

APPENDIX: FEDERAL AID FOR NEW COMMUNITIES

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Federal support for the development and operation of new communities falls into four broad categories - demonstration funds, aid for the acquisition and basic improvement of land, aid for public facilities and services, and aid for housing. Only the second category of assistance is tailored for the special needs of new communities. The piecing together of the other aid programs is more complex, their funding more unsure. It will require considerable analysis and skill to develop a comprehensive, realistic package of Federal supports.

The sponsor will have to deal with several agencies at once, often seeking aid through an intermediary institution whose status makes it eligible for certain types of grants or loans not available to the sponsor itself. For example, only a private sponsor may obtain a Title IV guarantee on its borrowings for substantial land acquisition, but that private organisation cannot get Federal roadbuilding aid unless state and local highway authorities agree to apportion some of their Federal funds to the new community. The difficulties of financial planning are magnified by overlapping jurisdictions, alternate government programs, and a multitude of agencies and personalities. There must be thorough and continuing analysis of all government programs while developing a comprehensive financial plan.

This appendix summarizes the various programs that may be used to finance a new community. Obviously, the summaries do not set forth all the requirements and conditions provided by the programs' regulations.

Demonstration Programs

Operation Breakthrough

Secretary Romney has recently announced "Operation Breakthrough", a new Federal program designed to reduce housing costs by introducing economies of scale and new design and production techniques.

"Operation Breakthrough" is intended to increase both the effective demand and the supply of efficiently produced low and moderate income housing. Increased demand is to be achieved through the aggregation of local markets. HUD has asked state and local governments to identify sites, sponsors, and demand for low and moderate housing. If no single market identified is large enough to interest housing producers in

new technology, the state and local governments are to help assemble consortia of sponsors whose combined market is large enough to attract such interest and new investment. Novi could serve as an excellent host site for innovative housing developed under this program.

In addition to increasing the effective demand for more efficiently produced housing, including industrialized housing, HUD will increase the supply of such housing by making grants for the design and development of new housing prototypes. The Department has requested proposals from firms capable of producing large numbers of rapidly produced units. It will fund the most promising prototypes and later give priority in the use of funds for its regular programs, including those outlined in this section, to projects using successful prototypes developed under "Operation Breakthrough".

Grants for the Demonstration of New Technologies

The Housing and Urban Development Act of 1968's Section 108 added a new research and demonstration program focussing on the need for new technologies in the building of low income housing.

Under Section 108 HUD makes grants to public and private organizations for the development of housing for low income families using new and advanced technologies, including industrialized housing. The Secretary is to approve several plans, each of which shall have a technology and organization with the potential to produce at least 1000 building units a year.

Grants for Demonstration Programs for Low Income Housing

Under Section 207 of the Housing Act of 1961, as amended, the Department of Housing and Urban Development makes grants for the purpose of developing or demonstrating improved means of providing housing for low income families. Public and private agencies are eligible for grants under Section 207. The grant may cover 100 % of the cost of the demonstration project so long as that amount is not over \$ 5 million. This program could be used to finance the new type of coordinating structure needed by a new community to analyze the variety of programs and select and attract those most relevant to the community. This mechanism would work with the different public and private organizations which will participate in the development.

Aid for Land Acquisition and Basic Improvements

Guarantee of Borrowings

1. New Communities Act of 1968

The primary assistance afforded by the New Communities Act is the guarantee by the Secretary of Housing and Urban Development of any bond, debenture, note, or other obligation issued by the new community developer to finance the acquisition and basic development costs of the land used for establishing the new community.

Only private developers are eligible for guarantees. Whether profit-making or non-profit, the developer must obtain approval from the Secretary of Housing and Urban Development on the basis of financial, technical, and administrative capacity to carry out the project. Furthermore, the new community must be shown to (1) be economically feasible, (2) have a practicable plan for financing land acquisition and development costs, and (3) have sound internal planning consistent with comprehensive planning for the area.

The maximum amount of guarantee outstanding at any one time with respect to a single new community project cannot exceed \$50 million. The guarantee would involve the lesser of (1) 80 % of the Secretary's estimate of the value of the property upon completion of land development, or (2) the sum of 75 % of the Secretary's estimate of land value before development and 90 % of his estimate of the actual cost of land development.

Amortization of the mortgage will be scheduled to commence on a date which allows reasonable time for improvement of the land and commencement of sales. This period may be up to ten years, depending upon realistic cash flow projections.

Eligible land development costs consist of those installations or work which the Secretary deems necessary to prepare the land for residential, commercial, industrial or other uses. These would include the costs of grading land and installing sewers, roads and lines for water, steam, gas, and electricity.

Proposals are made to HUD's Assistant Secretary for Metropolitan Development.

2. Title X, National Housing Act

Similar to the New Communities Act in objective and basic workings, Title X is somewhat less liberal. It provides mortgage insurance rather than a guarantee of all approved borrowings, with or without a mortgage.

Only private developers are available for this mortgage insurance.

In general, Title X is somewhat less generous than the New Communities Act. The mortgage insurance cannot cover an amount over \$25 million. The proportion of the total project covered by the insurance must not exceed the lesser of (1) 70 % of the Secretary's estimate of the value of the land when fully developed, or (2) the sum of 50 % of the estimate of the land's value before development and 90 % of the estimated cost of the development.

As with the New Communities Act, the development costs covered by the insurance may include grading, sewers, and utility lines, but may not include buildings not essential to basic land improvement. Amortization provisions are similar to those under the New Communities Act.

Proposals are made to the Federal Housing Administration. At present, there are adequate appropriations for this program.

Grants for Open Space Land

1. Title VII, Housing Act of 1961

HUD makes grants to state and local public bodies to finance part of the costs of acquiring land in urban areas for development or preservation as parks or scenic and recreational areas.

The grant may cover 50 % of the costs of acquiring and, if necessary, developing the land by adding landscaping, roads, walkways, bicycle trails, and basic utilities needed to serve the area. While it cannot include major construction, the grant may finance basic recreational facilities.

The grant assistance is available only if it is needed for carrying out a unified and coordinated open space program as part of the comprehensive plan for development of the urban area. Under this title there was approximately \$ 75,000,000 in fiscal 1969 for open space land grants by the Assistant Secretary for Metropolitan Development.

2. Supplemental Grants Under the New Communities Act

In order to encourage the setting aside of adequate open space in new communities, Congress authorized additional incentive grants to new community developers. In addition to the standard grant of 50% of the costs of land acquisition and improvement, an extra 20% grant may be made for open space land in new communities.

Advance Acquisition of Land for Public Facilities

HUD makes grants to local public agencies to help them finance the advance acquisition of land for public works and facilities. (Section 704 of the Housing and Urban Development Act of 1965).

The applicant must be a local public agency established by one or more states or entities thereof. It must demonstrate the adequacy of comprehensive planning for the area. The grant to the local public body is for the total amount of "reasonable" interest charges on loans or other financial obligations. A reasonable interest charge is defined as 1% above the yield on municipal bonds as stated in the latest Bond Buyer "20 Bond Index". The interest charges can cover the period from the date of loan to the initiation of construction, so long as it does not exceed five years.

Examples of projects eligible for interest payment grants for advance land acquisition are highways, roads, streets, bridges, sewer facilities, waste treatment works, incinerators, water facilities, schools, libraries and other educational facilities, recreation centers, gymnasiums, and public buildings, such as city halls and police and fire stations.

Repayment of the interest grant may be required if the land is not utilized within 5 years or the land is diverted to other uses.

Aid for Public Facilities and Services

Advances for Public Works Planning

In order to encourage advanced architectural and engineering planning for public works HUD advances interest-free loans to public agencies under Section 702 of the Housing Act of 1954.

The applicant must be either a state, a municipality, or another public agency. No private or privately controlled organization is eligible.

The loan is for the cost of preliminary and final engineering and architectural plans for the construction of public works. The project must be in construction within five years. Repayment must be made when construction begins. If repayment is not made, then 4 % interest is charged against balance due.

Public Facility Loans

This provides 40-year, relatively low interest loans to municipalities and other political subdivisions with populations under 50,000 for the construction of needed public facilities. (Title II, Housing Amendments of 1955).

Generally the applicant must be a local public body or state instrumentality. It may receive loans up to 100 % for almost any type of facility except schools. For example, water, sewer, gas, electric systems, roads, municipal buildings, hospitals, and nursing homes may be included. The loan may cover the full cost of the project including land, rights of way, site improvements, planning, construction, and engineering, architectural, and legal fees. The loan is secured by project revenues or tax revenues.

A non-profit private corporation serving a community under 10,000 population is also eligible for loans but for water and sewer assistance only.

Water and Sewer Facilities

1. Grants under Section 702, Housing and Urban Development Act of 1968

This program helps urban communities meet growing needs for water and sewer facilities by making grants to projects consistent with area-wide planning.

Only local public agencies are eligible for grants under Section 702. The grant may cover 50 % of the cost of land acquisition and preparation and the construction of new or substantially enlarged basic public water and sewer facilities. The applicant must show its ability to finance the balance of the costs. If the applicant cannot meet this requirement and has a population under 50,000 it can get a loan under the Public Facilities Loan Program. The applicant receives the grant in installments in accordance with its needs. Disbursement of Federal funds is not available until the applicant has provided its share of the funds. The grant may cover all parts of the water facility except building or household connections and the local distribution or service laterals which direct flow to a building or household connection. The same rule applies for sewers and storm sewers.

The project must be properly planned and necessary for orderly community development. The State or Metropolitan Planning Agency must have the opportunity to review and comment on the application. If there is no action within 60 days, then the project goes directly to HUD.

\$165,000,000 was appropriated for fiscal 1969 to remain available until expended.

2. Supplementary Grants under the New Communities Act of 1968

In order to encourage the building of new communities, the New Communities Act authorized incentive grants to supplement regular Federal assistance for water and sewer facilities. HUD may make a 20 % grant to supplement the usual 50 %.

Grants for Roads

The Department of Transportation's Bureau of Public Roads makes grants to state highway departments to cover some of the costs of state and county road-building.

Only through the initiative and action of a state highway department can county or local roads receive Federal aid. Access roads for a new community thus require both state and county cooperation. If available, the Federal share is 50 % of the costs of acquisition, planning and construction.

Assistance in the form of advances and loans is described above.

Aid for Mass Transportation

1. Grants and loans for Equipment and Facilities

The Department of Transportation grants and loans money to state and local public agencies for acquiring or improving mass transit equipment and facilities. A private transit company may be able to arrange aid through cooperation with a local public agency.

A grant under the Urban Mass Transportation Act covers a maximum of two-thirds the project cost. It is available in full only if there is a comprehensive mass transportation plan for the community. Moderate interest loans are also available from the Urban Mass Transportation Administration if there is adequate security and the applicant meets the planning requirements.

2. Grants for Research and Demonstration Projects

HUD also assists mass transportation programs under the Urban Mass Transportation Act. The Department makes grants for up to 100% of the cost of research and demonstration projects.

These Section 6 and Section 11 grants go to both public and private non-profit agencies. In the past HUD has funded jitney and minibus projects like those which may be necessary for Novi. These grants are made by HUD's Office of Urban Transportation Development and Liaison.

Beautification

The Department of Housing and Urban Development makes rather small grants to encourage park development and beautification programs under Section 706 of the Housing and Urban Development Act of 1965.

The beautification program must be on public land in an urban area, and it must be operated by a local public agency. Federal grants may cover up to 50% of the difference between what the agency usually spends on beautification and the cost of the new program. Therefore, if the agency has never had a beautification program the agency may be reimbursed for half of the entire cost of its new efforts.

The funds cannot be used to acquire land for beautification projects or for normal operating expenses. They may be used for landscaping parks and streets, outdoor furniture and exhibits, recreation facilities, walkways, and street improvements which add beauty to the neighborhood. Underground placement of existing utility wires may also be covered. Typically, grants do not exceed \$50,000.

Neighborhood Facilities

1. Grants for Multipurpose Centers

Section 703 of the Housing and Urban Development Act of 1965 makes available Federal funds for multipurpose centers in urban areas.

An applicant may be a local public agency or a private non-profit organization chosen to run a neighborhood facility for a public agency. In any case, the chief executive of the municipality must approve the project.

The center must be designed for multipurpose use, providing a variety of coordinated services consistent with a comprehensive plan for the community. The center must be located so that low and moderate income residents will have easy access to the services offered. Among services which may be housed in the facilities are youth programs, day care, health and legal services, and adult education.

The amount of the grant may not exceed two-thirds of the cost of land acquisition and development. Priority is given to projects designed primarily to benefit low income families or to otherwise further the objectives of the Community Action Program. Priority in allocation of funds is related directly to the number of poor people in the area; areas with local CAP's also receive preference.

2. Mortgage Insurance for Group Practice Facilities

The Federal Housing Administration now provides mortgage insurance to finance the construction of facilities for group practice medical care. (Title XI, National Housing Act).

The applicant must be a private non-profit or profit-motivated organization which will provide preventive, diagnostic, and treatment services to ambulatory patients. The group must provide a broad range of care, preferably comprehensive; and it must be a true medical group rather than a loose collection of physicians who only share facilities and equipment. The medical group may be linked to a pre-payment plan.

The maximum insurable mortgage amount for a group practice facility is 90 % of value, not to exceed \$5 million. Major equipment may be included in the mortgage. Application is made through a commercial lending institution approved by FHA as an eligible mortgagee.

Mortgage insurance is also available for nursing homes and hospitals under other Federal programs. It seems unlikely that the new community will include such facilities.

3. Grants for Library Construction

The U. S. Office of Education makes annual grants to states for the extension and improvement of public library services. Those funds are, in turn, allocated to local communities to cover part of the costs of salaries, books and other materials, construction and special programs.

Only local public agencies concerned with library services are eligible for these funds. Because of the large number of libraries competing for funds, it seems likely that only a rather small percentage of the funds necessary for construction of a library in a new community could come from Federal sources.

Aid For Housing

Because of MDCDA's extensive experience with Federal aid in the financing of housing, we will not review the several Federal programs available.