VI. Resolution of Past Deficiencies

A reasonable question would be, "How will a reopened program overcome past problems and deficiencies that led to the failure of a number of Title VII projects?"

Among the litany of reasons for these failures, two key causes were identified in the 1976 evaluative report, New Communities: Problems and Potentials. First, there was an excessive reliance on loans to finance large land acquisition and front-end development costs. Second, neither the Federal Government nor local governments fully supported and used the Title VII new communities as key tools in growth or redevelopment strategies.

A. Financing

The burdensome carrying costs for a new-town-in-town created by heavy front end loan financing would be substantially ameliorated by a number of policies and concepts underlying this proposal:

1. The need for more reliance on grant funding, and less on borrowing, is fully recognized. This is in contrast to most previous project approvals in which potential grants were not allowed to be included in the determination of financial feasibility. Grants will be sought as a key to the viability of in-town projects which usually require a land write down.

   The proposal calls for funding the grant authorities in Title VII, for Title I discretionary grants, and for seeking out other grants from other programs.

2. Commitments of Title VII loan guarantees will be on a very selective basis. Most cities will be encouraged to apply for a certificate of eligibility with no loan guarantee provided.

Sources of loan repayment funds will be expanded from sole reliance on land sales to include income from interim rentals, parking fees, benefit assessments, etc. Since only public authorities will be eligible to receive a guarantee (by policy), the potential sources of repayment income are considerably expanded over those of a private developer.

It is believed that carrying costs due to interest payments can be substantially reduced if the take down of the loan from the Federal Financing Bank can be done in small amounts as needed.

Finally, implementing the interest loan provision in the Title VII statute will increase the flexibility to tailor a loan for specific conditions and to maintain the viability of a loan during times of unforeseen stress.

B. Governmental Support

At the Federal level, the Title VII program was never adequately supported. Several of the program aids in the statute were never funded; others received only periodic token funding. There was no policy effort by any Administration (though there has been some NCDC staff effort) to coordinate and target other Federal agency programs, such as transportation, to support a new community.

This proposal begins by insisting that a full commitment from the Administration and the Congress is a necessary prrequisite to reopening the Title VII program for NTIT assistance. One action signifiying this commitment would be the funding of all of the Title VII authorizations. Another action would be the publication of a Presidential directive for all agencies to support NTITs including, where feasible, earmarking of funds for this support.

At the local level, new communities in the past have received little special support from local governments; indeed, the developers have often been required to provide extra facilities at costs not generally required of competing developers of smaller projects. This proposal recognizes that city support of a new-town-in-town is absolutely essential. Limiting the Federal assistance to local public agencies will go a long way toward assuring local governmental support. But, in addition, no project will be approved without a written agreement containing the commitments of all parties to the project, including the city's. Its commitments may be in the form of a local share of specified costs, the provision of certain facilities and services, or assurances to expedite all approvals required for project completion.

Attachment FINANCIAL PROFILE OF A NEW TOWN IN TOWN

New-towns-in-town (NTITs) are generally defined as planned and balanced developments of significant scale within an existing city on underdeveloped or under-utilized land. They are inherently related to the host community's economic base, private and public service systems, and housing markets. Their characteristics vary according to local context. In this financial profile, data and analyses generated in 1978 by HUD's New Community Development Corporation (NCDC) are summarized. Despite recent inflation, it is believed that this information is reasonably accurate, at least insofar as it outlines financial and other developmental interrelationships. Of course, costs have increased dramatically in some locations and the cost projections contained in this profile would have to be adjusted appropriately.

All NTITs which NCDC would propose to assist would include the following components in implementing their development strategies:

-- Economic/Employment Development. A basic goal in supporting NTITs would be to stimulate economic and employment development. Some primary jobs would be generated in the development of the NTIT itself. Others, together with supporting secondary jobs, would be offered by public and private institutions locating on the NTIT site during and after the completion of development. Some NTITs will emphasize service and office or commercial employment activity while others may provide institutional jobs through hospitals, universities and government agencies. Light manufacturing is a possibility in some locations. Center city economic renaissance can be stimulated by the NTIT through the elimination of negative neighborhood characteristics, the expansion of space for existing employers, and the strengthening of important urban institutions.

-- Service Development. NTITs also offer prospective NTIT residents, workers and neighbors enhanced basic public and social services. These include infrastructure improvement, water, sewer and utilities facilities, schools, recreation, and police and fire protection. They also include specially tailored services to enhance the community environment and to assist target groups like the aged and handicapped, large families, minority families and persons of lower income.

-- Housing and Neighborhood Development. One of the most important benefits to the central city resident from a NTIT development is the improvement of neighborhoods, with emphasis upon providing an enhanced range of housing opportunities at affordable prices and rentals. Thus, NCDC would continue to insist upon a mix of incomes, with particular attention to housing the disadvantaged and minority population of the city.

For purposes of discussion, this profile focuses upon NTITs located in or near the central business district of larger and older American cities. It is also possible for NTITs to be located within city boundaries but at some distance from commercial concentration. Examples of the latter (which some term neighborhood NTITs) abound --

the Fort Lincoln NTIT in northeastern Washington, D.C.; Park Central in Port Arthur, Texas; Lincoln Village (developed under HUD's earlier Operation Breakthrough demonstration) in Worcester, Massachusetts; Roosevelt Island, developed with NCDC assistance by the New York State Urban Development Corporation in New York City.

The typical NTIT ranges in size from 70 acres to 300 or more acres. In this profile, the prototype size is assumed to be approximately 100 acres of contiguous vacant or under-utilized land located near or in the host city's central business district. This size and type of NTIT has been chosen for discussion partially because it often is considered much more difficult to develop at an acceptable financial risk, and in part because neighborhood NTITs are more likely to be underwritten by private enterprise entrepreneurs with only modest Federal grant assistance.

The 1978 NTIT central city prototype development plan calls for an ultimate on-site resident population of about 9,000, with a day-time population expanded to 15,000 including workers and visitors. To assure housing affordability, and to expand housing choices within the city, it is deemed essential that 25 percent of the housing is to be offered to lower income persons and families, many of which will qualify for Federal, state or municipal housing assistance subsidies.

The residential area in the prototype will be designed around the planned commercial and institutional centers which include civic and social services, recreational opportunities, an elementary school, two church sites, a clinic, a branch library and a community center. Modest open space and parking is provided. No industry would be located on the site, though 5,000 on-site jobs are projected in the retail, office and hotel employment facilities to be developed.

Housing will consume about 70 acres of the site, with 3,125 units planned to house the 9,000 residents. A mixture of high-rise units (primarily for the elderly and small households), garden apartment units (primarily for families), mid-rise units (for mixed occupancy), and some townhouses will be developed. One quarter of the housing units will be developed for sale, with 75 percent offered for rental. The postulated density is 45 units or 128 people per acre.

The development plan assumes a 12 year development period. The developer is almost certainly a public development agency, with major sections of the development activity performed by private firms. Land would be conveyed in large parcels because of the high intensity use and rental character of the NTIT. Development would be non-linear in phases which reflect marketing projections.

The cost and revenue assumptions, calculated in 1977-8 dollars, are summarized in Table A, below. No attempt is made to inflate these figures, although prudence would dictate an adjustment of between 20 and 30 percent (costs would inflate approximately 30 percent, whereas revenues would inflate at a lower figure, perhaps as low as 20 percent).

Table A - NTIT Cost and Revenue Assumptions

Developer: Public agency, with major private development assistance.

Development Period: 12 years (non-linear development pace).

Cost Assumptions:

Land Acquisition: $225,000/acre (acquired wholly in year 1)
Engr/Arch./Plan: $1 million
Admin. Cost: $3.9 million
Realty Taxes: 2.5 percent x actual cost (effective tax)
Townwide cost: Hard costs $26,000/acre, with LMIH parking subsidy of $3.9 Million

Revenue Assumptions:

Townhouse: $8,000/unit
Garden Apt.: $8,000/unit
Mid-density: Market: $3,000/unit; LMIH: $1,250/unit
High-rise: Market: $1,600/unit; LMIH: $667/unit
Retail: $150,000/acre
Office: $300,000/acre
Hotel: $200,000/acre
Community Facility: $50,000/acre
Institutional: $30,000/acre

Inflation Rate: 6%

Above figures in 1977-8 dollars

Financing for the prototype NTIT is provided by NCDC through the use of Title VII land acquisition and development loans which aggregate to $67.1 million, public service and special planning assistance grants totalling $1.3 million, and Title I public facilities grants of $2.0 million. It is assumed, too, that the host locality will provide $ .2 million in organizational support.

Despite the generation of $19.0 million in land sales revenue, the prototype also postulates a heavy interest requirement which at $48.4 million more than consumes such revenue. Although development is completed on schedule, with all property successfully marketed, the prototype postulates that the NTIT is too costly to provide for repayment of most of the Title VII loan principal. Therefore, the model notes that HUD through NCDC would have to honor the guarantee commitment. The Treasury would absorb a balance due and unpayable of $66.5 million. When other Federal grants are added to this amount, the total cost to the Federal government of the NTIT prototype is $69.8 million.

Lest this Federal subsidy appear to rule out NTIT activity, it should be observed that this is a subsidy per housing unit produced of about $22,000 per unit -- well below a recent estimate that inner city housing requires a subsidy in 1980 dollars of at least $25,000 per unit in order to assure viable center city development. Some observers of Community Development Block Grant and Urban Development Action Grant expenditures in center cities have opined that HUD may be postulating a grant/housing unit rule of subsidizing housing through the two programs at the rate of about $25,000 per unit. It also should be noted that the NTIT prototype would generate about 5,000 jobs. Even assuming an average yearly income per job of $16,000 per year per household, this Federal subsidy would produce gross income from the 5,000 workers of $80 million per year. Revenues to the Federal treasury merely from income taxes at a low 20 percent marginal rate would amount to $16 million per year. Within five years of collecting such revenues the Federal subsidy would be fully amortized.

It also should be observed that state and local revenues resulting from the 5,000 jobs and from the housing and commercial development activity would be sizeable. Thus, any local contributions would be fully warranted.

Viewed from the perspective of job development, economic stimulation and housing and neighborhood revitalization -- all of which are Urban Policy goals -- this NTIT prototype is highly appealing. Its funding deficiency is only apparent, when its benefits are calculated, for the benefits far exceed costs to all participants.

A summary of the NTIT's financing requirements is provided in Table B, below.

Table B - NTIT Financing Summary
($ Thousands)

Sources of Funds:	
Title VII Loan - Land Acquisition/Development -	$67,100
Federal Grants - Public Facilities/Infrastructure -	2,800
Land Sales Revenue -	19,000
Other Local Contributions -	200
Total Sources -	$89,100
Uses of Funds:	
Land Acquisition and Development Activities -	$37,100
Organizational Expenses -	1,000
Community Facilities -	2,000
Total Costs Before Financing -	40,100
Funds Available for Financing -	49,000
Repay Title VII Loan Principal -	600
Balance -	48,400
Payment of Title VII Loan Interest -	48,400
Ending Cash Balance:	$ -0-
Outstanding Loan Principal Balance:	$66,500
Federal Cost to Treasury (Grants and Loan Balance):	$69,800
Local Cost (Contributions):	$ 200

Above figures in 1977-8 dollars