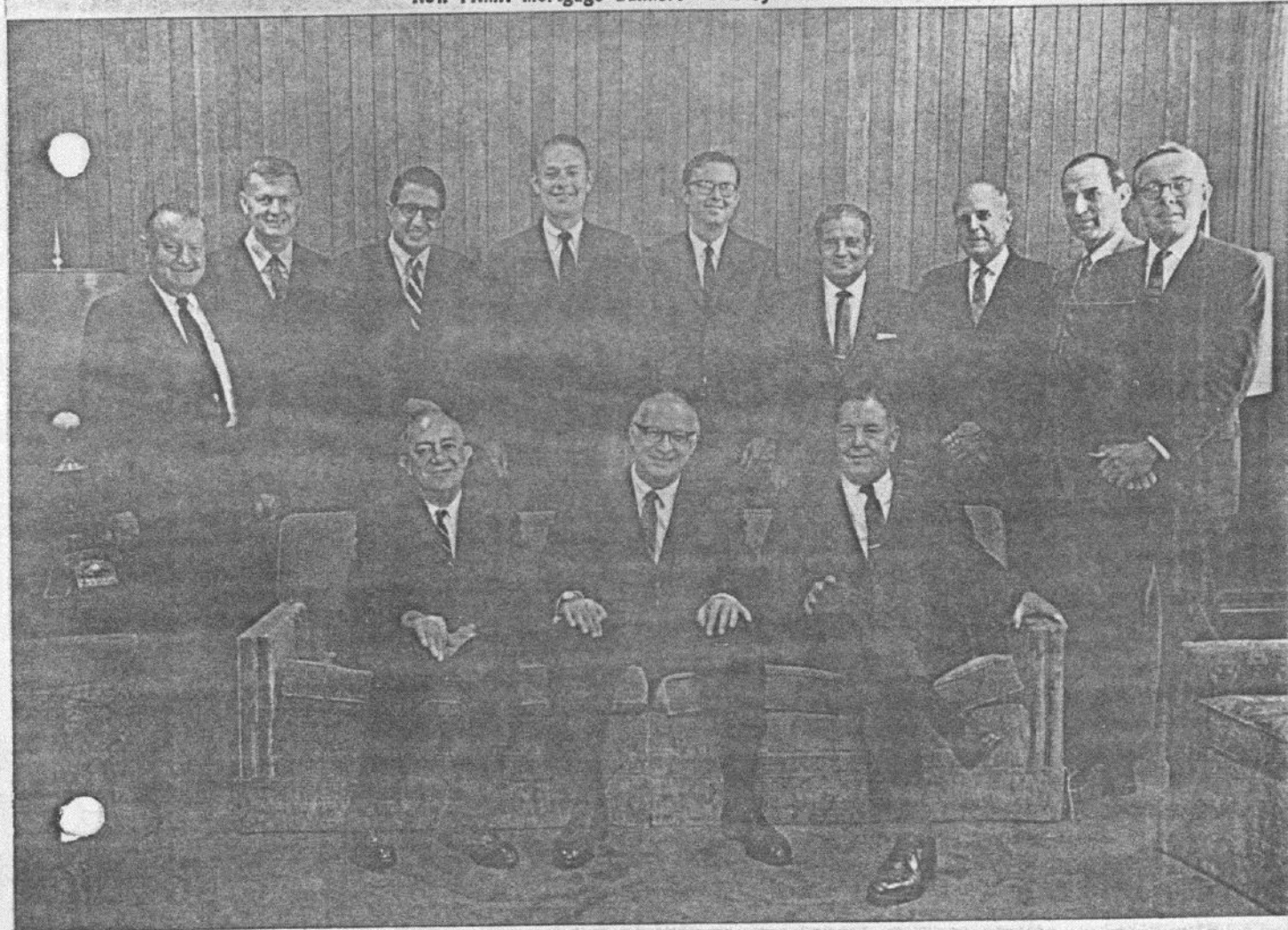


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The New Communities Act of 1968

New Financing . . .

For Planned Communities



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Mr. Haar discusses Title IV, the New Communities Act of 1968, of the recently passed Omnibus Housing Bill. In this exclusive article, Mr. Haar points out the potential benefits to be derived from these new government provisions for the financing of planned communities for both the community and the people that will live in them, and for the home-builders and mortgage lenders. As Mr. Haar emphasizes, the new cash flow debentures authorized by Title IV will "open up new sources of private capital to the land development and home construction industries." He explains how this new program will work to bring "the private sector of investment, development, and entrepreneurial capacity into this area of managerial and technical challenge under a framework of public cooperation and goals."

No domestic need is more urgent than that of providing for the increasing concentration of our population in and around urban centers.

We must expand our housing supply; achieve more orderly, less expensive urban growth patterns; curb the unaimed drift of population from rural to metropolitan areas; preserve the dignity and quality of urban life; and provide more living choices for our people.

The New Communities Act of 1968, Title IV of the Omnibus Housing Bill, offers major opportunities for achieving these goals. It affords unique opportunities for a partnership of private initiative and public action to meet a major challenge of our time.

Twice before, the creative forces of our free enterprise system have been harnessed in the interest of assisting the development of better homes and communities for our people.

1. The homestead movement following the Civil War helped open

up and secure the West for millions of settlers. The whole pattern of western development pivoted on this single action.

2. Federal mortgage insurance provided the stability necessary to unlock private industry and finance so that millions of homes could be made available at low cost and on reasonable terms. No single force has been more instrumental in post-war metropolitan growth.

The New Communities Act is a third great program in this tradition.

The New Communities Act of 1968 establishes a new program of federal support for private builders of new communities—balanced communities of new homes, stores, industries, and cultural and recreational facilities. These can be planned and developed "from the ground up" on sites of several thousand acres of land. Alternatively, they can build on existing centers.

A federal guarantee will be provided for a new instrument of private financing for large scale land

development—cash flow debentures. These fully taxable instruments will be designed to tap the private bond market for the large amounts of capital needed to acquire and develop a site for a new community.

The federal costs for the program are minimal in comparison with its potential benefits. For example:

1. New communities can provide a new pattern of urban living, a major alternative to the runaway sprawled growth that is overwhelming our metropolitan regions with costly and inefficient development. With support from this program some of this growth can be channeled into wholly new suburban communities with homes, jobs, schools, and proper settings for raising children. The program also can aid in developing by-passed tracts within and adjacent to cities. The metropolitan resident, thus, will be able to live and work in the same community and avoid the traffic, congestion, and wasted time of daily commuting. Further, it can be used to help revitalize rural communities

at some distance from urban centers, giving them the basic advantages of contemporary urban life, while strengthening regional economies and helping to stem the out-migration of people.

2. *New communities can substantially increase the nation's housing supply* by releasing new sources of investment funds, meeting the land supply needs of builders, and creating more efficient housing and community development operations.

3. *The unified planning and large-scale operation of the new community development process can achieve economies not possible under present fragmented development*, the tract by tract growth of sprawl. These economies benefit not only the new community itself, but the residents of the parent jurisdiction, such as a county or state, who eventually share in the public costs of haphazard growth.

4. *The housing provided in new communities can contribute directly and indirectly to meeting the needs of a wide range of income groups.* The economies of building housing in new communities on large areas of undeveloped land can be used to achieve a volume of housing at prices, and at desired densities, not possible in presently congested central cities. In addition, the volume of housing possible in new communities in attractive settings should free many existing suburban units for purchase by moderate-income people. Finally, the new program of home ownership for low- and moderate-income families, authorized under Section 101 of this bill, would be available for use in new communities.

5. *The new community process can help the home builders obtain a supply of building sites.* The rising cost of acquiring land, tying up capital in it for years in advance of use, and the subsequent investment needed to build streets and utilities, are increasingly difficult for the small builder to absorb. New communities can provide a continuing supply of housing sites—ready for building—for these smaller entrepreneurs.

6. *An opportunity to introduce new technologies for new ways of city building and deliveries of educational and social services.* Freedom of opportunity for technological ex-

perimentation is afforded by the fact that new communities have no "locked-in" decisions in facilities and services that impede innovations in existing cities. New communities provide ideal testing grounds for such imaginative, yet realistic, concepts as community heating and air conditioning systems, new construction methods (e.g., new tunneling techniques for utilities), and educational programs using television to bring school to the home.

7. *Aside from these basic benefits, new communities offer a number of other important advantages:* (a) a way to conserve more of the rapidly disappearing open lands in urban areas, and (b) a more positive method of creating sensible forms of metropolitan growth.

In short, the new program will provide another choice—in housing and community living—for the 46 million more Americans who will live in urban areas in less than 12 years. It will do this by giving new federal support to the public-private partnership that has traditionally been called upon to achieve the nation's objectives in housing and urban development.

Assistance to Private Developers

The program of federal guarantees for cash flow debentures recognizes two major obstacles to provide efforts to develop new communities.

First, the scale of new communities requires a vast amount of capital to acquire the land and install the basic facilities (sewer, water, streets, parks, and amenities) necessary to ready the land for private development. The investment can easily reach \$50 million or more for a large community.

Second, a new community requires a long development period—for planning, land acquisition, and installation of improvements—before building sites are sold and a cash return is generated. Annual costs of overhead, repayments on borrowings, and local taxes severely strain the developer's financial resources during this period of several years.

The device of a federal guarantee for taxable cash flow debentures issued by private developers would resolve these difficulties. It would open up new sources of private capital, in large amounts, to the land development and home construction

industries. Institutions not interested in the usual mortgage investment field would find the new debentures attractive ventures.

The cash flow debenture is particularly sensitive to the second problem of private financing for the development of new communities—the lengthy time lag between high initial expenditures and the beginning of returns from sales (a positive cash flow). The program permits the repayment of principal and interest to be geared to the realities of internal cash flow. Thus, repayments of principal would not be required until a positive cash flow is experienced, which might not occur until five or more years after the guaranteed private loan is obtained. The cash flow debentures system can get the developers over the hurdle of the heavy initial investment followed by a period of no return on the investment. In the longer run, of course, the orderly development of a new community will produce economies and the returns necessary to pay off the loans and produce a profit to the developer.

The federal guarantee would cover 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 land development, or (2) the sum of 75 percent of the Secretary's estimate of the value of the land before development and 90 percent of his estimate of the actual cost of the land development.

The outstanding principal of a guaranteed loan for a single project could not exceed \$50 million. It would bear interest and provide repayment provisions satisfactory to the Secretary.

The bill limits to \$500 million the total outstanding principal obligations guaranteed under the program at any one time. To provide for the payment of any liabilities, a guarantee fund is authorized which would consist of receipts from any fees or other charges, recoveries, and such appropriations as are made.

It is expected that profit-making sponsors would be the predominant users of the program. However, nonprofit and limited dividend groups would be given encourage-

ment to enter the field of new community building.

The Act specifically requires the Secretary to administer the program in a way to encourage the maintenance of a diversified local home-building industry, broad participation by builders (particularly small builders), and the inclusion of a proper balance of housing for families of moderate- or low-income.

The utility of this new program for small builders should be emphasized. Increasingly, this large segment of the building industry is faced with a shortage of improved lots at reasonable prices. The price of raw land in Baltimore, for example, increased by 64 percent between 1960 and 1964; in Los Angeles the increase was over 94 percent. Added to the cost of land are the costs of site improvements; a finished lot in Los Angeles was priced, on the average, at almost \$10,000 in 1964. The small- and medium-sized builders simply do not have the resources to undertake a sustained land purchase and improvement program to supply them with an even flow of good building sites at these costs.

However, the experienced new community builder, with the guarantees under this program, can get the necessary resources for this process of land acquisition and development. Further, the economies and efficiencies of this large scale operation will enable him to furnish his products—finished sites ready for building—in adequate quantities over a period of several years. Thus, local home builders will have access to a steady supply of improved building lots with more assurance of the marketability of their houses because of the attractive environment of a new community.

In administering the program, the Secretary also must determine that:

1. The proposed new community will be economically feasible and will contribute to the orderly development of the area of which it is a part.

2. There is a realistic plan for financing the new community and for marketing the land.

3. There is a sound and complete plan for the community, meeting state and local requirements and

providing satisfactory supporting facilities for its future residents.

4. The plan is consistent with comprehensive planning for the area in which the new community is situated.

Incentives for Public Participation

To assemble land to create a site of sufficient size, the private community developer must often choose a location at some distance from existing public facilities—sewers, water lines, and adequate access roads.

Local governments, already faced with a long list of demands for capital improvements, are likely to give a low priority to the facilities needed by the new community developer. Thus, pressed for time, he must often finance and construct many municipal type improvements. In essence, the developer during the early stages of a project may have to perform many of the public works functions of a municipality. And he is, of course, ineligible for federal grant programs—such as basic water and sewer grants, and grants for the acquisition and development of parks—that may be provided to a municipality.

To encourage localities to use federal aid programs in support of privately sponsored new cities, the proposed new community program authorizes the Secretary to make supplemental grants. Under this provision of the program, a community constructing a federally assisted facility serving a new community is eligible, in addition to the basic grant, to receive a supplementary grant. This grant could cover an additional 20 percent of actual construction costs. The three federal grant programs that would be eligible for the additional grant assistance are:

1. The Basic Water and Sewer Grant Program, administered by HUD.

2. The Open-Space Land Program, administered by HUD.

3. The Water and Waste Disposal Facilities Grant Program, administered by the Farmers Home Administration in the Department of Agriculture.

Other federal programs, such as the Urban Planning Assistance Program, the Public Facility Loans Program, and the Advances for

Public Works Planning Program, will also be available, without any supplemental aid, for states and localities wishing to use them in support of new community development. Some minor amendments (technical and conforming) are proposed in the first two programs in order to permit maximum utility for new communities.

The administration of these supplementary grants includes provisions for technical assistance and for a central point of information for interested states and localities. A local government will be able to direct to one place its preliminary inquiries on the "package" of federal programs that will be available to support the development of new communities. However, the final approval decisions and procedural requirements of the federal agencies administering the basic programs will not be affected.

The New Communities Program is applicable to a variety of locations and local conditions. It can support the expansion and revitalization of existing rural communities exhibiting basic potentials for growth, as well as a complete new community with its attendant economic base or one within the growth area of a metropolitan region.

If we attempt to pierce the veil of the future and to perceive the nature of our urban areas of the next decade, I think it is clear that new communities can make significant contributions as a model and yardstick towards a better and more economical pattern of organization, as prototypes for redevelopment of our older cities, and as laboratories for successful economic, political, and social integration. The impact, therefore, will be greater than the immediate amenities they may provide their residents, but hopefully can extend to our whole society. It brings the private sector of investment, development, and entrepreneurial capacity into this area of managerial and technological challenge under a framework of public cooperation and goals. It is for such real and potential benefits that we must make the first steps today—with the small but concrete steps embodied in this New Communities Act of 1968.