper.

c. Housing Subsidy.

- (1) Proposals. The current method of relying on traditional housing subsidy payments within new communities is not satisfactory in that fund availability cannot be predicted from one year to the next, and there is competition for subsidies with existing communities. However, the developer has a long-term commitment to use his best efforts to insure that there is a substantial amount of low and moderate income housing within the new community. In addition, program requirements for "turn key" and public housing, make it difficult to put very low income housing in new communities.

Option A: Provide for special long-term housing allowance grant programs for new communities which would attach to the individual and not the house, permit long-term commitments, reduce the stigma of identifying subsidized housing, and permitting really low income housing without public housing authority.

PRO. This would provide assurances that there would be a balance of housing in new communities on a long-term basis, reduce segregation by income, and reduce costs of subsidy to government. Persons would be more likely to accept a housing allowance system in new communities than in existing neighborhoods.

CON. There would be some fears of class and racial mixing, which would have to be overcome by careful planning and good public services. In addition, provision would have to be made to insure that windfall profits were not made from the housing allowance.

Option B: Special housing subsidy funds could be appropriated in addition to whatever housing subsidy program HUD has on an annual basis to insure that, as new communities grow in number, they do not compete with existing cities for housing subsidies.

PRO. This would probably be more "saleable" in Congress than obtaining special legislation for new communities in housing.

CON. New communities would still have to depend on the annual appropriations process and long-term commitments would be difficult.

- (2) Recommendation.

We recommend Option A.

Approve _____ Disapprove _____ See me _____

d. Extending Financial Support

- (1) Proposals. There is no assurance that the commercial, industrial, and residential facilities of very innovative or non-metropolitan new communities will be financed by private sources, even if Title VII guarantees are given for land acquisition and development, and there are problems with interim financing of commercial and industrial facilities in all new towns.

Option A: For non-metropolitan or very innovative new communities, extend the guarantee to cover commercial, industrial and residential construction, if private financing is not available at 2% above prevailing rates and provide an interim (3-year) guarantee to obtain initial financing of "pre-serviced" industrial and commercial facilities in all new towns if ordinary financing cannot be obtained.

PRO. A new community cannot be built if non-Title VII financing is not available.

CON. This would place all of the risk of a new community upon Title VII. If private financing is not available for these private facilities, perhaps the project is economically infeasible.

Option B: Encourage the creation of a private new communities development bank which would (a) provide contacts with industry for location in new communities, (b) guarantee non-Title VII construction financing, (c) provide equity and technical assistance for new communities.

PRO. If such a bank can be created, it would spread the risk to the private sector and provide essential contacts with industries, which may be more valuable than industrial location incentives. The bank would "joint venture" with developers and have industry "prepackaged" in the new town. A bank with similar provisions has been recommended by David Rockefeller.

CON. It is doubtful that a private bank will have the motivation to undertake this effort.

(2) Recommendation.

Recommend acceptance of Option A, to be created even if Option B is created, to serve as a back-up capability.

Approve _____ Disapprove _____ See me _____

e. Encouraging State Programs

- (1) Proposals. The States have been quite slow in following the lead of New York in creating development corporations. Incentives are needed to have other States follow New York's lead.

Option A: Provide funds of up to two-thirds of the cost of staffing State urban development corporations for the first three years' of operation, in addition to State urban growth planning as called for in S 992.

PRO. This might encourage some reluctant States to move into the field.

CON. This would be insufficient incentive for many States.

Option B: Permit approval of entire State new community development and urban growth strategies and programs rather than on a project-by-project basis, and require that private developers in these States obtain State approval.

PRO. This would reduce processing and delay in approving outstanding State programs. It would be consistent with revenue sharing.

CON. For lower quality State development corporations, perhaps this approach would be too lax.

(2) Recommendation.

We recommend both Option A and B. In addition, the interest differential grant program already authorized by Congress should be made available by OMB.

Approve _____ Disapprove _____ See me _____

f. Regional New Town Authorities

In the absence of State development corporations, high quality regional new town and industrial development commissions or districts could fill the gap left by private enterprise in non-metropolitan areas.

- (1) Proposals. Provide legislation empowering the Appalachian and other commissions to support local development districts with power to undertake new town development.

PRO. Strong public powers and capability are needed to make non-metropolitan new towns work. Special development districts could fill this role.

CON. To the extent that the existing regional development commissions, such as the Appalachian Commission, are not supported by the Administration, this concept may not be acceptable.

Option B: Provide special incentives to States to provide authority to State development districts to undertake the same functions.

PRO. This may be more consistent with Administration policy.

CON. States which do not have urban development corporations are unlikely to provide special legislation for these development districts.

(2) Recommendation.

We recommend Option A as being the more powerful of the two tools.

Approve _____ Disapprove _____ See me _____

g. Controlling Smaller Scale Growth

Most new growth in the United States will continue to occur in smaller developments than new communities. Unless an effective means is found to improve the physical and social planning of these developments, there will be only a marginal impact on urban sprawl and there is a danger that continued segregation by race and class in smaller developments will threaten new communities which could become an exception to a general rule of segregation. Direct assistance for such development, of subdivision size, should be a powerful tool to achieve better planning.

(1) Proposals.

Option A: Title X and Title VII should be combined administratively without resort to major legislative changes. (Title X is a subdivision insurance program administered by FHA which has been on the books since 1966 and has not been too active.)

PRO. This would make the task simple from a legislative viewpoint.

CON. The current Title X program has lower standards for social and physical planning than Title VII. It would be difficult to enforce higher standards without a change in legislation.

Option B: Amend Title VII to include smaller, high quality subdivisions, applying most of the same standards with regard to affirmative action and mix of housing that are applied to Title VII.

PRO. This would double or triple the effective range of controlling urban growth in the United States in center cities, small towns and suburbs.

CON. Unless steps are taken to change administrative practices in the HUD area offices, even with new legislation, the program may be administered conservatively.

(2) Recommendation.

We recommend Option B with appropriate steps to improve administration in the area offices.

Approve _____ Disapprove _____ See me _____

h. Land Banking

The current system of land use controls is working poorly. Potentially, a strong tool in controlling patterns of urban growth is the use of land banking techniques which has been used effectively in Puerto Rico and Europe.

(1) Proposals.

Option A: Earmark a significant amount of funds for the authority currently on the books as part of the "legacy of parks" program to purchase land to control urban growth and undertake three or four major test metropolitan areas to try out land banking techniques.

PRO. Whether land banking and the creative use of governmental land purchase and resale is or is not a threat to the building industry remains to be demonstrated, and until the answer is clear, Congressional concerns with this concept will continue. Undertaking several pilot projects on a sufficiently large-scale might quiet these fears.

CON. Even a test case would be initially expensive.

Option B: Create a Federal Land Bank operation, similar to that proposed by John Price, through a National Urban Growth and New Community Bank which would purchase land and resale on a large-scale to control urban development.

PRO. This would enable a vigorous and effective program to control patterns of urban growth.

CON. It is inconsistent with New Federalism in that it would supplant a potential State role and be excessively centralized. It probably would not be supported in Congress.

Option C: Create a revolving fund for State land banking parallel to that of acquisition for new communities.

PRO. This is more consistent with "New Federalism."

CON. Few States may take opportunity of this assistance.

(2) Recommendation.

We recommend alternative A. Once the pilot studies are undertaken, move to alternative C.

Approve _____ Disapprove _____ See me _____