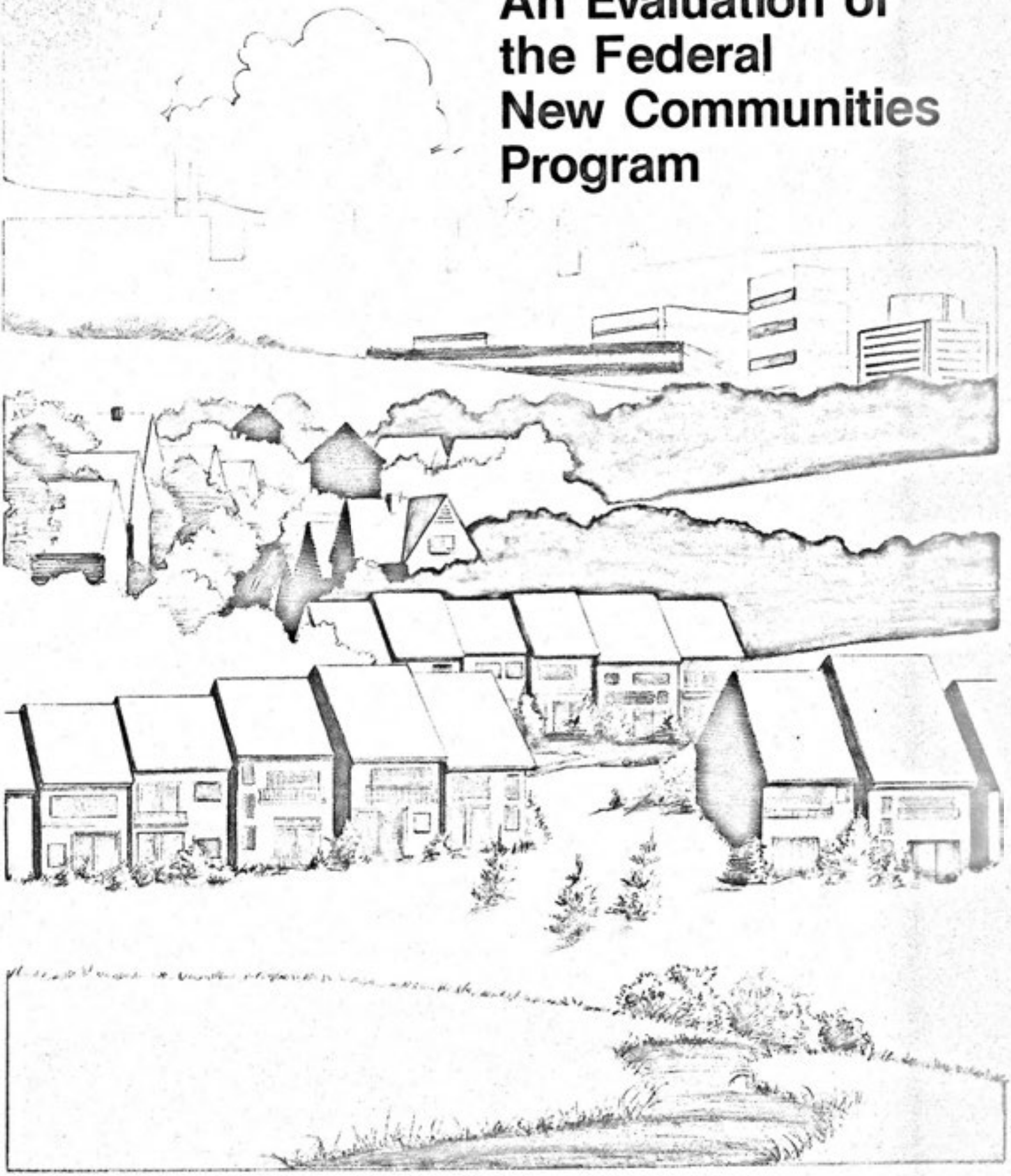
U.S. Department of Housing and Urban Development
Office of Policy Development and Research

An Evaluation of the Federal New Communities Program



Division of
Policy
Studies

An Evaluation of

The Federal New Communities Program

U.S. Department of Housing and Urban Development
Assistant Secretary for Policy Development and Research
Office of Policy Development

The research forming the basis for this report was conducted by the Division of Policy Studies in the Office of Policy Development and Research, U. S. Department of Housing and Urban Development (HUD).

FOREWORD

In 1970, Congress authorized the Department of Housing and Urban Development to undertake a program of new community development. Title VII of the Urban Growth and New Community Development Act provided Federal guarantees for loans for land acquisition and development, and made new communities eligible to receive Federal grants to support the achievement of some of the program's statutory objectives. The program started with a set of ambitious and admirable goals.

However, Title VII turned out to be a more complex and difficult undertaking than had been anticipated. During the early years of the program, a series of unforeseen economic and demographic changes occurred in the United States that created financial problems for most of the Title VII communities. The Title VII structure proved too inflexible to respond to these start-up difficulties and this, along with inadequate management and administration, added to the program's problems. Furthermore, few Title VII developers had the necessary experience and financial resources to sustain these high-risk, large-scale developments through lengthy periods of economic uncertainty. In the end, even with a number of significant achievements credited to the program, these problems surpassed the Federal government's capacity to effectively respond. Consequently, in 1975, HUD imposed a moratorium on new applications and officially terminated the program in 1983.

This evaluation of HUD's Title VII New Communities program looks at what happened during the program's troubled history -- the achievements, the costs, and the lessons that can be learned from this experience. Even though there is no longer any Federal involvement in new community development, alternative approaches to large-scale, mixed use development that are less ambitious, extensive, or complex than the Title VII approach are now being tried in localities across the United States. We encourage these efforts, which place more reliance on the entrepreneurial skills of private developers and local governments to achieve many of the same objectives Congress envisioned for the Title VII program.

Samuel R. Pierce, Jr.
Secretary

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EXECUTIVE SUMMARY

This report documents the accomplishments, costs, and experiences of the Federal government's efforts to support the development of new communities. Specifically, it evaluates the Title VII program of the U.S. Department of Housing and Urban Development (HUD), which began in 1970 and was terminated in 1983.

Background. The relatively unplanned suburban development typical of the fifties and sixties in the United States, and the rapid growth of the nation's metropolitan areas during the same period, generated an interest in creating entirely new communities in order to reduce the social and environmental costs of sprawl. Some architects and planners saw such communities as opportunities to improve on conventional growth patterns, while others supported the concept as a way to improve housing and employment opportunities for the poor and for minorities who were becoming increasingly concentrated in older urban centers.

While the need for different forms of community development seemed apparent to many people by the late sixties, proponents of new communities believed that it would take Federal assistance to encourage such development because:

- The risk was very high. Developing a new, large, comprehensively planned and relatively self-sufficient community was considered by developers and financiers to be an extremely ambitious undertaking, involving the acquisition, development, and marketing of lands for residential, recreational, commercial and industrial uses over a protracted time period.

- The risk was perceived to be even higher where one of the purposes was to develop communities with diverse population characteristics. Providing a broad range of housing and job opportunities, in order to achieve an economically and racially mixed community, was generally thought to challenge some basic conventions about consumers' housing preferences as well as the effects such a mix would have on property values.

- There was a need for long-term financing. Because of the long period of time before any returns on investment could be realized, developers needed a type of financing that would enable them to absorb heavy initial costs and to sustain a reasonable development pace in the face of somewhat unpredictable circumstances and market conditions over a twenty-year-or-so period.

o In the late sixties, capital for new community development was generally not available. In seeking financing, new community development had to compete with other, less risky investment opportunities. Although early proponents of new communities assumed that such development was an attractive alternative to conventional residential development, and would be profitable in the long run, financial institutions and corporations had become reluctant, by the late sixties, to commit themselves to such ventures. In part, this unwillingness to provide investment capital stemmed from the financial crises occurring in several private new communities that were underway at the time.

Therefore, to encourage the realization of desired public goals -- balanced, orderly growth, high quality community design, economic and racial integration, and innovative planning and development practices -- and to reduce the investment risk associated with new community development, public incentives and support were sought. This came in the form of a succession of Federal programs, beginning in 1965, which were administered by HUD.

The Title VII program. Title VII of the Urban Growth and New Community Development Act of 1970 was the major program supporting new community development. It made available Federal loan guarantees for debt incurred in land acquisition and development; and it authorized certain types of grants. By 1973, loan guarantees had been extended to developers for thirteen new communities.

(A) Loan guarantees. Loan guarantees were believed to be particularly advantageous because they did not involve a direct appropriation of funds and, therefore, appeared relatively costless. The financing arrangements suggested a self-sufficient, self-contained program in which the developers would repay the loans, with interest, through revenues generated by land development and sales, and fees would be paid to HUD to cover some of the administrative costs of the program. These arrangements also seemed appropriate to the indirect role envisioned for the Federal government: by relying on private financial institutions to provide loans to developers, backed by the Federal guarantee, and on private developers to select the locations for new communities, the government would primarily be a distant public partner, stimulating and facilitating the private development process by underwriting the loan.

(B) Grants. A different type of risk was believed to be associated with the achievement of some of the program's statutory objectives, such as creating a community with diverse population characteristics, stimulating innovation, and not being a financial drain on local governments in whose jurisdictions new communities were to be located. To meet these objectives, an additional financing mechanism -- grants -- was authorized to supplement the loan guarantees.

As it turned out, some of the categorical grants that had been authorized in the original legislation never materialized. Later, however, with the enactment of the Housing and Community Development Act of 1974, new communities became eligible for block grants to help to subsidize the developers' costs.

(C) The Title VII communities. Within two to three years after the new communities were started, most of them ran out of funds. In 1975, HUD decided that no further new commitments would be made under Title VII and that an effort would be made to support those communities with some potential for financial viability and to dispose of the others. In 1981, the decision was made to close out the entire program by the year 1984.

Twenty-year projections for the thirteen new communities envisaged a combined population of over 785,000 persons, about 250,000 housing units, and over 200,000 jobs. As of 1983, they had 52,916 residents, had built 19,856 housing units (3,518 of which were subsidized), and had located within them 15,403 permanent jobs.

Program evaluation. Did the Title VII program achieve what Congress and the public had intended? Analysis of Census and program data for the thirteen Title VII communities, field research in four of them, and discussions with numerous new community developers and other urban specialists, were used to assess the program.

The basic conclusion of this study is that, while Title VII accomplished several noteworthy objectives, it represented a costly and financially inefficient way of achieving high quality physical development, a balance of land uses, and communities with diverse population characteristics. This conclusion is based on an assessment of the program using the following criteria: (a) the extent to which Title VII communities met their stated goals; (b) how the communities compared to other new, non-Federally subsdized conventional developments and to privately financed new communities; and (c) the costs of the program's achievements.

(A) Meeting stated objectives. The goals of the Title VII program were ambitious. They were to: provide balanced, orderly development in order to create a desirable physical and social environment; increase the choices of living and working locations for low- and moderate-income and minority households; encourage innovative community development practices and technologies; and contribute to the welfare of surrounding areas. A review of actual achievements, to date, reveals that a number of the new community developers, especially those who were able to sustain consistent housing production rates, have been able to meet some of these goals, particularly those related to living choices and to the new communities' effects on surrounding areas.

-- Living choices. Even though not at the volume anticipated, about one-half of the Title VII communities provide the proportion of assisted housing units that was planned, a mix of rental and ownership units, and affordable, lower-priced housing for their areas. In these communities, developers generally attempted to integrate different housing types, and households from a range of income levels, while sustaining those physical development features that are characteristic of new communities.

-- Effects on surrounding areas. Overall, the more developed Title VII communities have had positive impacts on the environmental quality and fiscal welfare of surrounding areas.

Yet none of the Title VII communities achieved its anticipated growth rate, only one did not default on its loan payments, and program goals related to balanced development, working choices, and innovation have generally not been, and are not likely to be, met without additional capital infusion.

-- Balanced physical development. Only three communities have achieved a relative mix of land uses in their developed acreage, effectively staging residential and non-residential development to reach a mix that approximates their original plans. Most have not yet set aside land from development in the proportions that had been planned, and only four communities have achieved the residential densities originally planned.

-- Working choices. Only four communities have a relative balance of jobs and households, and the median journey-to-work time for all Title VII residents is the same as the national average. This indicates that the Title VII communities have not provided sufficient or appropriate jobs for their residents, allowing them to work close to where they live.

-- Innovations. Although many were planned, only a small number of technological, design and organizational innovations were carried out and, of those that were, few were unique to the Title VII program.

(B) Title VII communities compared with other types of development. Although several goals of the program are not being achieved, there are indications that some Title VII communities have improved upon local growth patterns: for example, on two measures of physical development and economic mix, Title VII communities do better than other types of communities. When they are compared to less comprehensively planned new suburban development and to privately financed new communities in their same market areas:

-- Most of them improved on urban sprawl by, for example, achieving more efficient land use;

-- In at least three of four areas that were studied in detail for this report, the Title VII community located there has more lower priced housing and more rental housing opportunities;

-- In all four of the areas, the Title VII community is somewhat more economically diverse and has substantially higher proportions of lower-income households.

However, there are few notable differences between Title VII and private new communities with respect to physical design and innovations. Also, partly because some are more mature developments, the private new communities are more effective than their Title VII counterparts in providing a mix of land uses (particularly for commercial and industrial purposes) and more extensive economic development.

(C) Program costs. Analysis of the costs of the Title VII program shows that (1) it resulted in a substantial net financial loss to the Federal government; and (2) in a majority of the new communities, the program goals that were achieved were accomplished at high cost.

(1) Total program expenditures. The net costs of the Title VII program to the Federal government were very high, considerably higher than had been anticipated at the program's inception. Overall, they are estimated at over $561 million. This includes repayments of defaulted loans ($298 million), accrued and defaulted interest ($147 million), grants ($137 million), and administrative costs ($75 million), and takes into consideration recovered fees and payments ($96 million). As is evident, the repayment of principal and interest on the guaranteed loans is, by far, the largest single cost, re-emphasizing the high-risk nature of the Title VII program.

Another way to measure program costs is to divide net Federal expenditures by the number of dwelling units in the thirteen communities. Based on total expenditures, the current subsidy cost per dwelling unit is $28,455, which is nearly one-half the median value of the housing units ($64,489) in the Title VII communities. If expenditures are adjusted to reflect only that portion of new community acreage used for residential and non-saleable (generally open space) purposes is considered, the subsidy cost per dwelling unit is $17,496. As communities continue to develop, these per-unit costs will decline: if the number of housing units projected by the current developers of these communities through the year 1990 is considered, the adjusted subsidy cost per dwelling unit would be $6,917. While this amount is less than the subsidy to date, it significantly exceeds what the subsidy would have been had all of the communities developed according to plans.

(2) Individual community costs. Because there is considerable variation in the extent to which the thirteen communities achieved the program's purposes, the costs of each community can be looked at individually in relation to achievements. On this basis, nine of the communities have not been very successful in achieving the program's objectives, and were very costly for what was achieved. Four of the nine, in particular, produced so few housing units that their collective subsidy cost per unit is over $110,000.

Four other communities were relatively effective in achieving a range of development features sought by the Title VII legislation, and they also had relatively low subsidy costs per unit compared to the others

($10,057). What is not known, of course, is whether, now that Title VII has been terminated, these communities will develop in ways that continue to meet the statutory objectives of Title VII.

Why these results? Several factors -- including the effects of two national recessions, the Title VII structure of development financing, delays caused by HUD review and monitoring processes, varying developer capabilities, and more project-specific factors such as poor locations and environmental problems -- combined to prevent Title VII communities from achieving a satisfactory rate of development. As a consequence, none of the thirteen communities reached its projected population size or employment base and all, therefore, experienced difficulties in maintaining their financial viability. Nine developers defaulted on their loans and their communities were acquired and sold by HUD. Three others also defaulted and, without acquisition, their properties were transferred to developer-entities that in two cases included the original developer. Finally, HUD terminated its relationship with the one developer who did not default on his loan.

The normal difficulties involved in any new community development were aggravated, in Title VII, by several factors:

-- The timing was poor. Not only did a severe recession occur shortly after the program started, but certain demographic projections of regional and metropolitan population growth that were commonly accepted in the sixties failed to materialize in the seventies. Those projections supported the assumption that there would be strong demand for new community development in the 1970s.

-- Some communities were poorly located. Several of the metropolitan areas that were selected for new community development, as well as specific sites within metropolitan areas, turned out not to be as attractive for residential and/or industrial purposes as had been anticipated. These sites were chosen by developers for reasons that are unique to each case; what they had in common, however, were overly optimistic developer forecasts about future market demand for these locations. HUD, acting in a reactive capacity and with limited staff, was unable to validate or sufficiently discount such forecasts, and also was reluctant to turn down proposals which developers had spent large amounts of money preparing.

-- Some developers lacked capacity and resources. Large-scale, comprehensive development which involves mixed uses is a difficult undertaking, even for experienced developers; but several of the Title VII developers, even though committed, for the most part, to the goals of the program, did not possess adequate experience or financial resources. In some cases, developers had insufficient equity invested in their communities.

-- The program suffered from inadequate management by HUD. The developers' burden was made heavier by a lack of continuity in program leadership within HUD and, eventually, by the deterioration of the "partnership" relationship between HUD and the developers. The relationship that evolved added costs and complexity. Furthermore, difficulties in program coordination and other administrative problems, such as inadequate numbers of experienced HUD staff in the early years when the bulk of the applications was received, led to frequent delays and insufficient oversight.

-- The program's financing structure did not allow for a flexible response to start-up difficulties. The developers' need to make payments on fixed development costs, including interest on their loans, before they were able to achieve their anticipated rate of development or a steady, positive cash flow, resulted in financial problems early in the development process.

The Title VII experience. What has been learned from the Title VII experience? Comparisons with other forms of development, both planned and less comprehensively planned, indicate that some community goals can be achieved through the Title VII approach. It did, for example, produce a number of communities which have a greater mix of income groups than is generally found in other types of new residential development or private new communities. However, in discussions with planners, local officials, developers, and program directors who were contacted for this study, there appeared to be little current support for this approach to new community development.

One reason for this is that the partnership between the private and public sectors, as structured by Title VII, clearly did not work. In large part, this was because the program was administered in much the same way as a conventional Federal categorical program involving only the public sector. In concept and operation, Title VII failed to account for the financial and management complexities of building new towns in conjunction with a private sector partner. As a consequence, neither partner's needs were adequately met.

There are alternative approaches to new suburban and new town development that are not as ambitious, extensive, or complex as that undertaken under the Title VII program. Developers and local governments in several localities across the country are embarking on such ventures and are undertaking smaller-scale projects. What remains to be seen is whether these alternative approaches will be successful in achieving the types of development that did not fully materialize under the Title VII program.

INTRODUCTION

The term "new community" generally refers to a planned, large-scale, mixed land-use development (which, some would argue, has a socially diverse population), controlled by a single developer. Such communities have been proposed as alternatives to conventional development for many years and in many countries. Their advocates contend that they are more likely to produce a range of valuable social, environmental, and economic benefits than more conventional, less comprehensively planned development.

Title VII of the Urban Growth and New Community Development Act of 1970 has been the major vehicle of Federal involvement in new community development. Under this program, administered by the U.S. Department of Housing and Urban Development, thirteen new community developers received guarantees for their debts for land acquisition and development. By 1973, however, the financial viability of their communities had become a serious concern; by 1975, the Department decided that no further new commitments would be made under the Title VII program. Following this moratorium, there was an effort to identify and support those communities with some potential for financial viability and to dispose of others. In 1981, there was a decision to close out the program by the year 1984.

The Purpose of This Study

The purpose of this study is to describe what happened as a result of the Title VII program, and to offer some explanations for why most of the communities supported by this program failed to meet their financial obligations.

Now that Federal involvement in new community development has been terminated, after 13 years of experience with Title VII, it is important to document:

- The accomplishments and shortcomings of the program;
- Whether program accomplishments would have occurred anyway, had there been no Federal support for new community development;
- The causes of the financial difficulties that were experienced by the new communities;
- The costs of the program; and,
- The lessons that can be derived from this experience.

The Organization of This Report

Chapter One describes the characteristics of new communities that distinguish them from other types of development. It notes the developmental, social and political context in which Federal new communities legislation evolved in the late 1960s and early 1970s, and elaborates on the rationale behind Federal support for such communities. The chapter states the statutory goals of the Title VII legislation, and outlines the basic financial mechanism that was used to stimulate new community development.

Chapter Two, dealing with the implementation of Title VII, describes the basic structure and evolution of the program, from regulations through administration. It sets the framework for understanding what resulted from the program.

The next four chapters focus on outcomes. Chapter Three provides brief descriptions of each of the Title VII new communities and discusses the rate of development that was achieved. Chapter Four examines the reasons that most Title VII new communities failed to remain solvent. Chapter Five assesses the performance of the new communities in meeting the objectives of the program: What was achieved relative to what was planned? And at what cost? Chapter Six compares four Title VII communities with less planned new development and private new communities in their market areas to determine what type of development would have occurred without Federal assistance.

Chapter Seven presents the major conclusions to be drawn from this evaluation of the Title VII program.

Chapter One

THE EVOLUTION OF THE FEDERAL NEW COMMUNITIES PROGRAM: GOALS AND PROGRAM STRUCTURE

Title VII of the Urban Growth and New Community Development Act of 1970 is the statutory authority for the Federal government's involvement in new community development. The preamble to the Act states the major reasons for providing Federal financial assistance to new communities; based on the preamble, the legislative history of the Act and, ultimately, on program regulations and practice, these reasons can be combined into four major program goals. 1/

The goal of providing balanced, orderly physical development and a more desirable social environment. "Balanced development" is a complex objective that incorporates two principal subgoals: (1) efficiency in land use and the consumption of natural resources, including energy; and (2) a physical living environment that meets human needs and minimizes adverse environmental impacts. A comprehensively planned and carefully phased development process was seen by those who supported a new communities program as the means by which an internally balanced and physically integrated community could be created.

Title VII specified that, to be eligible for Federal support, a proposed new community needed to provide "an alternative to disorderly urban growth." 2/ Regulations required that each sponsored new community have a general plan and program designed to create and maintain an attractive and viable community environment responsive to human needs. HUD, then, evaluated these plans for: the suitability of their sites for proposed uses; harmony with surrounding development; arrangement of land uses and transportation to promote internal harmony and accessibility; preservation and enhancement of the natural environment; and adequacy of controls and incentives for attractive land use, urban design, and architecture. Attention was also given both to human services (especially education) and to forms of community governance and citizen participation. In addition, the location of necessary and desirable commercial facilities and services was to have been facilitated by the development plan, although the developer was not required to provide them directly.

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1. The portion of the preamble to Title VII that states the program's goals is reproduced in the appendix to this report.

2. U.S.C. 42 paragraph 4513.

In short, comprehensive long-term planning was intended to produce a living environment that was superior to conventional development in its internal efficiency, its preservation of the natural environment, and its capacity to meet human needs, thereby creating a more desirable social environment.

The goal of creating communities that increase the choices of living and working locations for low-income and minority people. The New Communities program did not directly provide assistance for low- and moderate-income housing. However, it was the intention of Congress to create communities that were economically and racially integrated. The program regulations required that a new community contain "an adequate range of housing and a variety of housing types for both sale and rental for people of all incomes, ages, and family composition, including a substantial amount for people of low and moderate income." 1/ The desired mix of housing was to be determined on the basis of existing and projected household mix and housing supply in the region and market area as well as the income and family characteristics of people likely to be employed in the new community. Further, if the community were developed in stages, then "sites for low- and moderate-income housing were to be included in every major residential stage."

Housing types and price ranges were to be distributed within a new community so as to prevent segregation of, and afford full participation by, residents of different economic, social, and racial backgrounds. Developers had to assure compliance with fair housing and other Federal non-discrimination statutes; they also were required to formulate and implement affirmative action programs to help to realize these objectives. To make this diversity of housing types and prices feasible and practicable and to assure the economic soundness of the entire community, provision was to be made for locating within the new community a diversity of industries and types of occupations. To complement the availability of low- and moderate-income housing, the program regulations required that employment opportunities be available within or near the community for a full range skills, with provisions for manpower training and career mobility. The intent of the program was to ensure that all persons who worked within the community had the opportunity to reside there as well.

The goal of encouraging innovative community development practices and techniques. New communities were viewed by their proponents as potential laboratories for new practices and technologies in all aspects of community development, including: housing design and construction (both materials and methods); land use and transportation planning;

1/ 24 CFR/10.5, 6,/ (Subpart B). All references in the text to regulations are to this subpart unless otherwise indicated.

the provision of community facilities and services; and governance. It was also assumed that the more successful innovations would be adopted by other communities, thereby enhancing the quality of community development elsewhere.

The goal of contributing to the welfare of surrounding areas. New communities were to be "economically feasible" and, by implication, financially self-supporting. It was not intended that they would impose a fiscal burden on surrounding areas but, rather, that they would, in time, make a positive contribution to local fiscal capacities.

Also, the planning for each new community was to have been consistent with a detailed comprehensive plan for its region and "reflect consideration of any economic development programs, functional plans, and public works programs of relevant Federal, State, regional, city, or county agencies." More generally, it was to have "a favorable impact" upon the growth and development of the area within which it was located, in terms of: conserving land; minimizing transportation problems; extending the range of housing choices for all who lived, or would in the future live, in the area; promoting needed economic development; and creating new job opportunities.

The New Communities Concept

By pursuing this particular set of goals through a public-private partnership, the Title VII legislation provided a fresh interpretation of the new communities concept, a concept that had been evolving in Europe and the United States for almost one hundred years. Yet, it can still be debated whether an identifiable new community type has emerged in the course of this evolution. In a major study of new communities done in 1976, researchers at the University of North Carolina considered no less than ten criteria when selecting a sample of communities which would qualify under the new communities designation. 1/ The criteria, many of which parallel elements within the four Title VII goal areas, are: unified ownership; the existence of a master plan; self-sufficiency; self-determination; housing choice; social diversification; environmental preservation and protection; commitment to urban design; and ease of access and movement. Although these criteria generally distinguish new communities from other large-scale development, in some cases proported "new communities" have fewer of these characteristics than conventional developments. Among new communities, then, there is a range of adherence to the new communities concept.

The evolution of the concept. Some of the essential new community elements specified in the North Carolina study and occurring in the Title VII legislation are directly traceable to the ideas of Ebenezer Howard, a late-19th century planner, who is usually credited with the

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1/ Raymond J. Burby and Shirley Weiss, New Communities, U.S.A., Lexington, Mass.: Lexington Books, 1976, Chapter 2.

birth of the modern new town concept. The new community envisioned by Howard and his early disciples was to have been built according to a complete, pre-designated plan combining a natural setting with pleasant working and living conditions. In addition:

- The scale was to have been small enough to permit easy socializing without congestion.

- It was to have been independent of existing, large urban areas and to have been self-contained and self sufficient, minimizing the need for in- and out-commuting.

- There was to have been diversity in the population served and the occupations included. 1/

Howard's vision gave rise to the early new towns of Letchworth and Welwyn in England, and greatly influenced the European and American architectural and planning professions. The garden city concept was extended, in various countries, to the construction of new capital cities, to new towns intended for the exploitation of natural resources, to assistance to depressed regions, to open up undeveloped areas, to planned extensions of existing small towns, and to channel expansion in metropolitan areas in order to achieve more orderly or planned growth. 2/

In the United States, Radburn, which was privately sponsored in the late 1920's, and the government-sponsored Greenbelt towns of the New Deal, were hailed for their good design. The depression-era greenbelt towns actually represented early direct Federal involvement in community building, developed as they were by the Federal Resettlement Administration. These communities, however, lacked an industrial base and, therefore, did not meet the new community criterion of self-sufficiency. Privately built new communities in the late 40's and 50's in the U.S. were also essentially suburban residential developments built primarily by residential construction firms (e.g., Levitt and Sons, developer of several Levittowns). During the 1960s, there was a reawakening of interest in new communities among public planners and private developers in the United States. Private capital, particularly from large corporations, banks, and insurance companies, supported new communities such as Irvine and O'Neill Ranch in California, Reston in Virginia, Lake Havasu City in Arizona, and Columbia in Maryland. These new towns tended to be larger

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1/ Ebenezer Howard, Garden Cities of Tomorrow; and New Towns and the Suburban Dream, edited by Irving Lewis Allen, National University Publications, 1977, p. 62ff.

2/ Harvey S. Perloff and Neil C. Sandberg (eds.), New Towns: Why -- And for Whom, Praeger (New York: 1973), v.

than conventional residential developments and some had a mix of land uses.

The stimulus for Title VII. It is useful to describe briefly the developmental, demographic, social and political context in which the Federal government initiated the New Communities program in the late-1960s and early-1970s.

(A) Development and demographic trends. Two overriding trends of the 1960s provided a stimulus for the Federal New Communities program:

- o the sprawl pattern of development resulting from non-comprehensive, small-scale growth; and,
- o the increasing suburbanization of middle- and upper-income (usually white) households, resulting in the increasing concentration of low-income (usually minority) households in central cities.

Among other things, the Title VII version of the new communities concept was heavily grounded in the search for alternatives to "sprawl" or conventional fringe development, the most common and dominant form of development in the U.S. today. The environmental costs and inefficiency of sprawl development, and the segregated living environments it created, prompted concern.

Within a short period in the late 1960s, five major reports called for greater Federal involvement in planning for future urban growth and the establishment of new Federal programs to help shape that growth. 1/ These reflected what appeared to be a consensus of experts that the U.S. population would continue to grow rapidly and that growth would concentrate in metropolitan areas. One of the reports recommended creation of 100 new communities averaging 100,000 people each, and 10 new communities of at least one million each. 2/ A representative of the American Institute of Architects urged the Congress, in 1970, to act on this recommendation with "the greatest possible speed" because, "at the time of the 1960 census we knew about the pending population

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1/ The five reports were issued by the President's National Advisory Commission on Rural Poverty, the National Commission on Urban Problems, the Advisory Commission on Intergovernmental Relations, the American Institute of Planners, and the National Committee on Urban Growth Policy (representing the National Association of Counties, National League of Cities, U.S. Conference of Mayors, and Urban America, Inc.).

2/ "The Quality of Urban Life," Hearings Before the Ad Hoc Subcommittee on Urban Growth, Committee on Banking and Currency, U.S. House of Representatives (Washington, D.C.: 1970).

explosion. We are now in the midst of it." 1/ Another urbanist thought that this was unrealistic; besides, "by the time we build the 100 new cities the 300 million will already be there and we would be starting on our 400 million." The expectation of continued population growth and strong demand for new residential development thus fueled interest in proposals for both private and government-sponsored new communities.

Expert opinion in the late 1960s also emphasized the costs of unplanned suburban development. Reflecting these sentiments, HUD Secretary Romney, for example, reported to Congress that "disorderly growth in the areas that surround our cities is fast destroying the open space, the fresh air, and the pleasant surroundings that originally attracted people to these suburban areas," It was his view that, "the problems of slum and blight, unequal economic and social opportunity, air and water pollution, clogged traffic arteries, disappearing open spaces, destruction of natural resources -- all these have been aggravated, if not directly caused by the way our national growth took place."

As advocated by supporters of a new communities program, the role of the Federal government was not just to help house the growing number of metropolitan residents but to show citizens and the private sector how it could be done better. They proposed to build communities that would be models of efficient and aesthetically pleasing design and social and economic integration. One element of this "model" was the belief that, for a development to achieve the goals of a new community, it needed to include "most of the activities normally associated with a city or larger town." In addition to housing, this meant providing balanced and harmonious facilities for commerce, industry, and recreation, and creating an attractive environment for those who live, work and shop there. These ideas of self-containment and internal balance, and the related concept of large-scale integrated land development, derived from the European new towns experience and from abstract principles of town planning endorsed by many professional planners. The assumptions regarding scale presumably derived also from expectations regarding continued population expansion.

In sum, Title VII, as well as its immediate predecessor, Title IV of the 1968 Housing and Urban Development Act, can be viewed as part of a public and private response to the unplanned, often explosive, development of suburban areas following World War II, coupled with an expectation of further metropolitan growth. At the same time, the legislation was a response to the social inequities created by the suburbanization of the middle class.

1/ Ibid., p. 34.

(B) The social context. In the wake of suburbanization, lower-income, usually minority, households were being left behind in the central cities, a condition further exacerbated by the fact that manufacturing, with its skilled and unskilled jobs, was beginning to migrate to suburban locations and sometimes to new regions at a rapid rate. This pattern of segregation, both racial and socioeconomic, was firmly established by the mid-sixties in large metropolitan areas of the North. The growing imbalance between older central cities and new suburbs in the need for services and the tax bases to support them was a cause for concern. In addition, the pollution and other negative environmental aspects associated with the rapid spread of sprawl development drew increasing criticism.

Title IV became law in the same year, 1968, that saw passage of the Section 235 and Section 236 housing construction programs and the Fair Housing provisions of the Omnibus Civil Rights Act. What tied these initiatives together was not so much a coherent urban policy as the belief that the national government ought to and could play a direct role in improving local communities and solving social problems. Foremost among the problems to be solved were those of economic inequality and racial injustice. The Federal New Communities legislation may not have been a direct response to the civil rights movement or to the urban riots of the late 1960s, but some people did view the development of new communities as "a principal device for bringing about racial integration." 1/ Many advocates of a Federal new communities program saw expansion of housing opportunities for low- or moderate-income households and promotion of economic and racial integration as important justifications for a Federal government role in sponsoring new communities.

(C) The political context. The main support for new community development came from planning professionals and urban specialists, as well as from certain public interest groups. 2/ Some large-city mayors also supported the legislation, mainly out of concern for another provision of the same Act dealing with a national urban growth policy, but the National League of Cities and U.S. Conference of Mayors initially opposed it (the latter because it was believed that new communities would "tap central cities of poor people who rise into the middle

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1/ "The Quality of Urban Life," Hearings Before the Ad Hoc Subcommittee on Urban Growth, Committee on Banking and Currency, U.S. House of Representatives (Washington, D.C.: 1970), p. 535.

2/ Francine F. Rabinovitz and Helene V. Smookler, "Rhetoric Versus Performance: The National Politics and Administration of U.S. New Community Development Legislation," in Perloff and Sandberg, Op. cit.

class, leaving behind those who do not make it"). 1/ Some mayors took the view that even balanced new communities would only serve to further cripple ailing cities.

The effort to build a Congressional coalition in favor of new communities legislation meant that certain issues were never resolved, such as whether to build new towns on the periphery of metropolitan areas or to build new-towns-in-town; whether to emphasize improvement of the physical quality of suburban, subdivision development or to emphasize the provision of low-cost housing in suburban areas; and whether to foster racial, as distinct from class, integration in new communities. 2/ The legislative process left these decisions to be settled later by those who would administer the program.

(D) Emphasis on public-private partnerships. While many proponents of the new town concept believed that community development should be centrally controlled, the new communities program as it developed relied on the private market to choose sites, to initiate development proposals, to manage the development process, to construct and market the housing, and to provide the bulk of funds. The Federal role was limited to: providing a loan guarantee, which reduced the risk to investors; providing loans and grants for community facilities and physical infrastructure; and reviewing applications to establish that proposed communities conformed to program goals. The American approach, thus, did not adopt a 'national unitary control' model similar to the new towns program of Great Britain, but relied on a very limited public program designed to encourage private involvement.

To some extent, reliance on the private market may have reflected a lack of Federal government experience in managing large-scale planned developments. There had been no Federal involvement in new town development since the 1930s and 1940s. As a result, there was little government expertise in directing such efforts and no established set of working relationships with private developers or the financial community. Despite these limitations, a majority of the Congress and, apparently, a consensus of urban experts believed that there was a convincing rationale for at least a limited Federal role in developing new communities.

Rationale for Federal Involvement

Two distinct lines of reasoning were offered by advocates of Federal involvement in new community development. One dealt with

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1/ David Arnold, "What New Towns Ought To Be," Public Management, September, 1966, p. 243.

2/ Rabinovitz and Smookler, Op. cit., p. 107.

barriers in the capital market, the other with achieving social goals.

Barriers in the capital market. One argument for Federal intervention was based on the belief that there were inherent barriers, in the structure of private markets, to long-term development of large-scale, comprehensively planned communities. Therefore, Federal involvement was believed to be required to reduce these barriers. It was the consensus of those testifying at hearings of the House Subcommittee on Urban Growth, chaired by Congressman Thomas L. Ashley, which preceded the Title VII legislation, that Federal intervention to bring about the development of new towns was critical because the private market response was not adequate to the task. Left to itself, the argument went, the private market had produced only a handful of examples of large-scale, comprehensively planned developments. Also, during the 1960s, the private sector was reassessing the profit potential of new community development: both Reston and Columbia, the premier private new communities, were experiencing financial difficulties.

Prior to its enactment, many of those who testified on behalf of Title VII saw the Federal role as one of inducing developers to undertake an activity which was likely to be profitable in the longer run but which had high opportunity costs relative to other investments in the short run. Federal involvement was intended to help overcome these interim problems created by a protracted period of heavy front-end carrying costs for land purchase and infrastructure, inherent in the new community development process, long before any return on investment could be realized. 1/

Achieving social goals. A second argument for Federal intervention was the need to foster and finance a new form of community development. By the time of the Ashley hearings, some private developers had attempted

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1/ Whether or not capital market barriers, in fact, existed, is a matter of debate. A 1975 HUD study of the New Communities program concluded that such perceived barriers do not seriously reduce large-scale development, but do alter its form, making it more like typical suburban development. It is clearly not the scale of the enterprise, or the size of financial need that would pose a problem to capital markets, since the kind of underwriting involved in new community development is not unique with respect to the amount of debt involved. The argument made at the time that the program was initiated (which cannot be conclusively demonstrated) was that the long-term nature of new community development, along with the heavy expenditure of costs, up front, for infrastructure, services, and amenities, increased risk and delayed return beyond that which was acceptable to most lenders. See U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Evaluation of the New Communities Program, Chapter II (Washington, D.C., 1975).

to achieve certain new town goals without public subsidies. But, Federally sponsored new communities were intended to pursue a broad range of goals: to be racially and socio-economically heterogenous; to provide jobs to residents across a wide socio-economic spectrum; to incorporate a concern for environmental quality; and to demonstrate innovations in planning and practice. To the extent that a new community attempted to achieve all of these goals, the risks of the venture were perceived to be high.

In particular, few residential developments of any sort have been designed, from the beginning, to be integrated economically and socially. Private new community developers, with few exceptions, have focused their marketing efforts on a homogeneous segment of the market, usually middle- or upper-income households. The same is true of those who have developed planned unit developments (PUDs) which, like new towns, involve comprehensive land-use planning, but are generally smaller and lack a jobs base. The ability to create and successfully market a new community with a range of housing was clearly a less-tested proposition. Thus, it was argued, there was a need for Federal help.

In sum, alleged capital market barriers and the greater risk associated with fostering social goals were cited, again and again, as the justifications for Federal intervention.

The record prior to Title VII. The Ashley Subcommittee also had the benefit of the record provided by predecessors to the Title VII program. In 1964, the Johnson Administration had introduced the first Federal legislation intended to support private, large-scale planned suburban development. 1/ This limited form of new communities legislation, passed in 1965, is known as Title X of the National Housing Act of 1934. The Act defined an eligible new community as a development that would make a substantial contribution to sound regional growth, and authorized the HUD Secretary to insure first mortgages to be executed by non-private mortgagors (such as State land development agencies) for land to be developed and for improvements other than buildings. In 1966, Congress extended the Secretary's authority so that private developers were also eligible for mortgage insurance. However, the Title X program, as administered by FHA, produced only a limited amount of modest-scale, fairly conventional development rather than new community development. A Presidential Task Force concluded, in 1969, that its incentives were too weak and improperly

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1/ This brief legislative history is based on the following sources: Monica McAdams, New Communities: Problems and Potentials, Appendix A, "Legislative Background," New Communities Administration, U.S. Department of Housing and Urban Development (Washington, D.C.: December, 1976); Hamilton H. Boykin and James C. Brincefield, Jr., "The Federal New Communities Program: The Legislation, Processing and Documentation," The Urban Lawyer (Spring , 1972), pp. 189-205; and Rabinovitz and Smookler, Op. cit.

structured to deal with the larger front-end expenditures and longer-term erratic cash flows associated with large-scale community development.

Reflecting the work of the Task Force, the Johnson Administration, in February, 1968, proposed to Congress another New Communities program. It authorized the HUD Secretary to guarantee obligations, of up to $50 million for a single community, undertaken by private developers for land acquisition and development. It also provided for additional forms of assistance, such as planning and infrastructure grants to State and local governments and public facilities loans to developers. Although passed in July, 1968, as Title IV of the Housing and Urban Development Act of 1968, supporters of the concept came to believe that further legislative action was required. In the absence of an Administration proposal, Congressional advocates took the initiative, introducing bills that resulted in the enanctment of Title VII.

Alternative ways to induce new community development. A variety of alternative mechanisms to stimulate new community development had been placed before the Ashley Subcommittee prior to the passage of Title VII. To many of those testifying, general revenue sharing had taken away the opportunity that Federal subsidies provided to structure long-term solutions to urban growth problems. Those critical of unrestricted revenue sharing as a mechanism to achieve these objectives believed that such revenues would not be used locally on problems of the highest national priority. Properly structured incentives, it was felt, were necessary to create new cities which would bring about the construction of new housing in large quantities, including housing alternatives for central city families of varied incomes, and provide jobs located where residents lived.

Other interventions, partially inspired by European examples, were also proposed. One such land-banking proposal involved Federal loans to enable State and local governments to acquire and zone vacant suburban and exurban land, in advance of the need for it, in order to encourage eventual development along new town lines. Imposing new town patterns of development on land which had already achieved urbanized values, it was argued, would entail significant land costs.

Title VII financial incentives. These alternatives, however, were passed over in the formulation of the final form of the Title VII program. The types of Federal financial assistance authorized by Title VII were loan guarantees, supplementary grants, 1/ and a revolving fund. The primary form of financial assistance under both Title VII and Title IV, however, was the provision of a loan guarantee for new community developers.

1/ Later, following enactment of the Housing and Community Development Act of 1974, new communities were also eligible for Title I discretionary funds.

(A) Loan guarantees. The choice of guarantees rather than grants as the primary funding mechanism was based on the assumption that new communities were economically viable in the long run, but that they required "patient money" to get the developers past the early lean years. It was assumed that revenues would ultimately be sufficient to pay back the financial obligations; the long-term financing was designed to fill a credit gap created by the withdrawal of insurance companies and other major lenders from new community financing and to assure loans at more reasonable rates and terms than might otherwise be made available.

The HUD Secretary was authorized to guarantee the bonds, notes, and other obligations issued by or on behalf of private new community developers. For private developers, guarantees were limited to 80% of the value of real property before development and 90% of estimated land development costs, but not more than $50 million per community. The loan guarantee was to be based on a finding by appraisers, in concurrence with HUD staff, that the new community was an acceptable risk.

(B) Grants. It was anticipated that the largest sources of direct expenditure for Title VII development would be from supplementary grants for infrastructure development and from discretionary housing assistance funds. New communities were to rely upon existing Federal grants for assistance, with an extra incentive made available to encourage local governments to apply for Federal assistance: supplementary grants, limited to 20 percent of the cost of certain public facilities, were to be added to any basic grants received. Title IV covered only three basic grants but the Title VII program had a large number of grants for which supplements could be provided: the HUD and the Farmers Home Administration Water and Sewer programs; the HUD Open Space program; HUD grants for neighborhood facilities; mass transportation capital improvements (Department of Transportation), highway planning and construction (DOT); health facilities construction (Health, Education and Welfare), public library construction; higher education facilities construction (HEW), public works for economic development (Department of Commerce); outdoor recreation facilities (Department of Interior), and construction of waste water treatment works (Environmental Protection Agency). One half of these supplementary grants were to be made to State or local public bodies or agencies or "other entities" carrying out a "new community assistance project".

(C) A revolving fund. To provide a mechanism for the timely payment of liabilities incurred as a result of the guarantees (or to pay interest differential grants, extend loans, or cover administrative and other expenses), authority was given to establish a revolving fund. This was made up of borrowings from the Treasury, as needed, as well as repayments, recoveries, and other receipts. Among the latter were authorized fees and charges which could be levied by HUD on developers in the program.

(D) Other provisions. The 1970 Act also authorized several other programs of assistance, including: interest differential grants to compensate public bodies for differences in interest rates between taxable and non-taxable bond obligations guaranteed by the Act; special planning assistance to developer entities to encourage innovative social or environmental planning; interest loans, limited to 15 years, to assist both public and private developers in meeting interest payments on debt incurred by them during the initial development period; and public service grants to public bodies to cover the costs of providing essential public services for no more than the first three years of development.

Chapter Two describes how the program's goals and its financial incentives were implemented through regulations and administrative decisions.

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Chapter Two

IMPLEMENTING THE TITLE VII LEGISLATION

For the purpose of implementing the Title VII new communities legislation, an organization was established within the U.S. Department of Housing and Urban Development. Variously called the New Communities Division, the Office of New Community Development, the New Communities Administration and, finally, the New Community Development Corporation (NCDC), this organization moved rapidly to implement its legislative mandate. 1/ However, neither the private financial and development communities, nor the public sector had a well-established capacity to undertake such a venture because it was a relatively new type of development in the United States. This circumstance, as well as other features of the program's design and implementation, had significant consequences for the program's ability to achieve its legislative mandate. Those aspects of the program's implementation that are important for understanding and explaining what happened are highlighted in this chapter.

The chapter presents a brief overview of the organization, staffing, and working relationships of the Title VII program. It then describes the basic structure and evolution of the program: its implementation through preliminary and formal regulations and administrative decisions; the processes of selecting, developing and monitoring new communities; the government's response to the financial crises faced by different communities, which ultimately led to the decision to terminate the program; and the direct costs of the program. In describing the implementation phase of the program, a number of problems are foreshadowed. Insofar as these problems led to financial difficulties, they will be treated in greater depth in Chapter Four.

Administrative Structure and Relationships

Because new community projects were expected to develop over twenty or more years and to involve a continuous, planned program that balanced residential, commercial and industrial development, the administration of a new communities program seemed to require various kinds of financial, development and management expertise, a reasonable amount of continuity in leadership and staffing, and good working relations with other organizations that were relevant to this mission. In fact, the admini-

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1/ For convenience, the name New Community Development Corporation (NCDC) will be used in this report to refer to this organization as well as all of its predecessors.

stration of the HUD New Communities program was characterized by a lack of continuity in leadership, early staffing shortages and limited staff expertise, numerous reorganizations, intraorganizational conflict, and strained relations between the new communities organization and other Federal organizational units. These are briefly described in this section.

Leadership. From 1968 (when the Title IV program was enacted) to September 1983, the New Communities program went through thirteen changes in its leadership (see Table 2.1). This meant that philosophies, approaches, and direction changed relatively frequently, resulting in significant alterations in the partnership arrangements between the government and private developers. This lack of continuity tended to cause disruptions in the implementation of the twenty-year development plans that had originally been agreed to by the two partners.

The Board of Directors. With the passage of Title VII in 1970, the New Communities program was augmented by a Board of Directors responsible for making the final decisions on financial commitments, the conditions governing these commitments, the project agreements, acquisitions, disposals, and major policies. Although the Board never rejected a project recommended by the General Manager and supported by the Secretary, it did show great reluctance to approve some projects and imposed conditions which had to be met before project agreements could be signed. In some instances, this caused a lag between project commitment and project approval.

The organization. There were several significant organizational changes during the history of the New Communities program, causing some amount of disruption in the program's operations. Until 1973, the new communities' organization was a single sub-unit within HUD's Office of Metropolitan Planning and Development. (See Table 2.1.) Set up as a New Communities Division until 1970, it then became the Office of New Communities Development. This was superseded by the New Communities Administration in 1973, whose administrator reported directly to the HUD Secretary. In 1978, this organization was replaced by the New Community Development Corporation within HUD.

Staff size and expertise. During the early, critical years of the New Communities program, administrators did not have the authority to hire a sufficient number of staff members, with appropriate expertise, to oversee adequately the selection and management of New Community projects. With an estimated three to four staff persons required to move a project forward, during the early years of the program only a few projects could be initiated. This situation is summarized in Table 2.2.

During the first several years of the program, the small staff had the responsibility of responding to inquiries from prospective developers as well as developing guidelines, requirements, and contractual relationships for the program. The size of the staff did

Table 2.1

Names Of Officials Charged With Management of the New Communities Program

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
HUD Secretary	Robert Weaver 1/66- 12/68	George Romney 1/69- 1/73				James Lynn 2/73- 2/75		Carla Hills 3/75- 1/77		Patricia Roberts Harris 1/77 8/79		Moon Landrieu 9/79- 1/81		Samuel Pierce 1/81- Present		
Assistant Secretary for Metro-politan Develop-ment a/	Char-les Haar 8/68- 1/69	Samuel Jackson 1/69- 12/72			Clif-ford Graves 12/72- 7/73											
Division or Office Director b/	Paul Brace 6/68- 1/69	Robert Paul 1/69- 11/69	T.M. Alex-ander 11/69- 1/70	William Nicoson 1/70- 4/72	Edward Lamont 4/72- 10/72	Edward Lamont 1/73- 10/73										
Adminis-trator c/						Albert Trevino 10/73- 8/74	Otto Stolz 8/74- 9/75		James Dausch 1/76- 5/77					John Clinton 1/81- 7/81		
General Manager d/ or Deputy General Manager In Charge				Samuel Jackson 11/71- 12/72		Albert Trevino 7/73- 12/74		Otto Stolz 3/75- 9/75	Melvin Margol-ies 10/75- 1/76	William White 5/77- 9/79			Rus-sell Marane 7/80- 1/81	Warren Lindquist 7/81- 9/83		Albert Diehl 9/83- 12/83

a/ When the New Communities Administration was formed in 1973, the Administrator reported directly to the HUD Secretary.

b/ The New Communities Division was reorganized as the Office of New Community Development in 1970.

c/ The Office of New Community Development expanded and reorganized as The New Communities Administration in 1973.

d/ The New Communities Administration was abolished and all employees were reassigned to the New Community Development Corporation, effective December 17, 1978.

Table 2.2

Number of Proposals Under Review and New Communities Program Staff Size During the First Five Years of the Title VII Program

Year	Staff Size	Proposals Under Review
1968	3	17
1969	7-11	29
1970	20	41
1971	20-23	79
1972	40	79

grow over time, peaking at 89 in 1975, the year in which HUD declared a moratorium on further new communities applications and in which there was an acceleration of financial difficulties facing the previously approved new communities.

Intra-organizational tensions. Within the New Communities program office, there were persistent tensions between persons who had functional responsibilities for all of the communities (financial analysis, legal review, or environmental planning, for example) and those staff who had responsiblity for all aspects of one or two communities. This prompted several reorganizational efforts, but it also hindered the development of a coherent package, integrating physical and financial concerns, for each community. Further, there were frequent changes in the HUD project managers who were assigned to some of the new communities.

Intra- and inter-agency working relationships. Within HUD, there were strained relations between the New Communities program office and the Office of General Counsel (which reviewed all aspects of project approvals, agreements, trusts, management changes, and terminations). Staff in the latter played, *de facto*, a significant policy role with respect to the program, and this created tension between themselves and the New Communities program staff. There were also tensions arising from other intra-agency relationships, in particular between the Title VII program office and the FHA office (whose approvals were needed to make FHA mortgage insurance available to homebuyers in the new communities.).

Inter-agency relationships were necessary but, as it turned out, generally not very productive from the program's point of view.

Other agencies were not required to cooperate, and because of competing priorities, frequently did not provide the money or help expected, such as highways providing access to the new communities. Especially in the case of new highways, the problem was complicated further by the fact that state and local governments had different plans for the use of highway funds which did not take into account the presence of a new community.

In summary, many internal administrative difficulties at HUD created problems for the program. The fact that it had constantly changing directors caused frequent changes in policies and directions, which was poorly suited for new communities projects being developed over a 20-year time period. Difficulties in coordinating other critical programs needed for project success, both within and outside of HUD, resulted in delays and lack of support for the communities. Delays in the ability to hire staff, in proper numbers and with appropriate expertise, until most communities were approved, adversely affected project selection. Finally, the need to obtain concurrence and approval from several independent organizations within HUD made prompt decisions difficult at every development stage.

Structuring the Basic Program

HUD implemented Title VII objectives through policies, procedures, and guidelines (both written and unwritten) used in defining and selecting new communities and guiding their continued development. Various sets of regulations defining the program's goals and performance criteria evolved from 1968 to 1977. 1/ Most of the key policies that shaped the program were determined by the end of 1972, about the same time that the draft regulations for Title VII were completed. The most complete description of the policies, procedures, and guidelines governing the program was the "Nicoson handbook" completed in 1972. Drafted by the New Communities staff, it was rewritten and supplemented by William Nicoson, a former Director of the program, then a lawyer in private practice. It included policies which defined new community eligibility, established specific provisions for meeting the program goals, placed controls on developers' activities, and created the financial structure by which the program was to be implemented. These policies influenced both the scope and content of the applications and the character of the new communities built with Federal assistance.

During the period in which many of the new communities were approved, the August 1972 draft regulations were used by both HUD and new community developers, on a *de facto* basis, as the official HUD

1/ There were five major versions of the regulations, the first of which was designed to implement Title IV. Most of the references here, unless otherwise noted, refer to the August 1972 draft, which guided most of the decisions in the formative years of the program. The regulations were published in final form in February 1977.

regulations guiding new community selection and program implementation. Until final regulations were published in February 1977, developers committed themselves (with reservations) in the project agreements to be guided in advance by whatever regulations were issued in final form. 1/ The 1977 regulations contained further details and refinements but varied in few material respects from the August 1972 draft. By design, the regulations contained very general language. Many of the most significant policy decisions were not resolved in the regulations and were subject to administrative decisions in the process of approving specific projects and drafting project agreements.

Project eligibility. 2/ Although there was no statutory definition of a new community, the regulations set out some very general criteria. For example, a new community or a major addition to an existing community, had to include most of the basic services normally associated with a city or town and had to provide for a substantial number and variety of jobs. The 1972 regulations spelled out four types of new communities which could be funded under the Act. 3/

-- New-towns-in-town, within or adjacent to existing cities, including developments which would help renew center cities or have a beneficial effect on the city's tax base;

-- Traditional satellite new communities, within metropolitan areas which serve as alternatives to urban sprawl;

-- Additions to existing smaller towns and cities which can act as growth centers to prevent decline and accommodate increased populations; and,

-- Free standing and self-sufficient new communities, located away from existing urban centers.

This diversity of community types made it clear that new communities were not to be restricted to completely new development. To qualify for assistance, however, new communities designed around existing communities had to have an undeveloped portion of sufficient size to accommodate NCDC requirements for balanced development. However, there could be no refinancing of permanent financing obtained prior to new community

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1/ 24 CFR 720.

2/ The term "project" refers to a new community proposal under Titles IV and VII.

3/ Unless otherwise noted, references to the Act are to Title VII (Part B of the Housing and Urban Development Act of 1970).

designation. 1/ No minimum size, density or population for the new communities to be assisted was defined in the legislation or the various regulations. In September 1971, however, NCDC indicated that it would not consider a new-town-in-town location of less than 12,000 people at peak development or 100 acres, unless the projects were especially innovative. 2/

In a few cases, HUD staff argued that a community larger than a developer had proposed was needed to make a genuine new community, one with "most, if not all, of the basic services, activities and facilities normally associated with a city or town." In general, however, it was not HUD policy, but accidents of land ownership, prior developer activities, and the developer's assumptions about the market which largely determined a community's size.

Developer eligibility. Although Title VII included public entities as being eligible for assistance, the program was geared to private sector developers, presumably with the technical capacity and financial ability to undertake new community development. 3/ The 1970 Act called for the encouragement of the development of new communities in a manner that was to rely, to the maximum extent, on private enterprise.

Project feasibility. One of the criteria for new community approval was that the proposed community be economically feasible. A condition for the loan guarantee was the determination that the new community represent an acceptable financial risk to the U.S. To implement these conditions required definitions of economic and financial feasibility, decisions on the terms and coverage of the guaranteed bonds, definitions of appraisal methods, guidelines on developer profit-taking, decisions about equity requirements, selection of financial instruments and the security for them, and establishment of HUD fees and charges. The latter are discussed in more detail in later sections.

The regulations established three criteria by which economic

1/ Reston, Peach Tree City, Mission Viejo and Columbia unsuccessfully applied for assistance under this provision of the Act, arguing that Congress intended them to be assisted as they would provide "major additions to existing communities."

2/ Board Minutes, September 15, 1971; consequently, several in-town projects, such as Penn Center in Philadelphia, were rejected because of their small size.

3/ In response to Treasury Department objections to "double subsidy," HUD would not guarantee tax-exempt bonds issued by public bodies like State land development agencies. These communities were, however, considered to be eligible for other forms of assistance, such as Title I grants and Section 8 housing set-asides.

feasibility should be judged: current and projected regional supply and demand; projected supply and demand within the new community market area; and the accompanying advantages, such as location, developer management skills, and potential for job base of the new community. They required evidence of financial feasibility in the developer's financial plans or programs showing that all project costs would be covered by projected revenues; in addition, the private developer was required to show that he would have an adequate incentive, in terms of equity invested and expected return, for completing the approved project in an efficient manner. The financial plan and program were to show the financial impact of alternative assumptions with regard to costs, market demand, interest rates and other factors. 1/

Goals and performance standards. What distinguishes the Federal New Communities program from most private new community development in the U.S. is not its general definition of what a new community is but, rather, its emphasis on very concrete environmental and social objectives.

(A) Balanced orderly growth and a desirable social environment. The concept of balanced orderly growth included, in addition to housing and employment mix, two other goals: construction of a physical living environment that utilized the land and its natural resources in efficient and ecologically sound ways and, at the same time, did so in ways to better meet human needs.

All versions of the regulations placed heavy emphasis on environmental protection and high standards of physical planning but the criteria for good planning were largely informal. Criteria for good physical planning included suitability of the site; effectiveness of land use, transportation and circulation plans, and population density and distribution, in promoting harmonious interrelationships and optimum internal accessibility; adequacy of controls and incentives for promoting and enforcing attractive land utilization, urban design and architecture; balanced phasing of all elements of the physical plan and program; the extent to which alternative plans had been considered; the degree to which innovations were included in the physical plan; and the adequacy of public facilities.

The statute and the various regulations required that the new

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1/ Reflecting the experience of the first six years of the program, particularly failures to predict "capture rates" for the new communities and the growth of market and metropolitan areas, the final 1977 regulations further detailed the factors which should be taken into account in forecasting supply and demand for various land uses, and established more stringent tests for determining economic feasibility in freestanding, small town growth centers and new-town-in-town communities. These forecasts were a source of controversy and are discussed at greater length in Chapter Four.

community plan should be consistent with comprehensive area-wide plans and that approvals comply with A-95 clearance and Environmental Impact Statements (EIS's) requirements. The EIS's were also required before a commitment was issued and, subsequently, when major changes in the plan were made including the plan to dispose of the project upon foreclosure. 1/ Because of all these EIS requirements, there were 16 initial draft EIS's for each Federally assisted new community and a final EIS. Preparation of many EIS's was expensive, ranging in costs from $10,000 to a high of $250,000 each. The EIS's for several of the new communities were the subject of controversies and lawsuits.

As part of the plan for balanced orderly growth, Title VII new communities were also to provide a full complement of services and facilities normally associated with developed urban areas. Together with the physical plan and the orchestrated mix of housing and job choices, the regulations called for a plan providing services throughout the development period and reasonable assurances of cooperation of public and private entities needed to carry out the plan. The plan was to include high quality education, an adequate comprehensive system of health facilities and services, and adequate recreational and cultural facilities and services which were to be accessible to all new community residents, including low-income persons. In addition, provision was to be made for public safety and other necessary facilities and services.

The regulations provided no hard and fast rules with regard to governance of the new community. It was the general policy of HUD at the time to discourage fragmentation of local governments into special districts. The regulations discouraged the creation of special districts, encouraged reliance on general purpose units of government, called for the orderly transfer of functions from developer-controlled community associations to appropriate governmental units at the earliest feasible time, and required citizen participation in community associations. If public facilities or utilities were to be operated by a non-public body, fees, charges and methods of operations were to be approved by the Secretary.

(B) Housing and employment opportunities. Most private new communities do not provide very much housing for low- and moderate-income households. In contrast, both the 1968 and 1970 New Communities Acts had explicit provisions for inclusion of low- and moderate-income housing. A key Title VII provision, included in the regulations, required communities

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1/ A key issue with regard to subsequent EIS's revolved around whether new community development constituted a "major Federal action." Initially there were few guidelines available for this determination. HUD's basic environmental procedures were published (Handbook 1390.1) in July 1973, revised in 1976 and again in 1979 to require an EIS before approval of major changes in land use, population, and project closeout.

receiving Federal assistance to provide housing types within the community to accommodate persons from a broad range of incomes, ages, household composition and lifestyles. The statute did not define low and moderate income, how much housing was to be provided for such households, when it was to be available, or where it was to be located within the community. These critical issues became subject to regulatory and administrative negotiations.

As the Title VII program evolved, the definition of "low" and "moderate" income changed and, therefore, the standard for determining an appropriate income mix varies somewhat across communities. 1/ Also, in order for housing to count as lower income, it did not have to be subsidized by HUD or other public sources; it simply had to be "within the means" of persons qualifying for assisted housing. Since a developer has little control over the resale of such housing to higher income persons, however, it was decided in later years that unassisted housing would not count toward meeting the developer's obligations, regardless of provisions in the regulations and, in some cases, in project agreements.

Problems of definition aside, determining how much low- and moderate-income housing should be provided brought controversy. The early versions of the proposed regulations all contained essentially the same factors to be taken into account, with no guidance given to their weighting or priority. 2/ Although it had been recommended that a minimum threshold provision of 20 percent lower income housing be established, the final regulations did not specify such a threshold; rather, it was stated that "in no case shall the amount of housing within the means of persons of low- and moderate-income be below

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1/ The early project agreements defined "low" income as not exceeding the income threshold of the lowest ten percent of metropolitan households and "moderate" income as not exceeding the income threshold of the lowest twenty-five percent of metropolitan households when ordered by income. The majority of Title VII communities (10), however, were bound by the definitions adopted in the 1972 draft regulations: "moderate" was defined as income limits for Section 235 and 236 housing and "low" as those income limits for public housing. The final 1977 regulations adopted the definitions of the Section 8 program: "very low" income was below 50 percent, and "lower" (or "moderate") income was below 80 percent of the median metropolitan area income.

2/ The factors were: (1) current regional profile by income, family size, and age; and new community projected profiles for the major development periods in the plan; (2) the current regional supply and demand for standard housing; and projections of demand by age, family size and income, particularly for low- and moderate-income residents and the elderly for the region and market area; and (3) projected age, family size, and income of persons likely to have basic and service jobs within the new community, assuming successful industrial development programs attracting industries employing persons with a wide variety of skills.

a minimum level which may be determined by the Secretary." Thus, considerable room was left for negotiation between the developer and the HUD program staff.

The regulations also specified that housing for low- and moderate-income households be provided during each "major construction stage," and that such housing be dispersed within the community (at least at the neighborhood level) to enhance access to community facilities and services. The staging provision, not included in the Act, became a controversial feature of the 1972 draft regulations. Some developers claimed this provision forced them to provide for assisted housing prematurely and created a negative image for the community. Within HUD, there was concern that if the developer waited too long to provide for assisted housing, resistance to it would grow at later stages. Although each project agreement specifies this planned staging, in many cases delays caused by FHA approvals and local resistance slowed the construction of low- and moderate-income housing.

Both the 1972 and 1977 regulations also recognized the need for employment opportunities. The 1977 regulations called for a program which would provide an opportunity for all those who live within the community to work there by providing for a broad range and mix of employment opportunities through industrial, commercial and institutional enterprises located in or near the community.

In addition to requirements for lower income housing and a broad range of employment opportunities, affirmative action requirements were extensive for Title VII communities. Besides the generally applicable equal opportunity legislation, a special effort was to be made to assure the provision of minority job and business opportunities, including opportunities for minority contractors and other minority entrepreneurs. Developers were also encouraged to make sites available to local and small builders and contractors at competitive prices and had to adhere to Davis-Bacon requirements to pay prevailing wages.

(C) Innovative practices. One of the goals of the statute was to test new approaches to community development, including physical planning, social, and institutional innovations. The significance of this goal relative to others was a matter of debate: the question was whether the program was intended to be primarily a demonstration, involving only a few highly innovative communities of different types, or a production program, designed to support as many new communities and types of innovations as budgetary constraints would allow. Although the controversy was never explicitly resolved, actual selections and approvals under the early guidelines and the 1972 regulations called for significant use of advances in design and technology with respect to land utilization, materials and methods of construction, and the provision of community facilities and services. These need not have been confined to physical planning, but could include institutional and other innovations in meeting social and economic problems.

A definition of "innovation" was provided in the 1977 final regulations. Innovation represented an advance over general practice in the area in which the community is located, even though it may have been instituted or applied in other areas of the country. This rather narrow definition recognizes that a new community can have important regional or subregional "spin-off" values which meet the purposes of the goal.

In the early years of the program, applications included long lists of proposed innovations. These were a source of tension between developers and HUD because there was little attempt to indicate how they were to be funded or what the financial consequences were for the project. As project agreements between HUD and the developers were drafted, the developers were asked to commit themselves to undertake what they had promised to do in the application stage. Many developers resisted making firm financial commitments for innovations in these agreements, citing costs and other uncertainties. The draft regulations contained a provision conditionally committing the Secretary to assist the developers within budgetary constraints. This is the only instance in the regulations, other than for low- and moderate-income housing, where HUD made a qualified commitment to provide assistance for a specific program goal.

(D) The welfare of surrounding areas. To be eligible, a new community was required to contribute to the fiscal and environmental welfare of the area of which it was a part and which would be substantially affected by the development. The 1977 final regulations required comparison of the fiscal impact of the project, as well as other costs and benefits, with the probable fiscal impact of trend development in the absence of the project. The provisions reflected the actual practice in the application review process during the intervening period since the 1972 draft regulations.

While there were some issues raised in formulating criteria by which to judge the responsiveness of new community proposals and plans to this and the other program goals discussed above, larger problems were embedded in the selection and negotiation processes and in the abilities of the developers and HUD, together, to carry out the approved plans and to achieve the goals established in them.

Development and Management of the Program

In the formative years of the program, the steps taken, from developing definitions to monitoring the development, overlapped considerably in time. They are discussed separately for simplicity and convenience. The following sections cover important aspects of the selection process; the structuring of contractual relationships, especially the financial ones; and HUD monitoring and remedies up to the onset of financial difficulties.

Selection and HUD's offer of commitment. Initially, there was no prescribed format for applications. The earliest procedures encouraged the developers to be creative in formulating new community proposals in a way that demonstrated their own capacity to make imaginative use of guarantee assistance, and to relate their own private interest, as developers, to the public purposes to be served. 1/ Developers were invited to submit narrative proposals designed to provide a basis for a determination as to whether a new community project was worth more consideration. Neither a detailed market analysis nor a detailed cash flow analysis was required at this stage. After the proposals were received, some developers were invited to submit a full application, though without assurance of eventual approval. The lack of detailed instructions for the early applications gave the developers considerable flexibility in terms of deciding how to meet the performance standards in the regulations. Later, they had to spend a great deal of time in supplying information to the New Communities office to satisfy concerns about the adequacy of the plans. This caused considerable delay in some cases. 2/ The accumulation of applications, the limited staff, the many problems for which HUD had to develop new policies and which the developers had to work out in their own localities, all contributed to a long application-review process. 3/ However, no invited application was ever turned down in the initial years for failing to meet technical requirements, except where special conditions were contained in the invitation letter which the developer was unable to meet.

There were three independent processes for reviewing full applications: a review by the New Communities staff; a review of the environmental issues by other HUD staff units and by other Federal, State, and local entities; and an independent review by HUD's Office of General Counsel. Although the New Communities office attempted to work out problems once an application was invited, rather than reject applications, the other organizations involved in the review process operated under no such requirement. The reviewers of the environmental impact statements in HUD's Office of General Counsel, for example approached the review process with a greater degree of independence.

Application reviews covered issues and concerns about environmental

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1/ Initial Policies and Procedures, New Communities Act of 1968, HUD Circular 6270.1, December 19, 1968.

2/ By 1972, a more complete set of documentation requirements had evolved. Instructions for Loan and Guarantee Assistance, Urban Growth and New Communities Act of 1970. HUD Circular 6270.1.

3/ Based on interviews with HUD program staff. See Chapter Four.

impact, equal opportunity, low- and moderate-income housing, developer finance, fiscal impact, forecasting regional and subregional growth and development pace for the new community, relations with local governments, required highway improvements, school problems, land appraisal, equity, security, developer capability, water supply, sewerage, industrial development, and a host of other topics. The average time from the submission of a full application to an offer of commitment was 10.2 months for 15 approved projects.

There were both formal and informal methods of selecting applicants. In effect, three criteria or considerations were used in selecting otherwise eligible projects: geographical spread; distribution by new community type; and innovation. 1/

-- Geographical spread. As certain regions began to acquire new communities, subsequent community selections were encouraged in regions and states in which there had been no accepted proposals.

-- Distribution by type. Applications were to be encouraged for a free-standing new community, for several new towns-in-town and growth centers, and not more than 20 satellite new communities.

-- Innovation. In addition, projects were to be ranked in descending order according to the significance of their proposed innovations in new community development.

According to many members of the staff of the NCDC, most of the proposed projects in the initial selection period were quite weak. Of those selected for further processing, all had several characteristics: the developer had ownership or control of key portions of the land; the projects were in reasonably strong market areas; and/or substantial planning had already been done on the site.

Project approvals represented only a handful of those submitted. Most of the proposals were dropped from further consideration in 1973 and 1974 after financial difficulties began to emerge in those projects already on line. In January 1975, a moratorium was declared on all new proposals. In all, over 100 unsuccessful proposals were submitted to HUD which, had they moved forward, would have totalled almost two billion dollars in guarantee requests and would have involved over 630,000 acres.

The decision by HUD to offer a commitment to a developer in the Title VII program was made by the Secretary, in conjunction with the

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1/ Memorandum of September 13, 1971 from Samuel C. Jackson to William Nicoson.

Board of Directors of the Community Development Corporation. During its history, the Board authorized commitment offers (often with conditions) to fifteen communities. In two cases, the commitment offers were made but the projects never became Title VII new communities. 1/

Structuring the contractual relationships. The offer of commitment contained the amount that the government was willing to guarantee as well as the conditions that had to be met and the approvals to be secured by the developer. An offer of commitment to a new community developer usually set in motion a complicated process to work out the terms and conditions of a partnership between the government and the developer which could have lasted for 20 years or more. 2/ All but two of the new communities were undertaken by private developers, so the program was, clearly, an experiment in public-private cooperation.

Although the typical new community developers had public responsibilities, they did not have public powers. They were business enterprises, acting with business motives: to make an acceptable rate of return on invested capital. They were willing to serve public purposes, as long as it did not interfere with marketing the new community. They feared that significant government interference in their operations could hamper their business judgment and lead to large financial losses. The Federal government, on the other hand, was responsible for seeing that the public purposes of the Act were carried out, that there was adequate security for the loan guarantee, and that developers not make "windfall" profits at public expense.

The underlying philosophy of the relationships between the public and private sectors was outlined by William Nicoson, the first Director of the Office of New Communities Development. 3/ He described the relationship as follows:

Upon approval, a project carried throughout the development

1/ Under the Title IV program, the Assistant Secretary sought agreement from the Secretary for issuing an offer of commitment of a loan guarantee and other assistance to a developer. Under this procedure, offers of commitment were extended to five new communities.

2/ Three communities were certified as eligible for grants but not for loan guarantees.

3/ The initial working relations lasted only until the financial crisis hit all new communities around 1975. After that time, the nature of the relationship between the government and the developers changed. It evolved from a loose partnership, giving developers a good deal of freedom, to a relationship similar to a banker and a foreclosed creditor. HUD controls over individual projects became much tighter after the financial crisis.

period the burden of public policy objectives, and the government carried the burden, while Title VII bonds were outstanding, of substantial guarantee exposure. Under these circumstances, involving substantial identity of interests, the only viable relationship appears to be that of a partnership grounded in contract, patterned upon the private sector relationship of borrower and creditor. 1/

For all projects for which a loan guarantee was offered and accepted, there were two basic documents governing the partnership of the Federal government and the public or private developer: the project agreement and the trust indenture. Together, these provided a financial control system that facilitated HUD's dealings with developers.

(A) The project agreement. The project agreement set forth the mutual understanding between HUD and the developer for the development period: it provided the framework for the management of the project by the developer under the supervision of the Federal government; it set forth the duties and responsibilities of the developer; it imposed appropriate restrictions upon the financial transactions of the developer to protect the U.S. security interest and established the rights and remedies of the U.S. in case of default; it established the reporting and auditing requirements of the developer; it described in detail the approved project for the entire development period, and provided for procedures for agreeing to changes in the plan, as needed. The development plan covered all aspects of land use and development and of facilities and services to be provided for. For each category of the plan, overall objectives were stated: the mature system was described; long-term activities were outlined; and three-year and one-year plans of action were specified.

The developer agreed to four types of covenants: performance covenants, payment covenants, financial covenants, and reporting covenants. Performance covenants required the developers to proceed in accordance with the development plan and to comply with all relevant laws and regulations. Payment convenants required that the developer make all interest, principal and sinking-fund payments with the trustee when due under the trust indenture at least 10 days in advance of interest payment and 30 days in advance of principal payment. They also had to pay all annual fees to the Secretary which were necessary under the guarantee.

The obligations of the government were: to execute the guarantees at one or more financial closings and reserve unused guarantee authority until certain conditions had been met; make deposits for principal or

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1/ Typically, the staff would prepare a detailed justification for the offer and submit it to the Assistant Secretary who, in turn, would seek the concurrence of the Secretary and the NCDC Board.

interest payments which the developer might fail to make. In the case of non-guaranteed projects, the government agreed to offer technical or financial assistance, subject to budgetary and program limitations.

(B) The trust indenture. The second basic document governing the relationship between HUD and the developer was the trust indenture. Essentially, it was an agreement between the developer and a third party trustee for the benefit of owners of guaranteed obligations and for the benefit of the government. 2/

The indentures defined in detail the insured debt obligations. They established rights attaching to the Federal guarantee, and the rules for serving these obligations and for protecting the holders in the event of default. The indenture also created a security interest held by the trustee in the property of the developer for the benefit of the government as security against the liability. An element of this property was an escrow fund into which were placed all proceeds from the sale of the guaranteed obligations for distribution by the trustee to the developer. The trust indenture established the rules for certification of costs so that funds could be disbursed from the escrow fund to cover developer's outlays. Since responsibility for assuring compliance with the trust agreement had been assumed by HUD, the role of the trustee was more passive than usually assumed by a corporate trustee. 3/

(C) Initial financial controls and monitoring. Financial covenants, covering permissible and restricted transactions, often varied among projects. For example, interim indebtedness was normally permitted, as was the comingling of funds received from the HUD guaranteed borrowing and from other corporate sources. Identity of interest disclosures for all transactions were required for all projects to ensure that the principals were not reaping windfall profits by "self-dealing" at non-market rate prices. A change in developer control was not permitted without HUD approval, nor was sale and leaseback of

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1/ U.S. Department of Housing and Urban Development. New Communities: Problems and Potentials, Appendix B, December, 1976.

2/ No indenture was required for those projects which did not receive a guarantee, but would only receive a determination of general eligibility for grants.

3/ A thorough critique of the entire trust indenture financial control system is contained in a 1975 "Report on the New Community Program Documents of HUD" by the law firm, Fried, Frank, Harris, Schriver, and Jackson.

land, or certain types of mergers. 1/

A non-guaranteed debt limitation was also placed on all developers and they were sharply limited as to the credit they could extend to other than a restricted subsidiary. Distribution of assets, earnings or dividends was restricted in the project documents to 50 percent of cumulative net earnings after taxes, taking into account any deficits, starting five or six years after the project agreement. In addition, \$1 million to \$1.5 million was deducted from that amount. This was to ensure that the developer did not take profit out before the time that borrowings could be repaid.

To protect the security interest of the U.S. government, there was an initial certification of valuation, issued by HUD, which established the initial value of the land and other real property. This initial valuation was a source of conflict between the developer and HUD because it determined (a) the amounts of land appreciation which the developer could count toward his equity requirements (up to half of equity could be in land appreciation), (b) the amount of cash the developer would receive upon the first draw-down from escrow, and (c) the degree to which the developer would have an excess of funds over land cost which could indirectly help him meet the cash equity requirements. At the same time, it was central to HUD's security so HUD had an incentive to make sure that the appraisal was as accurate as possible. HUD attached a first lien on all real property interest as a condition of the loan guarantee. (See Chapter Four for a detailed description of one of the cases of conflict between HUD and the developer in this regard.)

Since total security value had to remain at 110 percent of the guaranteed principal, there were subsequent valuations made, taking into account expenditures of the developer. Any real property acquired after the date of the project agreement was valued by HUD. The investment of funds for water and sewer improvements to real property was counted as adding directly to the security value of the land. Similarly, overhead was allocated among net saleable acres. Also included in the certification of value were the development costs expended by the developer, which were used to add value to the real property. The system of adding overhead and other "soft" costs to the value of the security pool was criticized in several independent reports and was later dropped.

Central to this valuation of security were the methods used for appraisal. The appraisal methods were specifically included in the legislative history of Title VII as a compromise between the General Accounting

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1/ There were also other financial requirements, such as annual fees (equal to 1.5 percent of the average principal amount of the debt and unused guarantee commitment outstanding during the first seven years and 1 percent annually there after.) This fee structure was devised to provide an incentive for the developers to pay back their guaranteed loan as soon as possible, although it clearly did not achieve that.

Office (GAO) and the Congress. The Congress wanted to ensure that reliance was placed upon the "recent sales price in arms length sales transactions with the land involved or of nearby comparable land". Any impact of the guarantee on the value of the land was to be disregarded in appraisals. At the same time, the Congress permitted increases in land values over original costs, where such increases could be justified. Following criticism from GAO and the Inspector General, and after many changes in management, HUD developed a more conservative approach to appraisals which took into account the discounted stream of future land sale prices based upon market demand.

The initial guarantees, as it turned out, covered no more than the costs of the first stage of development for many communities. 1/ With higher land acquisition and development costs and lower revenues than were anticipated by the developer, the initial guaranteed debentures were usually not sufficient to cover more than three-to-five years of development. These costs, together with interest on land acquired, consumed most of the guaranteed debt for most projects.

HUD's financial monitoring in the early years of the program has been criticized in earlier reports. A 1973 report of the HUD Inspector General indicated that the existing monitoring system did not provide for an evaluation of physical development in relation to purported costs and revenues or an early warning of financial problems to allow for timely preventive or affirmative action by HUD. 2/ A 1974 GAO report made additional points on the inadequacy of the financial reporting, namely, that HUD did not require developers to update financial projections to show the effects of recent development on long-term costs and revenues. 3/ These points were re-emphasized in a 1975 report calling for changes in the financial reporting system to HUD. 4/

1/ Chapter Four discusses in more detail the criticism levelled at the procedure by which funds (from the loan) were released to the developer.

2/ The report did not criticize the volume of monitoring reports but did suggest that they were the wrong types and that there was insufficient staff to handle them. The mismatch between the volume of reports and size of the staff at HUD was also critized in a report by the Budget Subcommittee of the House. The Subcommittee reported that, until early 1974, the New Communities program did little to monitor the financial progress of HUD projects. (As of December 1974, financial monitoring was the responsibility of a two-person staff.)

3/ General Accounting Office, Getting the New Communities Program Started: Progress and Problems, B170971, November 15, 1974.

4/ Arthur Young and Company, Project Summary Report, Development of a Financial Reporting and Monitoring System (FRAM) for the New Communities Administration, August 1975.

When the new communities began to experience financial problems, efforts were made to revise and improve the program through new legislation, and a new system of reporting and analysis. But, once it was clear that there would be no new initiatives entertained for the New Communities program, the decision was made to dispose expeditiously of foreclosed projects, and to "wind-down" the program. 1/ All communities eventually were sold, except for one which was not in default; in that case, an agreement was signed terminating HUD's involvement. 2/ The New Community Development Corporation was closed down in September 1983. Statutory action was necessary to forgive the debt to Treasury and cancel Titles IV and VII. 3/

Post-1975 changes in financial controls and monitoring. In addition to attempting to restructure several projects to alleviate their financial problems, HUD increased controls over all of the developers in 1975 and 1976. By this time, developers were, for the most part, in default and HUD was assuming the role of a creditor applying cost control measures, which are described below.

All developers had their security requirements changed. Previously, they had to maintain 110 percent of security value to withdraw from escrow. Part of this security value was the initial appraisals plus costs expended. New appraisals, under more conservative assumptions, were done by HUD and overhead, as opposed to construction costs, was no longer added to security. The new valuation methods brought one community's (The Woodlands) security value down, for example, from $70 million to only $36.2 million, $19 million less than the $55 million required security level. As a substitute, a special account was set up into which real property assets were placed and the proceeds of land sales were deposited. HUD controlled the disbursements from this special fund.

All developers had to implement an Annual Budget Control Document (ABCD) plan. This called for a five year operating plan and a twelve

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1/ A "Redirection Study," prepared for HUD Secretary Moon Landrieu, reached many of the conclusions cited in this report, and led to the Secretary's decision to terminate the Title VII program. The study also recommended, however, that the next Administration retain the Title VII legislation as the basis for responding to the need for new town-type developments that result from new or rapidly expanding defense installations and energy developments, particularly in the Western States. This recommendation was not accepted.

2/ See Appendix I, Table I, which shows, for each community, the year of the project agreement, year the developer first failed to meet the debt service, year the community was acquired by HUD (if this occurred), and the year HUD sold the community.

3/ The 1984 Budget proposed this legislation which was enacted in the Housing and Urban-Rural Recovery Act of 1983 (P.L. 98-181, approved 11/30/83). The debt forgiveness was effected on December 31, 1983.

month operating budget for every project, to be monitored and/or revised on a monthly and quarterly basis. HUD concurrence was required in these budgets. Release of land from the lien of the Title VII debenture would be permitted only if the developer was in accordance with the twelve month budget. Security was brought under control of the Secretary as part of this system.

The project agreements and trust indentures were very complex documents designed to ensure that the developers carried out the multiple objectives of the Act and to provide adequate protection security for the U.S. Government guarantee. These documents may have served their purposes in guiding the developers in achieving the public purposes. As will be shown in Chapter Five, some of the new communities are providing affordable housing and economic integration. However, criticisms of the documents were that they were unnecessarily detailed; they did not provide for strong cost controls; they permitted the developers to draw down an excess of land value over cost, reducing effective cash equity exposure; and they provided for an excessive number of financial and other reports which were ineffective in monitoring real financial conditions of the projects. Finally, the detailed restrictions and requirements did not provide effective security for the U.S. Government guarantee.

The New Communities Financial Crises And HUD's Responses

The onset of financial difficulties in 1974 and 1975 (described in some detail in Chapter Four) brought about a complete revision in HUD's relationship with new community developers, from a rather loose system of controls to a very tight system. 1/

For those projects which were initially considered to be financially viable, additional guarantees could be offered to enable them to continue development. Such determinations of viability were influenced by a series of new appraisals and market studies utilizing revised and less optimistic growth projections. In other cases, projects could be foreclosed or restructured. Some of those restructured or provided with additional guarantees ran into trouble and they also became subject to foreclosure or deed in lieu of foreclosure.

1/ Attempts were also made to improve the operations of the program, such as FRAM (Financial Reporting and Monitoring System), a standardized reporting format for the financial condition of the developer, and NUCOMs, a series of computerized models intended to improve methods of forecasting metropolitan growth, market area growth, and the growth of the new community industrial, residential commercial and office development as a portion of metropolitan growth. Both came too late to have a fundamental impact on the course of the program but both were helpful in monitoring on-going projects.

Some of the sting was taken out of the increased controls because HUD also provided much more financial aid than during the early years of the program. Starting in 1975, Title I grants were made in amounts which eventually eclipsed the basic and supplemental grants as a source of assistance: nearly $100 million, of which $87 million went to the 13 communities with guarantees. There were also interest payments made by HUD, amounting to $63 million (net estimated) to be paid out by September 1983; these permitted the developers to draw down upon the IDEA account (interest deferral escrow account) for operating costs. Threatening to withhold these forms of assistance was the main leverage which HUD had to assure compliance with the controls established. These controls had not been established in the original project agreements.

The IDEA account helped developers to carry on, with minimum amounts of operating funds, while HUD paid the interest. The developers paid interest they would have paid on their debentures into the IDEA account. This was supposed to be merely a deferral of interest payments; however, some developers were able to have these funds released for operations.

Acquisition and resale. Attempts at restructuring and additional bond sales were only temporary solutions; eventually most projects were acquired by HUD. Generally, there was a long lag between the time of initial default and acquisition by HUD, and the time that the projects were eventually sold to a new developer. In only one community, Flower Mound, was there a significant amount of production during this period. Thus, there were years in which further development might have occurred. This delay was very costly to HUD in interest payments, operating costs and, perhaps more importantly, lost development opportunities.

There were many reasons for this delay, some of which were beyond HUD's control. For example, there were constant efforts by developers and lenders to postpone or thwart foreclosure. The threat or actuality of litigation from creditors and developers sometimes led HUD to accept less than an optimum purchase price and reduced its ability to substitute one developer for another. Within HUD's control, however, was the decision to proceed to foreclose, but HUD was reluctant to foreclose. High turnover of leadership may have contributed to the long delays, but in no case was HUD able to find a successor developer and move rapidly to carry out the original purposes. By the time that the projects were finally sold, or otherwise disposed of, the New Communities program was in the process of dissolution. 1/

1/ Table 2 of Appendix I provides information for each of the 13 Title VII communities on final sales, settlements, and termination agreements.

Federal Program Costs

The final costs of the program are not all in. Nor are there cost figures available that fully account for the Federal government's total costs to date for the Title VII New Communities program or for the share attributable to the thirteen guaranteed communities that are the main focus of this study. What is available are estimated direct costs of the program through September 1983. 1/ For the thirteen guaranteed new communities, total net costs to date amount to about $561 million. 2/

The largest source of expenses is attributable to losses incurred as a result of the HUD guarantee of developers' financing, the need to "made good" on the twelve communities that defaulted. To date, the estimated costs attributable to guaranteed principal total just over $235 million (including the outstanding amounts of debentures assumed by HUD) and costs attributable to interest on these loans (including accrued interest) an additional $63 million. The latter figure is net of repayments by developers of interest advanced by HUD. In actuality, the costs for principal and interest are even higher because the cost of the borrowings from the U.S. Treasury for the revolving fund -- much of which went to pay off debentures and interest -- are estimated at another $147 million through September 1983. However, the revolving fund has also been used to pay off direct operating costs met by HUD for these communities estimated at almost $75 million. Offset against these costs are over $96 million in fees and charges paid by developers and recoveries from assets liquidated and land sold. Thus, net costs to HUD exclusive of grants, total nearly $424 million.

Though it was anticipated that the largest source of direct expenditures for Title VII development would be from grants, several of the grant programs contemplated were never funded. In the final analysis, the net amount of Federal grants to the thirteen Title VII new communities was significant -- $137,439,000. Of this total, $87 million were Title I grants, $25 million were other HUD grants, and $26 million were grants from other agencies. Unfortunately, available records do not clearly distinguish between basic and supplemental grants (see Appendix I, Table 4).

The largest actual direct grant assistance to the new communities, $87 million, came from Title I funds: $56 million went directly to

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1/ Table 3 of Appendix I shows program costs for each of the 13 guaranteed new communities. This information was provided during the House Appropriation Subcommittee Hearings on the Department's 1984 Budget in April 1983.

2/ This information was provided for the Record during the House Appropriation Subcommittee Hearings on the Department's 1984 budget in April 1983.

the developers, \$7 million to community associations, \$17 million to suburban improvement districts, and \$7 million to local governments.

Although there were many problems and delays in receiving Federal housing assistance in the new communities, by December 1983, 4039 units had been assisted (either completed or under way) in the guaranteed communities. Taking into account both 30-year guarantees and annual subsidies, housing assistance costs could eventually exceed payments in interest, grants, and other costs for the land development part of new communities.

Chapter Three

THIRTEEN TITLE VII NEW COMMUNITIES

The Title VII program ultimately provided debt guarantee support to thirteen new communities in ten states. However, within two to three years after these communities were started, most of them ran out of funds. This was just at the time that the economy was experiencing a serious recession, from 1973 to 1975. Building permits in metropolitan areas in which new communities were located averaged 64 percent of their peak development year during the early 1970s; by 1974, they averaged only 44 percent of peak. This decline in housing activity, along with other reasons to be discussed in Chapter Four, played an important role in bringing about the financial failure of all but one of the thirteen communities. The pace of development lagged behind that which was expected at the time the communities were approved for debt guarantee support, resulting in severe cash-flow problems. In turn, the lack of financial viability contributed to the inability of many of the new community developers to achieve some of the basic goals of the Title VII program, discussed in detail in Chapter Five.

This chapter provides brief descriptions of each of the thirteen Title VII new communities receiving debt guarantee support, including the disposition of each community subsequent to financial failure or, in the case of the one financially successful community, as part of the termination of the Title VII program; it also discusses the rate of development that was achieved by each of the new communities.

Cedar-Riverside, Minnesota

Year of first Title VII guarantee: 1971

Location: Less than one mile from downtown Minneapolis.

Description: Planned as a new-town-in-town by the Cedar-Riverside Land Company, the community is sited on 100 acres of urban renewal land. It was conceived as a high density residential community to meet the housing needs of inner-city residents and the University of Minnesota community.

Disposition: From the time developers completed the construction of the first stage of this community -- a 1,299-unit, economically and racially integrated housing complex -- Cedar-Riverside was faced with almost continuous litigation, beginning with an environmental law suit filed in December, 1973 and not resolved until 1977. In 1976, the Board of Directors of the New Community Development Corporation decided to dissolve HUD's association with Cedar-Riverside because of the unlikelihood of continuous development at an acceptable level. HUD sold its interest as part of the settlement worked out in 1980.

Flower Mound, Texas

Year of first Title VII guarantee: 1971

Location: Twenty-two miles northwest of Dallas, within a triangle formed by Dallas, Fort Worth, and Denton, a few miles north of the Dallas-Fort Worth International Airport.

Description: Flower Mound is located on land assembled in the 1960s by Edward Marcus, of the Nieman Marcus Department Store family, and includes some of his 1,400-acre cattle farm. On the fringe of development for the Dallas-Fort Worth area, the site initially was marginally competitive with other, closer-in new developments. However, growth in the area is creating a demand for property in Flower Mound and, if it continues, some of the original plans for the community may still be realized. Currently, the community has no assisted housing and little modest-cost housing.

Disposition: HUD acquired Flower Mound in 1976 and managed it, through an on-site manager, until 1982 when it was sold to Bellamah Community Developers.

Gananda, New York

Year of first Title VII guarantee: 1972

Location: Twelve miles east of downtown Rochester.

Description: The developers of Gananda produced a number of innovations, including the creation of a special new community school district by the New York State Legislature and the construction of a multi-purpose school and community facility. However, the successful development of this community, as well as Riverton, another Title VII new community near Rochester, depended on the economic vitality of the Rochester metropolitan area where the growth rate dropped considerably during the 1970s.

Disposition: As early as April, 1974, the Gananda Development Corporation's financial projections indicated that available sources of cash would be exhausted by November, 1974. The developers were not able to bring in any new investors, and HUD acquired part of the project through a deed-in-lieu of foreclosure in 1977. The core areas of the community were sold to the Home Leasing Corporation, and the remainder to local farmers, who were the original landowners and holders of purchase money mortgages.

Harbison, South Carolina

Year of first Title VII guarantees: 1975

Location: Eight miles northeast of Columbia.

Description: Harbison is the only HUD-assisted new community that was developed by a non-profit entity, the Harbison Development Corporation, established by the United Presbyterian Church of the United States. The site consists of 1,734 acres of land, which were part of a parcel given to the church in the 1860s for a "school for freed Negroes." Interstate highway I-26 runs through the community, making it 15 minutes from downtown Columbia. A correctional facility located on the site has been renovated and is being put to new use as a state technical school.

Disposition: HUD did not acquire the community after its failure to make debt service in 1977; instead, a negotiated settlement led to the sale of Harbison to a new owner, the Harbison Group.

Jonathan, Minnesota

Year of first Title VII guarantee: 1970

Location: Within the town of Chaska, 25 miles southwest of Minneapolis.

Description: Jonathan was begun by Henry T. McKnight, a state senator whose family owned some of the land on the site. When the Housing and Urban Development Act of 1968 was enacted, he received Federal assistance under Title IV and, then, in 1970, under Title VII. Its location within the small town of Chaska made Jonathan more of a growth center than a satellite community, although its growth was tied to that of the metropolitan Minneapolis area. The site consists of 5,400 acres of attractive land, including four lakes, and the community has been viewed as a design showcase in terms of open space utilization, residential construction, public facilities, and industrial/commercial development.

Disposition: The death of Henry McKnight, coupled with the 1973-74 recession, critically slowed Jonathan's development momentum. By 1978, HUD had begun foreclosure proceedings and, in 1980, HUD's interests were sold to the First National Bank of St. Paul.

Maumelle, Arkansas

Year of first Title VII guarantee: 1971

Location: Twelve miles northwest of downtown Little Rock.

Description: Land for this community, which consists of about 5,000 acres, was purchased in 1966 by an insurance company owned by the developer. In addition to the fact that the developer brought in the land as equity and, hence, land costs were low, the river-front site adds to the marketability of the community. An initial problem of highway access was solved through Federal grants, and Maumelle is now within the commuting radius of the Little Rock metropolitan area. Among its special facilities are a life care village which has both intermediate and skilled-care capability.

Disposition: Following financial default, HUD did not acquire the community but, instead, sold its interests to a new developer in 1982, receiving cash in return for forgiveness of part of the debt on the property. Maumelle continues to develop to the present time.

Newfields, Ohio

Year of first Title VII guarantee: 1973

Location: Eight and one-half miles west northwest of Dayton.

Description: Originally planned as a 4,032-acre new community, Newfields introduced the innovation of having a dual developer -- the Newfields Development Corporation, as a private, for-profit developer, and the Newfields New Community Authority, as a public, not-for-profit developer. The public developer was responsible for provision of most public facilities and services, and the private developer was responsible for residential, commercial, and industrial land development. While the growth rate for the Dayton area during the 1960s was sufficient, initially, to justify development of a new town, by 1973 the housing market had begun to collapse.

Disposition: After the developer defaulted on the interest payment on the guaranteed debentures, HUD began directing its efforts toward a negotiated settlement which was reached in November, 1979. The terms of the settlement included, among other things, the sale of 2,000 acres to the State of Ohio for a park, and retention by HUD of a core residential area of approximately 470 acres. In 1983, this core area now called Sycamore Woods, is being developed by Sycamore Farming and Investment Co. as a 470-acre planned unit development.

Park Forest South, Illinois

Year of first Title VII guarantee: 1971

Location: Thirty miles south of Chicago.

Description: In 1966, Nathan Manilow, co-developer of the post-war new community of Park Forest, began assembling the land which was eventually to become Park Forest South, a community projected to be 8,163 acres. An Illinois Central Rapid Transit Station is open at the site, making Park Forest South the only new community in the country with rapid rail transit. Nathan Manilow died in 1971, and his son Lewis continued to develop the community. By 1972, housing sales were much lower than projected, associated in part with a "minority" image that the community had acquired.

Disposition: In 1977, after Park Forest South had failed to make interest payments, HUD redeemed $30 million in debentures and, ultimately, acquired 2,280 acres through a deed in lieu of foreclosure. Since 1977, little additional non-industrial development and construction has occurred. In 1982, HUD sold its interest in the community to Monee Business Plaza, Inc., and the industrial park was sold subsequently to another developer.

Riverton, New York

Year of first Title VII guarantee: 1972

Location: About 10 miles southwest of Rochester.

Description: Riverton's site, which includes 2,437 acres, is outside of Rochester's growth corridor, which has moved in a southeasterly direction; demand for housing, commercial, and industrial property, therefore, was less than expected. In 1972, HUD issued the first of two guarantees for Riverton's brief development as a Title VII new community; by 1977, development had come to a halt. Heavy front-end land costs and the breakdown of an anticipated sharing of water and sewer costs with the local township left the developers short of cash.

Disposition: In 1978 HUD paid off the guaranteed debt and began foreclosure of its mortgage. It acquired title to part of the project in December 1978. The acquired land was sold in parcels with the last sale in May 1982.

St. Charles, Maryland

Year of first Title VII guarantee: 1970

Location: Twenty five miles south of Washington, D.C.

Description: St. Charles is a 7,600-acre community within 45 minutes commuting time of Washington, D.C. Developed by St. Charles Associates, the new community has incorporated a number of design and technological innovations in its development; it is also the only Title VII new community whose fiscal impacts on the surrounding area are monitored regularly by the county. While St. Charles has achieved a larger size and more successful development than many other Title VII communities, it did not escape the effects of the recessions of 1973-75 and 1979-81. Development was slower than projected, and cash flow problems resulted.

Disposition: Financing was restructured in order to reduce the debt service load and interest obligations of St. Charles Associates while permitting development to continue. HUD received cash and promissory notes for its interests. It retains a mortgage on a small part of the project to secure a developer promise to pay one series of debentures.

Shenandoah, Georgia

Year of first Title VII guarantee: 1974

Location: Thirty seven miles south of Atlanta.

Description: The location of this community, projected to be 7,220 acres, proved to be a disadvantage, and the community also experienced difficulty because it lacked a sufficient water supply. Negotiations with the nearby city of Newnan for an off-site system that could serve the water requirements of a mature community took many years. These difficulties contributed to Shenandoah's financial difficulties. Despite these financial problems, the community has attracted industry and over 2.7 million square feet of industrial space had been occupied by 1983. Part of Shenandoah has been designated a Foreign Trade Zone, and solar energy is being used in some residential units as well as in public facilities and industrial buildings.

Disposition: The community was acquired by HUD in 1981, and an offer of sale has been accepted from a local consortium which includes the county and a local Savings and Loan Association.

Soul City, North Carolina

Year of first Title VII guarantee: 1976

Location: Fifty miles north of Raleigh-Durham.

Description: As early as the 1960s, Floyd B. McKissick, the former National Director of the Congress of Racial Equality, began assembling the 3,460 acres of land for this new community. It was intended as an experiment in rural development in an area of longstanding poverty from which Blacks had been migrating due to lack of jobs. Soul City is a free-standing new community; given its rural location, it was necessary to construct regional water and sewer systems before any industrial development could begin. Residential development depended on successful industrial development because Soul City was so far from any major city.

Disposition: In 1979, the Secretary of HUD appointed a task force to review the viability of Soul City, and it concluded that the community was not financially feasible. It was liquidated as a Title VII project in 1981, but the community's water and sewer facilities may serve to spur future growth and development throughout the area. Perdue Farms, Inc. has recently purchased 500 acres of the property for a chicken processing facility, and another 800 acres for a spray aeration sewage disposal system.

The Woodlands, Texas

Year of first Title VII guarantee: 1972

Location: Thirty miles north of Houston, 12 miles north of Houston International Airport.

Description: Consisting of 22,273 acres, The Woodlands was initiated by George P. Mitchell, Chairman of Mitchell Energy and Development Corporation. The Woodlands is the largest Title VII community and provides the greatest number of jobs in the local area. Its experimental environmental innovations included a system of storm water management which returned rainwater to the ground to recharge the aquifiers.

Disposition: The Woodlands is the only Title VII new community which did not default on its guaranteed debentures. The legal and financial relationships between HUD and the developers have been renegotiated, with the developer guaranteeing payment of the bonds and agreeing to carry out previously established goals for low- and moderate-income housing and affirmative action.

The Rate of Development in Title VII New Communities

Most of the Title VII communities originally had a 20-year "build-out" plan: within 20 years from the date of the signing of their project agreement, they were expected to be fully developed, at the projected scale, and fully operational with balanced land uses, community facilities, and active economic development. However, all of the communities developed more slowly than was anticipated and, consequently, failed to achieve expected population sizes. As a result, they were unable to sustain the facilities, services, and economic activities that were envisioned as part of a balanced new community. Since none of the communities developed at the anticipated rate, none is likely to achieve its anticipated size within the 20-year period.

Slow start-up. Many communities experienced a lag between the signing of their project agreements and the actual start of construction: in Maumelle, only six units were built three years into the development period; and, in Flower Mound, only 20 units were built during a comparable period. Most of these slow-starting communities were at least seven years into their development period before producing even one hundred units a year. It should also be noted that other communities with a quicker production pace, such as Jonathan and Park Forest South, were slowed by the 1973-75 recession and, as well, by problems that were unique to each community.

Land development and sales. In most of the Title VII communities, there was generally a low level, and uneven rate, of development and land sales for residential, commercial, and industrial purposes over time (See Appendix I, Tables 5-7). For example, Cedar-Riverside sold roughly eight acres, and completed a high-rise building with 1,299 residential units in 1973; from 1973 to 1982, no further development occurred due to a lawsuit brought against the developers by neighborhood groups opposed to the form and design of the community. Park Forest South started out quite promisingly but, within two to three years, residential sales plummeted, even before the recession, and never recovered; industrial development, however, continued at a low level. Jonathan showed a more dramatic pattern, with rather solid residential development and sales stopping abruptly after five years. St. Charles, on the other hand, while experiencing some initial delays due to difficulties in obtaining county zoning approval, exhibited fairly stable growth in land sales. Finally, The Woodlands showed the strongest development and sales record for both residential and commercial uses.

Residential construction. Correlated with low levels of land sales were low levels of building activity. Either developers could not find builders interested in buying lots, or they were not building, themselves, because of a lack of money to do so and/or because of insufficient demand.

Although all failed to reach their projected figures (see Table 3.1), the number of residential units constructed during each year varied considerably across the Title VII new communities. Cedar-Riverside, Flower Mound, Gananda, Jonathan, Newfields, and Soul City had built less than 20 percent of their projected residential units by 1982. Even The Woodlands met only 47 percent of its 1982 target for residential units.

Amount of actual development. Given that the Title VII developers had originally projected their cash flows based on the assumption of much brisker sales and building activity than actually occurred, it is not surprising that they had financial difficulties. In turn, part of the shortfall in meeting land sales and building targets is explained by the absence of a developer in those years after financial failure led to foreclosure. At those times, the New Community Development Corporation generally managed the communities through an on-site asset manager. Usually, this was a passive period, with little significant development taking place. Therefore, as a result of a slow start-up in some communities, and periods during which no developer was on site, many of the new communities developed for only a portion of the time between the signing of their project agreements and the termination of the Title VII program in 1983 (see Table 3.2). This period ranged from three out of 12 years in Cedar-Riverside, four of 10 years in Newfields, and uninterrupted development in Harbison, Maumelle, St. Charles and The Woodlands.

Table 3.2

Active Development and Building Years

	Number of years between date of project agreement and 1982	Number of years in which at least 25 residential units were produced	Number of years in which a developer was active
Cedar Riverside	12	1	3
Flower Mound	12	4	5
Gananda	11	4	4
Harbison	9	7	9
Jonathan	13	6	6
Maumelle	12	7	12
Newfields	10	1	4
Park Forest South	12	5	5
Riverton	11	6	4
St. Charles	13	9	13
Shenandoah	9	5	8
Soul City	9	0	7
The Woodlands	11	9	11

It should be noted, however, that many factors slowed the development rate, even where it was not actually disrupted. Maumelle always had a developer on site, but in five of its 12 years of existence, less than 25 housing units were built. Soul City had an active developer during seven of its nine years as a Title VII community, but only 35 housing units had been built as of 1983. In St. Charles, delays in gaining local government approvals and FHA approvals hampered early development; by 1982, it had only reached 13 percent of its projected population although the community was over halfway through its 20-year build-out period. With an uninterruped development period, the largest Title VII community, The Woodlands, only reached 11 percent of its planned population size by 1982.

Although the severity of the development lags had not been foreseen, the New Community Development Corporation had, in fact, anticipated that developers might not be able to sustain planned rates of development. In reviewing their progress, therefore, NCDC staff emphasized the developers' efforts to address program goals within the context of actual production activity rather than on the basis of projected rates. For example, although developers may have failed to construct the number of assisted housing units planned for a particular year, they were considered to be making progress towards meeting program goals if the balance between assisted and non-assisted housing approximated the projected balance. The fewer the actual number of development years, however, the less likely it was that developers were able to effectively achieve their basic goals.

Chapter Four

FINANCIAL ISSUES IN NEW COMMUNITY DEVELOPMENT

There is no single, overriding cause of the almost uniform pattern of financial failure experienced by Title VII new communities in the early-to-mid-1970s. Some of the reasons put forth to explain these difficulties, listed below, are more important than others, although most of the Title VII communities suffered from multiple problems. These tended to interact with one another to make what is a high-risk undertaking, in the best of circumstances, almost doomed from the start. This chapter examines the various factors causing financial problems as well as those leading to financial success.

The following hypotheses have been put forth, by one observer or another, as to why twelve of thirteen Title VII new communities defaulted on their loan commitments:

- the mid-1970s recession which severely hurt the housing market;

- problems in the Title VII legislation or program design, such as the type of financing;

- faults in the administration of the program, such as a lack of sufficient development expertise or leadership continuity at HUD;

- inadequacies in the location, product-mix, image, etc., of the individual new communities; and

- lack of sufficient expertise and equity of Title VII developers.

While the focus of this chapter is the Title VII new communities, it is important to examine also how private, unsubsidized new communities have fared from a financial point of view. Many private new communities have not experienced financial success in their early years because, as noted above, new community development is intrinsically a high-risk development given its long-term time-frame, scale, heavy up-front costs, and complexity. Unfortunately, the Title VII program and its administration did not mitigate that risk as intended.

The approach or methods employed in this analysis include an examination of extensive program documents and available data as well as in-depth interviews of new communities program staff, developers of Title VII and private new communities, market consultants, sponsors of the Title VII legislation, State and local officials, and academic researchers in the field of new community development.

For some of the arguments put forth for financial failure (or success), there is not, nor can there be, definitive evidence. 1/ There is suggestive evidence, however, that does permit tentative conclusions -- or, at a minimum, throws doubt on particular arguments. An additional problem in this sort of analysis is that it is not very easy to sort out the relative contribution of each "problem" to financial failure, not only because of data and measurement problems, but also because, in most cases, there were several interacting conditions, occurring simultaneously, whose separate effects are not easy to pin-point. Given these caveats, however, the available information does point to three or four critical factors which led to the financial failure of most of the Title VII new communities. To some extent, as the analysis will show, these same factors affected private new communities as well.

Incidence of Financial Success/Failure: Title VII vs. Private New Communities

While Title VII new communities clearly had serious financial problems in the early years of their development, so too did comparable private new communities in which the developer had to buy the land at market rates. There is no hard evidence on whether the incidence of financial difficulties was greater among the Title VII or the private group; answering this question is, essentially, impossible because of the confidentiality of private developers' financial records. Nevertheless, there is considerable evidence that many private new communities did not show a positive cash flow in their early years. While the key indicator of profitability in development is positive cash flow, it is essential to consider cash flow over the entire development cycle, rather than considering only one year. According to one expert in the area, "evaluation of annual cash flows, particularly in the planning and land development phases, understates the profit potential of a project because it does not recognize the large future depreciation expenses of buildings or the potential pace of land sales at full development." 2/

1/ For example, one argument is that the Title VII new community developers had such small amounts of equity in the new community projects that they were not at personal risk and thus had little incentive to stay with the development when problems arose. A true test of the hypothesis involves showing that the developers of the new communities invested less equity in them compared to the level of equity in their other real estate undertakings and less equity than invested by private new community developers, or by developers of other major developments; then, it must be proven that this level of equity significantly affected the level of commitment or effort given to the project by the Title VII developer. The data needed for this sort of test are simply not available.

2/ Mahlon Apgar, "New Business from New Towns?" The Appraisal Journal, January 1973, p. 32.

The current development manager of the private new community of Reston, Virginia also suggested that, "in the long-run, a few of the Title VII projects may prove to be more viable and financially sound than in the early years." 1/

The Title VII approach to new community development (as described in detail in Chapter Two) involved a Federal loan guarantee which made long-term financing available at a reduced rate of interest for purchasing land and developing community infrastructure. The size of the guaranteed loans varied from $13 million (for Harbison) to $50 million (for The Woodlands), the maximum permitted by the Title VII legislation. The interest payments on this debt (debt service) constituted a fixed annual charge to be paid regardless of the developer's available income and revenues. Eventually, all but one (The Woodlands) of the Title VII new communities were unable to continue making interest payments on the guaranteed loans and defaulted; however, HUD did not foreclose or acquire the property in every case of default (see Table 4.1).

Table 4.1

DEFAULT/FORECLOSURE STATUS:
TITLE VII NEW COMMUNITIES

Communities That Avoided Default	The Woodlands	
Communities That Defaulted But Where There Was No Foreclosure	Harbison Maumelle St. Charles	
Communities That Defaulted And Were Acquired by HUD	Cedar Riverside a/ Flower Mound Gananda b/ Jonathon Newfields Park Forest South	Riverton Shenandoah Soul City

a/ Technically, HUD never acquired the new community but sold its interest in the foreclosure lawsuit to the bank.

b/ HUD obtained a deed in lieu of foreclosure for the core parcel of Gananda which was sold, in turn, to another developer. The balance of the property reverted to the original property owners since the original developer was not current in his payments for the purchase money mortgages.

1/ Interview with James W. Todd, President, Mobil Land Development Corporation/Eastern Division, Reston, Virginia, July 1983.

Three new communities defaulted but were not acquired by HUD. In St. Charles, the final work-out arrangement led to no change in the developer or owner who continues to develop the new community. Harbison and Maumelle both changed ownership and developer but continue to develop as new communities. The long-term prospects for these three new communities are considered quite positive, particularly in light of the fact that HUD forgave a substantial part of the original debt in the final settlement between HUD and the developer.

Of the nine new communities acquired by HUD, all but one were substantially sold as of the program's termination -- September 30, 1983. The exception was Shenandoah, which remained under HUD management until its purchase in June 1984. Currently, the industrial park in Shenandoah is doing well, but residential building has halted; local builders are not interested due to its indeterminate future. 1/ Brief notes on some of the other communities which were sold follow:

- The current developer of Riverton purchased, in 1982, 25 percent of the original acreage in the new community (about 600 acres). No commercial or industrial development has occurred or is planned by the current developer.

- In Park Forest South, a new developer intends to develop the residential area, but is uncertain about how successful he will be because of Park Forest South's "minority" image and the depressed local market. The community is much smaller now and the industrial park has been sold off to another company. 2/

- Newfields no longer exists as a new community; of the original 4,032 acres, 2,237 were sold to the State of Ohio for a regional park.

- In Gananda, a large portion of the original acreage reverted to the original land-owners, mainly farmers. With 350 households and one industry, it is basically an attractive subdivision in a rural county.

An examination of several private new communities also reveals a rather high incidence of financial failures during their early years. However, most of them continued to develop under new developers/owners. Reston (Va.), Columbia (Md.), Peach Tree City (Ga.), Rancho Bernardo and Laguna Niguel (Calif.), to cite a few, have all had financial problems in their early years, as evidenced by changes in ownership or control. While a change in ownership *per se* is not necessarily indica-

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1/ Interview with HUD's asset manager for Shenandoah, June 1983.

2/ Interview with current developer of Park Forest South, June 1983.

tive of financial problems, the principals involved in these new communities confirmed that this was the case. Reston, for example, has had three different owners. According to the current developer, the second owner (Gulf Oil) began to realize profits on Reston in the early 1970's but the county then passed a no-growth sewer moratorium. After almost one and one-half years of court action and delay, Reston was allowed to continue development but, by this time, it was 1974, in the midst of a recession. Thus, the profits turned to losses in the mid-1970's. The current developer reports that Reston is now experiencing a positive cash flow.

Connecticut General, the owner/financier of the private community of Columbia, also reports that no positive return has yet been realized on its investment in the community; unconfirmed (but not disclaimed) information suggests that it has written off a loss of anywhere between $25 and $50 million.

Other private new communities which originally experienced financial problems include Rancho Bernardo and Laguna Niguel, both of which were taken over by AVCO Community Developers from the previous developers. A representative of Equitable Life, the financier and second owner of Peach Tree City, indicated that his experiences with new communities and large PUD-like developments were not very positive from a financial point of view. Officials of both Connecticut General and Equitable Life have stated that they are not likely to invest again in these types of large developments in the future.

These selected examples do not represent an exhaustive list, nor are they based on a systematic examination of the financial records of these new communities since such records are not public information. However, multiple ownership over time, combined with the information obtained from both developers and their investors/owners, suggests that at least the original developer of these new communities often experienced financial problems which led to a loss of equity and/or a change in ownership and the need for a substantial infusion of new money. In fact, several developers have suggested that it is usually the third developer who makes a profit, since that person or company comes in at a stage when most of the heavy costs have already been incurred and when revenues from sales are beginning to pick up.

There are private new communities, however, which are reported to have been always financially successful (or, at least there is no evidence to the contrary). Examples include: Kingwood, Texas; Elk Grove Village, Illinois; Irvine, California; Park Forest, Illinois; Mission Viejo, California; and Litchfield Park, Arizona. These communities represent a wide range in terms of size, pace of development, age of community, and type or costs of housing. Some of the reasons for their "success," versus the "failure" of the others, are explored in the next section.

New Communities: A High-Risk Real Estate Investment

The preceding section suggests that financial problems have occurred in private new communities as they have in Title VII communities. The analysis in this section focuses on new community development, as a generic form, highlighting those characteristics which make it a relatively high-risk real estate investment. Four characteristics of new community development are significant in this respect: 1) its heavy up-front costs; 2) its long-term time frame; 3) the need for cooperation between developers and local government; and 4) its complexity.

Heavy Up-Front Costs. New community development, when compared to other forms of smaller-scale, single-use development, usually has greater costs at the front end of the project. The principal costs discussed here are for land, infrastructure, amenities, and planning. As the following will show, some of the financially successful communities have not had, or chose not to incur, some of these costs.

(1) Large-scale land acquisition. Large-scale land development projects tend to be high-risk, particularly if the land must first be bought and assembled where land prices are relatively high. Not only can it be difficult to assemble parcels consisting of several thousand acres (for instance, both The Woodlands and Columbia involved hundreds of separate acquisitions), but the debt service involved in carrying such land can be enormous. Columbia has had to support acquisition of over 17,000 acres of land both within and outside Columbia whose total costs were over $44 million. The current development manager of Reston reports that his company's policy is to consider large-scale development only if the original land-owner is willing to act as an equity participant with the developer in order to cut carrying costs. Reston's original developer ran into financial problems because of the land-carrying costs on 7,400 acres as well as infrastructure costs. (See the discussion below on infrastructure costs of new community development).

In contrast to all of the Title VII new communities and the examples of Columbia and Reston, some developers have benefitted from owning all the land at the outset. In the case of the large private new community of Irvine, the land was owned by the original development company; it was part of a trust owned since the turn of the century and, originally, part of a Spanish land grant. Therefore, the only significant land-carrying costs were the property taxes and these were offset, to some extent, by agricultural use of the land. Similarly, Las Colinas, Texas is being developed on land owned by the developer for over 100 years with, therefore, no debt service cost associated with land acquisition.

However, not all developers of financially sound new communities have been in the position of owning the land outright and being lucky enough to be spared the carrying costs of a large parcel of land. Land ownership by the development company helps, but it is not a necessary condition for financial viability. Substantial financial resources on the part of the developer or an exceptionally good market can lead to financial success. Two examples of financially successfully new communities are Park Forest and Elk Grove Village in the Chicago metropolitan area. Park Forest was developed on the South Side of the Chicago metropolitan area immediately after World War II, providing low-cost housing to meet the pent-up demand created by returning veterans. Elk Grove Village was developed in the mid-1950's in the Northwest corridor of Chicago, meeting an equally strong demand from middle-class city dwellers to own their own home in the suburbs, and benefitting from a location contiguous to the busiest airport in the world. In both communities, land acquisition was relatively inexpensive; more relevant to the financial success of both of these new communities, however, were the extraordinary markets in which they developed. According to one of the original developers of Park Forest, "there are few periods in the history of real estate when the national market is so good that one cannot make a mistake in real estate investment. One of those periods was right after World War II when there was so much pent-up demand." 1/

(2) Infrastructure. Usually, because of the absence of existing infrastructure, the new community developer must start from scratch, building roads, drainage, water and sewer facilities, and other necessary improvements. The experience of most private and Title VII new communities has been that local governments do not often provide the needed infrastructure. A 1975 study by the Real Estate Research Corporation concluded that planned new communities, created by a single development entity, showed a lower incidence of costs to government than conventional development due to some or all of the following factors: (1) donation of sites for fire and police stations, schools, libraries, and other government buildings; (2) payments of necessary extensions of existing major roads, or utility interceptors or mains, and construction of some improvements to existing roads; (3) sale of land at developers' costs or below-market prices to government bodies; (4) construction of facilities for public use, either as a donation, or under deferred purpose or below-market rental agreements; and (5) provision of open space, parks, and other recreation facilities. In some instances, these contributions are required by local governments as part of a negotiation process needed to obtain project approvals. The study also found, as was true in many of the Title VII communities, that certain services were likely to be provided earlier in planned communities (or large subdivisions) than in conventional sprawl-type

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1/ Interview with Phillip Klutznick, Developer of Park Forest, Illinois, July 1983.

development, resulting in higher operating costs per capita in the early stages of the community. 1/

Where State law allows for the creation of special districts to finance infrastructure, this burden is lifted from the developer. For example, under Texas State law, Municipal Utility Districts (MUDs) can be created to finance infrastructure through the sale of tax-free bonds which are issued by the district and which are paid off by special district taxes on residents. This approach significantly reduces the developer's risk and costs of providing infrastructure and was used in The Woodlands and the nearby private new community, Kingwood. However, HUD generally discouraged the use of special districts and that was not the manner by which infrastructure was financed in most of the Title VII new communities or most other private new communities.

(3) Amenities. In addition to basic infrastructure, other costs frequently occur up-front in new communities. These derive from what is termed pre-servicing, or the early introduction of amenities, such as swimming pools, recreation centers, conference centers, golf courses, neighborhood stores, and other attractions designed to create a market or an attractive image for the new community. Subdivision developers usually are not faced with creating as extensive a package of amenities, and most builders in the U.S. build only on a small-volume basis, providing no amenities whatsoever; the residents rely on existing city or county facilities. The costs of providing such amenities in the early stages of development can be burdensome and have been at the root of financial problems faced early on by new community developers. For instance, the Title VII new community, Jonathan, spent large amounts of money on a medical center, a neighborhood store, and man-made lakes. Columbia is another case in point. It incurred heavy costs early on in an attempt to create a market by putting in, for example, man-made lakes, extensive recreation facilities, the million dollar Merriwether Post Pavilion of Music, and small shopping facilities in each of its villages. The current development manager of Columbia indicated that amenities are no longer put in place before the residents move into a new neighborhood; until a critical mass of residents is achieved in the neighborhood or village, residents must use nearby facilities.

The developer of Kingwood attributes the community's financial success (a positive annual cash flow every year except one), in part, to a very conservative approach to the provision of amenities and infrastructure. He contrasts his approach with that of The Woodlands which has spent more on amenities (such as a $28 million conference center) and, partly as a result, quickly experienced rather severe cash flow problems. Centex Corporation, the developer of Elk Grove

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1/ Real Estate Research Corporation, The Costs of Sprawl: Case Studies and Further Research (October 1975) pp. 7-8.

Village in the Chicago metropolitan area, also kept costs down by not building lakes, convenience centers, swimming pools or providing large amounts of green space. Local park districts, with tax authority, (similar to MUDs in Texas) build parks and provide recreation facilities; a park district manages a large park immediately adjacent to the village.

(4) Planning overhead. A third cost to a developer which can be very significant in the early stages of new community development is overhead. Planning a large-scale new community is complex and time-consuming although, once again, the extent of staff burden varies with the size of the new community and, more significantly, with the developer's managerial approach. Columbia's early financial difficulties arose, in part, because of its annual $2 million payroll for a staff of 250 persons. The development staff was cut by 50 percent when Columbia experienced problems in the early-to-mid-70's. Some of the Title VII new communities also had financial problems because they spent too much money, either directly or through contracts, on designing, planning and doing public relations. As an extreme example, Cedar-Riverside had, at one time, 40 people on the development staff working on 100 acres of development. Even The Woodlands, considered financially successful because it did not default on its interest payments, had cash flow problems early on, requiring an infusion of millions of dollars from the parent company of the development entity. In addition to heavy amenity costs, its payroll burden was very high, much greater than the size of the development staff in the nearby, comparably-sized private new community, Kingwood. The developer of Kingwood noted that his staff was kept small because he did not spend a great deal of time developing a detailed plan for the entire community. Instead, he focused at the beginning only on the details of planning one small village and, if it did not work out financially, his company was not committed to the whole community. It was his view that a full-scale plan for an entire community, as required under the Title VII program, can become too costly to a developer and lessen his ability to respond to changes in the market requiring revisions in the housing product being offered.

In conclusion, up-front costs in new community development are often considerably higher than they are in less-planned development. Of the four types of costs, the developer has more control over the extent of the amenities offered and over payroll and contract outlays than over land or infrastructure costs. 1/ A significant difference

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1/ One additional cost faced by some new communities is rapidly rising assessments on undeveloped land-holding in the community. According to Gurney Breckenfeld, Columbia And The New Cities, this has been a significant issue in Irvine, CA where the Orange County tax assessor was raising the estimate of the value of the ranch so often that Irvine's real estate taxes went up by one million dollars a year for three years during the 1960's (p.49).

between smaller-scale development and new communities is that much of the planning and coordination costs (to the extent that planning occurs) are borne by the general public rather than by the developer or community residents.

Long-term time frame. In addition to the imbalance of costs and revenues in the early years, another factor which adds to the risk of new community development is its long-term nature. Most new communities have a development time frame of at least 20 years. This means that the developer will usually face several recessions, as well as a variety of other unanticipated events which may slow or stop development temporarily. Thus, the return on investment in new communities may not occur until the latter stages of development. For many investors, the opportunity costs (foregone returns on investments with shorter turnaround) are not worth the wait and the uncertainty surrounding such undertakings.

Predicting the future, when the time period covers 20 years, is problematic, if not impossible. According to the current developer of Reston, developments whose lives extend beyond ten years are very problematic; in the future, he would ideally prefer none over five years. Longer-term endeavors rely too much on "crystal-ball gazing" since one cannot adequately predict the local economy or local politics. 1/

Most of the Title VII new communities were just starting when the 1974-75 recession hit and severely hurt sales. None of the marketability studies done prior to the development of these communities anticipated the impact of this down-turn on residential, industrial, and commercial sales, nor the shift in economic growth away from the Northeast and North Central regions.

Dealing with local government and local opposition. While unforeseen economic downturns can have an adverse effect on development, so can unanticipated delays caused by local government and interested groups. The original developer of Reston and of the Title VII new community, Riverton, believes that one of the biggest challenges to new community developers today is the slow and lengthy process of obtaining local government approvals. His experience suggests that, over the last two decades, this process has become more cumbersome; local governments move more slowly today because of their concerns over fiscal and environmental impacts. 2/ While this is also a problem with large subdivisions and, in some locales, with any new

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1/ Interview with James W. Todd, current developer of Reston, July 1983.

2/ Interview with Robert Simon, original developer of two new communities: Reston, Virginia and the Title VII community, Riverton, New York, June 1983.

development, the problem is exacerbated by the sheer size of new communities.

For example, the community of St. Charles has had a "mixed" relationship over the years with Charles County in which it is located. When St. Charles was proposed, some Charles County officials were concerned about the impact of the new town on taxes, crime, and the county's "way of life"; in particular, there was a fear that St. Charles might become the low-income housing mecca for residents of Washington, D.C. Before the proposal for St. Charles, there was no zoning for new towns in Charles County; thus, this had to be created by the county, and the process took two years. Furthermore, because of the county's concern over potential negative fiscal impacts, it required that a new town had to be self-sufficient fiscally (i.e., its service costs could not exceed its generated tax revenues). Otherwise, the county would not issue new building permits for St. Charles. While this has not happened to date, the "fiscal self-sufficiency" amendment continues to be a source of tension between the developer and county.

Local opposition can be a problem whether or not a new community is a "satellite community" or a "new-town-in-town." In Cedar-Riverside, the Title VII new community within the City of Minneapolis, development was halted in 1973 due to a challenge brought by a neighborhood group that was unhappy with the scale and density of the development. Complex litigation stopped development after construction of one high-rise building, and ended seven years later, effectively terminating the project.

The problems faced by the private new community of Litchfield Park, Arizona, provide another example of unanticipated delays. A freeway linking Phoenix to Litchfield Park, and perceived as crucial to the future development of the new community, has not been completed because of opposition by local groups. This opposition stems from fear that the freeway would interfere with wildlife migration and violate Indian ruins. The delays have lasted 10 to 12 years to allow for archaelogical studies of ruins and analysis of the freeway's impact on wildlife. Long delays or failure to construct or make expected improvements to highways also contributed to problems for Title VII communities, including: Riverton, Jonathan, Newfields, and Flower Mound.

Complexity of mixed-use development. While certain new community developers have gained significant experience over the last 20 years, new community development is still a very different enterprise than what most of those who are in the real estate development industry are used to. Many developers specialize in residential development, shopping malls, office buildings, or industrial parks, but few have expertise in all of these. Aside from the issue of developer capability for this sort of development, one of the most difficult challenges in building new communities is to coordinate the production of jobs with housing development. Given the goal of new communities to create places where people can live, work, and play, the developer has to bring in jobs for residents, or vice versa (there does not seem to be an agreed-upon "ordering") and to match the types and salaries of the jobs with the types and costs of housing made available. To some extent, this is a developer's most challenging goal.

The discussion, so far, has attempted to highlight, with examples, those features of new community development that illustrate the reasons why it is a difficult and high-risk approach to reducing urban sprawl. Land, infrastructure, amenities, and staff costs can be high at the front end unless there are special circumstances -- or very conservative developer management -- that make it otherwise. Further, since new community development is such a long-term enterprise, it has to "weather" economic downturns and unanticipated delays from local government or outside groups. And, its scale and complexity pose severe challenges to a single developer who must deal with and become knowledgeable in several different types of development -- residential, commercial office, and industrial -- and coordinate them sufficiently well so that the goals of the community can be achieved. Given these general difficulties of doing new community development, the following section looks at the specific causes of the financial crises faced by Title VII communities.

Title VII New Communities: Causes of Financial Difficulties

Observers of the new communities program have suggested a variety of factors to account for the special problems faced by Title VII new communities: the legislation itself; HUD's administration of the program, particularly its selection of projects; flaws in project size, location, and developer management; and general economic conditions in the mid-1970's. This section concentrates more, however, on the financial impact of problems associated with the Title VII legislation, HUD's administration, and the quality of projects and developer expertise/management.

The Title VII legislation and program design. The Title VII legislation, itself, has been criticized as a cause of the financial failure of new communities. The program design issue which has received the most criticism by developers and by a 1976 HUD study, New Communities: Problems and Potentials, was the structure and/or level of financing provided the new community developers. 1/ As described in Chapter Two, the Title VII legislation attempted to resolve the problems associated with the large-scale, high-risk character (as well as the heavy front-end costs) of new community development through a Federal guarantee of bonds issued by approved new community developers and through a limited program of grants and below-market-rate loans. The private financial

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1/ U.S. Department of Housing and Urban Development, New Communities Administration, Appendix C, pp. II - 8,9.

sector was generally unwilling to provide the long-term capital needed for new community development. Or, if made available, the interest rates were prohibitively high. Although it is impossible to estimate exactly the true interest subsidy of the guarantee, the interest rate on the guaranteed loans varied from seven to eight percent; interviews with various developers indicated these rates were two to four percentage points below non-guaranteed loans -- if they were even available.

(A) The loan guarantee provisions. The need for a developer to make interest payments on the guaranteed loans right from the start has frequently been mentioned as a critical cause of their financial difficulties. The annual debt service burden on the debentures that were issued was considerable. For example, the debt service on the $50 million guarantee given The Woodlands was over $3.5 million a year; for Park Forest South and Shenandoah, the debt service burden exceeded $2 million annually. In a report prepared in 1967 for The Task Force on New Towns, "cash flow debentures" were recommended since they would not require that the developer make interest payments until the cash flow became positive. 1/ According to the first director of the New Communities program, the notion of a cash flow debenture was examined for its feasibility and found to be unmarketable or to carry a market, or higher-than-market, interest rate, even if guaranteed. 2/

HUD's 1976 study on the New Communities program summarizes the effect of the financing instrument on the new communities. It states that: (1) the reduction in interest cost achieved through the Federal guarantee did not sufficiently reduce the development's high annual carrying costs; and (2) the high proportion of fixed debt service payments to projected revenues exposed the projects to almost certain financial difficulties. 3/ (The study fails to note, however, that private new community developers have operated under the same conditions and because of the lack of a guarantee, with higher interest rates.)

Another frequent criticism of the Title VII legislation raised by some developers and some New Communities program staff was the prohibition against the use of guaranteed loan monies for purposes other

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1/ Report prepared for The Task Force on New Towns, 1967.

2/ Interview with William Nicoson, first General Manager of the New Communities program (1970-1972), June 1983.

3/ U.S. Department of Housing and Urban Development, Op.Cit., pp. II-9,10.

than development, that is, building. 1/ As stated by one staff member of the New Community Development Corporation, the program was designed to allow the developer to remain solely as a land-development entity, and not allow him to build. In most cases the developer simply could not create land value fast enough nor could he depend on inflation in the value of the land to stay even with his land carrying costs.

The prohibition on building was ultimately an undesirable restriction on the developer. It hurt the developer and, consequently, the new community. As it turned out, some of the Title VII developers did end up building, but HUD had to review each arrangement between the developer and some subsidiary entity building in the new community -- and such reviews caused additional delays for developers. In contrast, Connecticut General permitted considerable flexibility in the Columbia developers' use of funds, including construction as a legitimate use.

While the restriction on building was a problem, it is not clear that allowing the developers to use the loan monies for purposes other than land development would have resolved their financial difficulties. As noted, some developers did engage in building, as in St. Charles, Park Forest South, Newfields, and Riverton, but still experienced financial difficulties. Their enormous debt service, combined with the poor markets in most of the locations and the recession in the mid-1970's, were more critical in creating financial problems than was the prohibition on the use of the loan monies for building.

(B) The provision of grants. Another common criticism of the legislation is that it set up too many objectives which were not supported adequately through grants. The legislation certainly led to a set of expectations on the part of developers that grant money would be forthcoming. However, not all of the grant provisions were funded. For instance, no funds were appropriated to help local governments pay for educational, health, fire, and safety services associated with the new communities during the initial years of development. Had such funds been made available, at a minimum, they would have improved relations between the developer and local officials who were very concerned about the potential fiscal drain resulting from an influx of a large number of new residents.

1/ In Section 711(c) of the Title VII Housing and Urban Development Act of 1970, Public Law 91-609, 84 Stat. 1791, "land development" covered such things as clearing and grading land, making, installing, or constructing water lines and water supply installations, sewer lines and sewerage and waste disposal installations, steam, gas, and electric lines and installations, road, streets, curbs, gutters, sidewalks, storm drainage facilities, community or neighborhood central heating or air conditioning systems, and other installations. Building of any non-public facilities was disallowed.

Under the Title VII legislation, grants for infrastructure and open-space purposes were also to be made available, although in the early years of the Title VII program funds appropriated for these grants were less than expected by the New Communities program staff and developers. As noted in Chapter II, several of the basic grants were eliminated in 1974 and replaced by Title I assistance under which grant aid continued after the new communities defaulted.

To assess definitively the extent to which the lack of grants for public services and infrastructure caused financial pressures, it would be necessary to examine the financial history of each new community, its annual outlays, and revenues from all sources. Such data are not available from NCDC documents. However, cumulative estimates of cost breakdowns are available through 1975 (at which time all the communities, except for The Woodlands, were already in financial difficulty) (see Table 4.2). Combining that information with grant allocations through 1975 allows some tentative conclusions about whether insufficient infrastructure grants, in particular, were a major or minor cause of financial difficulties. It should be noted that while the focus here is on costs and grants through 1975, since that is when most of the new communities were already in financial difficulty, many communities subsequently received additional assistance through Title I grants.

The following notes on each of the 13 communities briefly describe (1) the infrastructure costs and (2) the level of grant money received through 1975:

- Cedar-Riverside: The absence of infrastructure grants was not the deciding factor in Cedar-Riverside's financial problems, since only about $1 million was spent through 1975 on infrastructure. More critical was the cost of land, over $15 million, which constituted 50 percent of total costs through 1975. (The developer did receive a $705,000 grant for open space.)

- Flower Mound: Through 1975, the developer spent a total of $3.6 million for construction, engineering, and planning purposes, and received $5.5 million in grants. (During HUD ownership an additional $3.2 million was spent on development costs.)

- Gananda: This new community received no grants either before or after 1975. As of 1975, it had spent $13 million on various development costs, including a very sophisticated sewage treatment plant with the capacity to serve a population of over 80,000. In fact, its development costs were almost twice its land acquistion costs (see Table 4.2). According to HUD staff, this new community's development potential was so limited, a decision was made to withold grants.

- Harbison: Through 1975, $1.9 million was spent on development costs while $2 million in Federal grants were awarded. The lack

Table 4.2

Analysis Of Costs For Land Acquisition, Development, Overhead, And Financing From Inception To September 30, 1975[a]
(in $1,000's)

	Land[b]	Development[c]	Overhead	Financing	Total[d]
Cedar Riverside	$ 15,101	$ 1,016	$11,816	$10,625	$ 38,558
Flower Mound	5,343	3,625	5,458	7,863	22,289
Gananda	6,700	13,000	6,000	3,300	29,000
Harbison	3,162	1,906	2,425	2,759	10,276
Jonathan	6,800	8,600	6,070	7,200	28,670
Maumelle	1,405	8,961	1,940	2,983	15,289
Newfields	8,552	6,143	1,544	3,373	19,612
Park Forest South	22,039	3,361	3,384	12,322	41,106
Riverton	4,700	6,200	6,800	5,300	23,000
Shenandoah	5,119	6,234	3,014	5,796	20,163
Soul City	618	2,059	841	929	4,447
St. Charles	12,382	6,944	4,015	8,419	31,760
The Woodlands	30,171	28,008	11,785	12,366	82,330
Totals	$122,112	$65,096	$65,096	$83,235	$366,500

a/ Source: Office of Finance, NCDC, November 19, 1975. Other program sources sometimes show different figures than those given here but there was no way to reconcile such differences. Since the Office of Finance had the official finance function within the program, their figures were assumed to be more reliable.

b/ Includes amount paid for initial land value at the closing plus subsequent land costs, and is net of purchase money mortgages.

c/ Includes construction, engineering, and planning costs.

d/ Total may exceed amount of debentures since the costs were paid from all sources of funds: debentures, equity, subordinated debt, and other borrowing.

of additional grants for infrastructure was not a critical factor in the new community's financial problems. HUD delays and the slow pace of development were the major problems. (Almost $14.5 million in Title I grants were received after 1975.)

- Jonathan: Additional grants might have helped Jonathan through the 1974-1975 recession. The developer received $2.5 million in grants, but spent $8.6 million of the $20 million in guarantees on construction costs, engineering and planning. However, the death of the developer and ensuing problems over his estate led to serious problems in the community's development performance. An additional $1.8 million in Title I grants were received after 1975.

- Maumelle: Through 1975, the development costs ($8.96 million or 59% of total costs) were proportionately very high compared to land acquisition costs ($1.41 million or 9% of the total). The new community received $7.5 million in grants. While additional grants may have helped somewhat, it is not clear that they could have compensated for the slow pace of development and much lower-than-anticipated in-coming revenues.

- Newfields: This new community received no basic or supplemental grants and spent $6.1 million of borrowed money on land development and engineering costs. Grants might have postponed financial difficulties, but the sluggish growth of the market area and a poor location were the critical factors hurting the developer.

- Park Forest South: Park Forest South did not receive any water/sewer grants, yet it is difficult to argue that the lack of such grants had a major impact on the community. (The developer claims that additional grant money would have given him a little more time and, perhaps, a fighting chance.) The biggest cost item was land rather than development: over $22 million for land acquisition and $12 million in financing costs were spent, compared to only $3.4 million for development through 1975. The developer did receive $3.8 million in open space grants which helped alleviate somewhat the land debt. It should be noted that $4.4 million in grants for water, sewer, and widening of roads were rescinded, primarily because HUD staff determined they were unneeded.

- Riverton: About $5.5 million in grants were awarded, compared to $6.2 million spent by the developer on infrastructure-related costs. Actually, the highest cost was overhead which accounted for $6.8 million in expenditures through 1975. It is highly unlikely that additional grants could have saved the developer from financial difficulties, given the market in the Rochester area.

- St. Charles: A considerable amount of grant money, totalling $9.8

million through 1975, was awarded for St. Charles. During this period, $6.9 million was spent on infrastructure. A large amount of grant money clearly helped make St. Charles one of the more successful new communities even though it still defaulted on interest payments. The grant money alone, however, does not explain its relative success compared to some of the other new communities. The experience of its developer, the price of its housing, and its market capture (25% of the county's new dwellings over the 1970-1980 decade) are crucial to explaining development performance.

- Soul City: This new community received $5.4 million in grants which were used to set-up a water system, not only for Soul City but for surrounding communities. The lack of additional infrastructure grants was clearly not a key to its failure.

- Shenandoah: As of 1975, this new community had received a negligible amount of grant money for infrastructure, although it obtained extensive Department of Energy grant dollars for its solar energy center. One of the key problems in the new community was obtaining sufficient water. Prior to 1975, loan guarantee funds were used to obtain a portion of the water supply. After 1975, a total of $11.8 million in Title I grants was awarded, and over half of this went to the nearby local jurisdiction for increasing the water capacity for Shenandoah and surrounding Coweta County. Cash flow problems arose in 1976 although default did not officially occur until 1980. According to the developer, more timely grants would have helped, although such grants would have had to be very considerable to actually prevent default.

- The Woodlands: The new community received over $7.5 million in grants. However, The Woodlands incurred extremely heavy up-front costs for development and for the provision of certain amenities, such as a $28 million dollar conference center. Had Mitchell Energy and Development, the parent company of the development entity, not been willing to commit additional millions to the project, the grants certainly would not have been enough to carry the project through the early years.

In sum, ten of the thirteen new communities actually received, or had reserved for them, grants through 1975 ranging from a low of $700,000 in Cedar Riverside to a high of $9 million in St. Charles. When the later Title I grants are taken into account, twelve of the thirteen new communities were awarded such assistance, although much of the Title I money came in after the new communities were already in trouble. Would more grants for infrastructure or public services have helped? The answer is yes. Would they have made it possible for the developers to meet their debt service on the guaranteed loans? Probably not. Even developers, when interviewed for this study, did not consider insufficient infrastructure grants to be a critical factor in their financial difficulties. If grants could have been made for land acquisition costs, however, it might have been a different story for some of the projects. The real issue is not grants per se, but more money from whatever the source, if one assumes that the communities were viable undertakings in the first place.

For the sake of argument, assuming that the location, market, size of the new community, and developer management were satisfactory in each of the cases, then the problem was money alone. Either the debt service should have been picked up earlier by HUD, or refinancing should have occurred in all cases; or more grant money should have been made available; or the developers should have had "deeper pockets" and committed more of their own resources to the communities. However, in fact, additional financing is only a partial explanation of the difficulties. Poor management by HUD and the developers and poor markets exacerbated an already high-risk situation. Before discussing these problems, attention is briefly focused on other criticisms of the Title VII legislation.

(C) Other problems with the legislation. Criticisms of the legislation, other than those focused on financing issues, suggest that the Title VII approach assumed too preponderant a Federal role in new community development, not explicitly drawing State and local governments into the process. 1/ Another criticism is that the legislation did not contain a needed industrialization or jobs policy to create sufficient incentives for businesses to locate in the new communities. Yet another is that the legislation did not set up a separate Federal agency to implement the program. There is probably some truth to these criticisms, although it is difficult to assess how the financial outcomes would have differed had the legislation addressed all of them. It is possible, though far from definite, that different sites and communities might have been selected had an independent agency been established to administer the program, if one assumes that staff and management in such an agency would have had more underwriting and development expertise, and more continuity of leadership than was the case in HUD. However, to the extent that there was a problem with the quality of the applications, there is some evidence to suggest that developers with more experience in large-scale new community development declined offers, or decided not to submit Title VII applications, out of a fear of "government red tape" or the desire to prove it could be done within the private sector. Thus, even with a separate agency running the program, there might have been a dearth of experienced developers applying. Furthermore, even an independent agency might have been rushed, as was the New Community Division within HUD in the early years, to approve applications as quickly as possible to show that the program was underway, a problem which led

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1/ Interview with former Congressman Thomas L. Ashley, August 1983.

to the selection of a few projects that were probably best left "on hold."

Administration of the Title VII program. HUD's administration of the Title VII program also bears responsibility for the financial losses of the program. Criticisms have focused on a variety of problems, of which the most important are discussed here: the process by which proposed new communities were selected for participation in the program; delays; lack of coordination; lax financial management; and rapid turnover in leadership.

(A) Selection process. One of the most criticized aspects of HUD's administration was the process by which new communities were selected for participation in the program. That process has been described in some detail earlier but, to summarize, once an application was invited officially from among those received informally from developers, it was seldom turned down. Further, the decision to issue a formal invitation to submit an application was made at a time when the Department knew very little about the project. Only after the application was invited was a detailed feasibility study done or analyzed. According to some former staff of the New Community Development Corporation, it was unwritten policy that staff were committed to making the project work, with little flexibility to reject the project regardless of problems encountered.

There was no legal requirement that an application be approved once invited. Rather, informal moral or political commitments apparently led to a reluctance to turn down an application once a million or more dollars had been spent on its preparation or once land options had been taken based on the expectation of application approval. Former HUD Secretary Lynn indicated that, while he could legally reject applications when they came to him, so much had been committed informally, approval was almost inevitable. This unofficial policy affected the Board of Directors of NCDC also. While the Board was constituted to provide the Secretary and Corporation with a source of independent, informed advice, it never turned down an application received by the General Manager or Secretary.

One critical flaw in the proposals that were submitted was the projected population growth rates for the regions or market areas and, more significantly, the share of that growth expected to occur in the new community. This was important information in the application since it projected the demand for a new community over the years and formed the basis of the revenues used in cash flow projections. A 1971 study done for HUD criticized the developers' analyses used to project growth in their new communities. Examples from that study highlight some of the problems in this regard.

Flower Mound is located on the extreme urban fringe of the Dallas-Fort Worth SMSA. In the application for this new community, the SMSA population was projected to be 3 million by 1980, based on demographic trends, judgments of the impact of the new Dallas-Fort Worth regional airport, fringe growth, and better highways. (The actual 1980 SMSA population was 2.97 million, so the population projection was very accurate.) However, the market analysis prepared by the developer (via consultants) concluded that the area surrounding Flower Mound would grow at a far more rapid pace than the region as a whole to "eventually double its capture of bi-metro growth." 1/ The judgmental leap concluding that the particular market share of regional growth, where Flower Mound was located, would be double that of the region overall, was not based on any explicit analytical process. And, of course, it did not materialize.

Park Forest South's growth/capture analysis represented a more sophisticated approach since it was located in a region and subregion in which a growth allocation model had been developed by the Northern Illinois Planning Commission (NIPC); this model apportioned shares of forecasted growth of each county of Northern Illinois to the townships in a given County. Table 4.3, taken directly from the 1971 report, shows the developer's anticipated cumulative population. 2/ It also shows two forecasts made by the NIPC model of population in Monee Township in which Park Forest South is located.

The first forecast projected population within the township, assuming normal growth patterns, i.e., without a Park Forest South located there; the second forecast reflects its presence and the investment and growth multipliers due to it, in particular, a university and a commitment (that never materialized) to build a large hospital in Park Forest South, employing up to 1,000 people. Using the NIPC projection, General Electric-TEMPO pro-rated the Monee Township population on the basis of the relative size of the new community project area to the area in the township as a whole in order to estimate what population the NIPC model might have forecast for the area. The differences in the figures are considerable. The developer's projection (116,000) for 1995 is almost five times larger than General Electric-TEMPO's pro-rated figure (24,000) and twice as large as NIPC's revised population estimated for Monee Township. As of June 1983, the population of Park Forest South is a little over 6,000, less than one-third of the developer's projection for the expected population in 1975.

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1 / General Electric Company - TEMPO, Developing A Methodology For The Evaluation of Proposed New Communities, October 1971, pp.2-3.

2/ Ibid., p.4.

Table 4.3

Comparison of Population Forecasts for Park Forest South

Source of Estimate	Population (1,000's)		
	1975	1985	1995
Developer	22	85	116
NIPCC			
Monee Township a/	12	21	41
Monee Township b/	27	46	60
TEMPO/NIPC Prorated			
Park Forest South a/	5	8	16
Park Forest South b/	11	18	24

a/ Based on original NIPC forecast.

b/ Based on revised NIPC forecast.

The examples point to a key problem in most of the new community applications. The projected growth rates for the new communities were based on very optimistic assumptions about the extent to which these communities would capture a disproportionate share of their market area's overall growth. In some SMSA's, particularly in the Northeastern part of the United States, not only did the capture rates fall short, but the regional population projections did not materialize either. One prominent market consultant involved in conducting several marketability studies for the New Communities program indicated that one reason for the financial failure of the new communities was that they were not as attractive to most homebuyers as might have been expected. In hindsight, the projections made about the capture rates were simply too optimistic. 1/

1/ Interview with Robert Gladstone, President, Gladstone Associates, August 1983.

Many observers, including New Communities program staff themselves, have remarked on the lack of sufficient staff in the early years and staff with the requisite development or financial expertise necessary to carefully evaluate proposals. This expertise was acquired later on, but only after most of the projects had been approved. Interestingly, however, representatives of insurance companies, banks, and the development industry, who were contacted for this study, do not feel that the private sector is much better in its ability to underwrite and assess feasibility. An executive of Equitable Life, which is currently financing Peach Tree City and another large scale PUD development in Alabama, indicated that his company has marketability assessments done by outside consultants before investing in real estate projects. Yet, "it all comes down to the inability of any lender or consultant to really forecast or project adequately what is going to happen in the long-term future -- regardless of whether there is a private or public lender." Similarly, an executive of the Connecticut General Insurance subsidiary which owns Columbia, emphasized the considerable uncertainty surrounding any long-term forecast in new community development. Others with experience both in development and finance echoed similar sentiments. According to one of the developers of the successful private new community, Park Forest, built just after World War II:

> Bankers should know more about the economic feasibility but past experience indicates that they also make mistakes. The Real Estate Investment Trusts did poorly because they were based on decisions made by commercial bankers who were really not acquainted with real estate investments. Decisions based on an assumption of perfect market conditions will lead to failed projects. Many failed developers, particularly those in the Title VII program, had eyes that were too big for what the market could really absorb, and HUD did not do any realistic discounting of their projections. 1/

This comparison is not meant to "justify" mistakes in the Title VII program, but rather to emphasize the difficulties associated with judging the financial viability of long-term projects.

(B) Delays. A median processing time of 26 months elapsed between the point of pre-application submission and the point of final Project Agreements. One period of delay of particular concern to developers was the elapsed time between the official commitment to the developer and the actual availability of money, that is, the debenture issue. This period was particularly significant to the developers because, having received the Federal commitment, they started to develop seriously and accumulate expenses. The developers of Maumelle and Shenandoah waited

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1/ Interview with Phillip Klutznick, former Secretary of Commerce, Carter Administration, July 1983.

over one year; of Soul City, almost two years; and of Harbison, almost two and one-half years.

For some projects, additional delays were encountered while covenant and subdivision approvals were obtained from FHA, thus delaying the time when the land could actually be developed and sold. For instance, the developers of St. Charles experienced a two-year delay in obtaining FHA approval. Although the project was officially approved as of December 1970, because of the FHA delay and a local problem with zoning approval, no lots were developed or sold until 1974, which was at the beginning of a recession. The Woodlands did not obtain FHA approval until 1978, six years after its Project Agreement was signed.

(C) Lack of intra- and inter-agency coordination. With respect to the coordination issue, there was never an adequate mechanism for enlisting various offices within HUD, much less other Federal agencies, to coordinate their efforts to achieve new community goals. To some extent this was due to the organizational placement of the program within HUD in its early years. During the initial years of operation, the General Manager reported to an Assistant Secretary at HUD. Such a position put the program at a disadvantage when competing for necessary budget funds or in dealing with the FHA, which was higher on the organizational ladder. The lack of interagency coordination was also due to the fact that the Title VII program was primarily a "headquarters program" with little significant input from, or contact with, HUD field offices.

Those who have criticized HUD because grants were not provided in timely enough fashion blame it, to a large extent, on the coordination issue. When other offices were asked to provide grants, more assisted housing, and other forms of assistance there was often a less-than-enthusiastic response. Not until the late 1970's, for example, was a group established within NCDC to coordinate the relationship between it and HUD's Office of Housing to negotiate additional assisted housing for the new communities.

Inter-agency coordination was even more difficult. For example, the Department of Transportation and State governments had their own well-established priorities for allocating highway funds and for deciding on the location of new roads which usually did not take into account the needs of new communities. A 1976 HUD study argued that, "in the absence of a legislatively mandated mechanism for assuring inter-agency cooperation, the Federal Executive should have established, through Executive Order, a method of assuring cooperation between the New Communities Administration and the other relevant Federal Agencies." 1/ This is not to say that efforts at interagency coordination were

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1/ U.S. Department of Housing and Urban Development, Op.Cit., p. II-16.

nonexistent or completely unsuccessful. For several years, there was a special unit in the New Communities program to handle relations with other Federal agencies and some grant aid was, indeed, received from these agencies (about $35 million in basic grants).

(D.) Lax financial oversight by HUD. The administration of the program has been criticized for lax financial management in the early years, particularly insufficient cost-control discipline over the developers. For instance, HUD allowed, if not encouraged by all of its processing requirements, large development staffs in the Title VII new communities. According to a representative of the development team for The Woodlands, dealing with HUD alone cost them $500,000 annually. Nor did HUD stop certain developers from spending considerable money on amenities, designing, planning, and public relations at the beginning, whereas a more prudent financial management procedure would have monitored outlays for such costs right from the start.

HUD has also been criticized for approving such large developments. The issue of the appropriate size of the new community was seen as a double-edged sword by those on the staff. On the one hand, there was a belief that a certain critical mass of people would be needed to create a sense of community, generate sufficient commercial demand for shopping facilities, restaurants and other amenities, and provide a large enough labor supply for industries locating there. According to one researcher in the field, a "genuine new town (many big bedroom communities aspire to the label but do not deserve it) should be planned to accommodate at least 30,000 inhabitants." 1/ While there was no agreement on this particular number, the general feeling, in the early years at least, was that it should be large -- certainly larger than typical PUD's. Columbia (14,000 acres), Reston, (7,400 acres), and Irvine (83,000 acres) were obvious models. Furthermore, many New Communities program staff members and developers believed that as much land as possible should be bought up-front because, if delayed, it would cost more later if the project was successful or simply not be for sale at any reasonable price to the developer.

As noted earlier, private new communities have also purchased large acreages. Columbia pursued a "defensive purchasing" policy, buying surrounding land to prevent outsiders from building shopping facilities and other support services to capitalize on the demand created by residents of the new community. 2/ On the other hand, there were strong

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1/ Gurney Breckenfeld, Columbia And The New Cities, (Ives Washburn, Inc., New York, 1971), p.17.

2/ The developers of St. Charles also indicated that development outside the new community has been stimulated by their residents. They claim not to have received "credit" for that increased demand in the county's analysis of the net fiscal impact of the new community.

arguments against such large-scale acquisitions: higher carrying costs on the part of the developer and less money available for other purposes. It might have been financially more prudent to buy less land, proceeding more cautiously to see if the project was going to "work out."

There is evidence to suggest that HUD encouraged at least two communities -- Riverton and Flower Mound -- to acquire more acreage than was originally planned by the developer. 1/ In the case of Gananda, which was the second largest new community, with 11,000 acres either purchased or with an option to buy, there is some contention between the developer's representative and NCDC staff over whether HUD required the developer to increase the size of the proposed new community. 2/ Examination of program documents supports the position of the NCDC staff that the original proposal was for a community of that size. Even so, more prudent HUD evaluation of the proposal would have down-sized considerably the planned new community.

Another point of contention concerns the draw-down of the guarantee loan monies by the developer at the closing or signing of the project agreement. The developer was allowed to draw down 80 percent of the total value of the land, frequently to purchase the project site from another developer-controlled entity at a price which included the difference between the original cost of the land (not always easily verified) and its usually higher value after being assembled for development as a new town. The amount of the increase in value was sometimes in dispute. This became a critical issue since up to 50 percent of the developer's equity was allowed to be in the form of appreciated land, while at the same time, the U.S. Government's security as loan guarantor lay in the value of the land.

Details are given to highlight the controversy and significance of this issue around the time of the closing or signing of the Project Agreement for the new community of Riverton. All of this information is found in NCDC program files and documents.

1. HUD's appraiser maintained (in a March 1971 memo) that the property assembled for Riverton was worth essentially what the developer paid for it: $5.1 million, or $2,473 an acre compared to the total acquisition cost of $5.8 million, or $2,565 an acre. The discrepancy between the two values was due to the assertion by HUD's appraiser that the developer paid more for a certain 735 acre parcel than it was actually worth.

1/ This evidence comes from NCDC records.

2/ In a June 1983 interview with a member of the original development team for Gananda, it was contended that HUD suggested increasing Gananda's acreage from 3,000 or 4,000 acres to 11,000 acres.

2. In July 1971, the developer maintained that the land which he owned or controlled for the planned community was worth $7.3 million, substantially more than the $5.8 million in acquisition costs.

3. In July 1971, an outside appraiser hired by the developer found the property to be worth $4.6 million, not including an increment in value due to PUD zoning approval, and $7 to $8 million with the PUD zoning.

4. The HUD appraiser raised a legal question with HUD's General Counsel as to whether the zoning could be taken into account when valuing the land since the zoning was contingent upon Title VII financing. This appeared to contradict the statutory history of the program since the existence of the guarantee could not be taken into account in determining land value.

5. The importance of the zoning issue was not trivial since the $5.1 million valuation ($2,473 an acre) meant, in effect, that the developer could not rely on $1.5 million (difference between $7.3 million and $5.8 million) in appreciated land value for part of the equity he had counted on and he would have to raise additional equity funds which he claimed he did not have.

6. There appears to have been some disagreement within the Office of the General Counsel (OGC) over whether the inclusion of zoning contradicted the program statutes, but ultimately it was ruled that the zoning could be taken into account in determining land value.

7. As a result of that ruling, the HUD appraiser revised his estimate of value, taking into account the zoning increment, to arrive at a value of $6.5 million. This value would have produced a "soft equity" increment of only $693,628 for the developer, requiring him to contribute an additional $800,000 cash equity.

8. The General Manager of the Title VII Program once more overrode HUD's appraiser and officially established the value at $6.7 million for 2,191 acres. This provided an $840,000 increment of value for purposes of calculating the developer's "soft equity," substantially less than the original $1.5 million contemplated, but more than the HUD appraiser's original value.

While not all new communities entailed such a laborious or contentious process as noted above, the example shows the tenuousness of the land valuation estimate, while at the same time, how this estimate played a critical role in determining the Government's security for its guarantee of the loan and developer's equity contribution.

At the closing, significant amounts of the initial cash proceeds were able to leave the development entity frequently to reduce or minimize the risk of the individual sponsors within the development entity. Since these sponsors had an early return on their investment, it has been contended that they lacked the proper financial incentive to push the project forward. One alternative would have been to allow the development entity to pay out only amounts sufficient to cover actual costs, rather than to create de facto an approach whereby the individual sponsor within the development entity could benefit from an uncertain appraisal of how much the assembled land had jumped in value merely by virtue of its being assembled for a Title VII new community.

(E) Rapid turnover in program leadership. One final, but significant administrative problem for the New Communities program was the "revolving door" pattern of leaders whose individual terms averaged about one year. While one cannot tie this fact directly to the financial difficulties of the program, it certainly played an indirect role. To some extent, it was symptomatic of the lack of political support given the program. Many of the administrative problems might have been eliminated, or at least mitigated, had there been more experienced and continuous management. As one NCDC staff member indicated, each new manager had new rules and standards for approval, continuing projects, and giving grants to such projects.

Location, size, market, and "image." Given the nature of the process and the quality of the information by which Title VII new communities were selected, it is not surprising that several of the Title VII new communities were located in less than optimal locations or were too large for their market areas. The following discussion examines the extent to which issues of location, market, size, and "image" created financial problems for selected communities.

The real estate principle most well-known is "location, location, location." This suggests, somewhat simplistically, that good locations are profitable and bad locations are not. Following this logic leads to the conclusion that most of the new communities were in poor locations. The answer to the location question, however, is somewhat more complex. Any location has both advantages and disadvantages, and they differ depending on the type of development. The extent to which the former or latter prevails depends on the overall market, the size of the development, and the attractiveness of the product in the development relative to the competition in the market area.

Not only did the new communities suffer from the recession of the mid-70's, but the expected population trends on which they were supposed to capitalize did not always develop as expected. This was particularly the case in the Northeastern and North Central areas of the country. For instance, in the Rochester SMSA where two new communities, Gananda and Riverton, were located, the growth rate dropped from 50.5 percent between 1960 and 1970 to 10.0 percent between 1970 and 1980. In Dayton, there was an actual loss of population over two decades. The 1960-1970 growth rate of 16.9 percent became -2.4 percent for the 1970-1980 decade. 1/ Several of the new communities were in the South where growth rates were higher, although none was located in the West, which experienced strong growth in the 1970's. Most of the large private new community developers were taking advantage of that region's growth.

However, regional growth figures are not the only key to predicting market demand. Even within a high-growth region, an oversized community, or one with poor highway access, or one with the wrong product-mix for a particular market area, can fail. The new community of Flower Mound was located in the Dallas-Fort Worth metropolitan area where the growth rate between 1970 and 1980 was 91.2 percent, more than double its 1960-1970 rate of 39 percent. Yet, development in Flower Mound was very slow, primarily because of its location on the fringe of the SMSA and the failure to build an anticipated highway creating easier access to it.

Similarly, Atlanta's regional growth rate increased over the two decades (from 36.7% to 46.3%), yet Shenandoah was not able to take advantage of it. The relative success of its industrial park (with 2,000 jobs) indicates that, from an industrial point of view, the location was satisfactory, particularly because of Shenandoah's proximity to an Interstate Highway and the Atlanta Airport. As a residential location, it is in a less desirable market area, in part, because it is considered far (35 miles) from Atlanta and, in part, because it is so close to the private new community of Peach Tree City, a strong competitor, particularly for the upper end of the home-buyer's market. While there are no definitive data on where employees work, interviews with the developer of Peach Tree City and the current asset manager of Shenandoah suggest that Peach Tree City has been able to attract many more airline/airport employees than Shenandoah.

At a minimum, it appears as if Shenandoah was too large for the market. In an internal staff report to the Board of Directors of the New Community Development Corporation in January 1978, the large size of Shenandoah was raised as an issue. At the time the debentures were issued in 1974, the developer projected land sales sufficient for the construction of 23,000 dwelling units by 1994. This projection was based on a 1972 study commissioned by the developer and conducted by Real Estate Research Corporation. In June, 1975, HUD commissioned

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1/ According to 1980 census data, there was a 1.9 percent decrease in population between 1970 and 1980 in Hennepin County, Minnesota (Cedar-Riverside) and a 6 percent lost in Montgomery County, Ohio (Newfields). The number of new housing units, however, increased slightly in both of these areas.

another consultant to do a study; it forecasted land sales sufficient for 11,000-13,400 dwelling units could be sold by 1994, a 50 percent decrease from the earlier projection. Senior officials of HUD's Area Offices in Atlanta also believed that Shenandoah suffered from its remote location and an oversupply of developed land in the Atlanta SMSA. 1/ In addition to its being too large, it also has a marketing problem: the current asset manager believes that the lot sizes may be too small to attract many potential home buyers; county officials and residents also perceive it to be a "low-income project," since almost one-half of its units constitute some form of assisted housing.

Park Forest South is another example of a new community where a combination of a poor market, over-sized community and, ultimately, a "minority" image created financial problems for the developer. Located on the South side of Chicago, it is in an area that has always been considered a less attractive market than the North Shore, the traditional magnet for residential development. Those interviewed for this study had mixed views on the desirability of its location. Some argued that it was too far from Chicago (about a one hour commute) with too many other affordable residential areas closer-in. (A commuter railroad was made available, but only later, after Park Forest South had been foreclosed.) There is also no easy access to the major roads in the area. Yet, it was considered to be a satisfactory location for industry; the real problem was the lack of a sizeable enough market to support the scale of community planned.

Aside from its location and size, Park Forest South, like Shenandoah, has marketing problems for several reasons. First and foremost, many observers argued that Park Forest South has developed a "minority" image over time (currently, about one-half of the residents is minority) which has kept many potential white homebuyers away. 2/ The current racial mix is alleged to be partially due to realtors' racial steering, and partially to the location, since the South Side of Chicago is predominantly minority. Several observers were concerned that it would become a completely "minority" community in the future. The current developer also feels that Park Forest South suffers from problems of visual image since the entrance to the new community is rather nondescript. Finally, he and others also felt that the "California-style" housing without basements was not appreciated by most of the potential South Side buyers used to a more traditional brick bungalow.

There is probably more consensus on the significant problem of

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1/ Internal Report to NCDC Board, January 1978

2/ Interviews with both the original and current developers of Park Forest South; and officials from Northern Illinois Planning Commission, June 1983.

location for Soul City, located one and one-half hours from the Raleigh-Durham SMSA in a rural county. The fact that only 35 households reside there speaks for itself. While a one and one-half hour commute to work is acceptable in certain areas of the country, this was not the case here. Such an isolated location required that an extensive jobs base be created first before any significant residential demand could be analyzed. This simply did not materialize, and Soul City was too far from the Raleigh-Durham area to start out, at least, as a bedroom community. Furthermore, it also had a "minority" image.

For most of the new communities, the combination of location and market produced inadequate revenues to cover costs. For a few, the problem was exacerbated by either a "low-income" or "minority" image. While judging the strength of a given location and the future market prior to development is far from a science, and taking into account that locational advantages (and disadvantages), as well as markets, change over time, it is still the case that more careful consideration up-front in the planning and approval stages might have led HUD (or the developer) not to select certain sites or plan such large communities. Over-optimism by the developers, market consultants, and HUD, as well as appeals from elected representatives and local officials to approve certain projects, contributed to less-than-optimal locations or larger-than-could-be-absorbed new community developments.

Experience and equity of new community developers. While few developers in the nation had considerable knowledge of new community development at the time that the Title VII program was started, several of the Title VII developers lacked in-depth experience in large-scale development of any sort. Most, for example, had little background in industrial development, a necessary type of expertise for attracting jobs to the new community.

Even in those few cases where the developer had considerable, large-scale experience in real estate development, day-to-day management of the new community project has been criticized. For example, a 1976 HUD study criticized the developers' poor cost control procedures, noting specifically that their expenditures exceeded the pace and levels shown in their original forecasts. Furthermore, the developers continued spending even when land sales did not materialize as anticipated. The report also criticized the developers' staffs. The weakest components were typically in the areas of finance and marketing. 1/

Another reason frequently given for the financial problems experienced by Title VII new community developers was absence of "deep pockets". One variant of this argument focuses on the equity contribution by the

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1/ U.S. Department of Housing and Urban Development, Op.Cit., pp. III-55,66.

developer. Title VII developers were required to meet a 4-to-1 debt-equity ratio, with the following sources considered as equity: (1) cash; (2) a line of credit from a bank; (3) developer-incurred expenses prior to the Project Agreement; (4) subordinated debt; or (5) the value of the land after assembled for the new community which could constitute up to 50 percent of total equity. Unfortunately, no reliable data are available on the amount and type of equity contribution provided by each developer through 1982. Figures are available through 1977, but several are considered not reliable even by their source, the Office of Finance in the New Community Development Corporation. Without such data, it is impossible to examine the equity issue very systematically. It does not appear that all of the communities met the 4-to-1 ratio; moreover, only a small share of the actual equity was cash.

It is common for developers to minimize the amount of personal equity in their development projects, so the pattern of equity investment in the Title VII new communities may not differ that much from the norm. Nonetheless, it is also the case that having a considerable personal investment creates more care and attention to the development. A representative of a development company currently involved with several large private new communities in the West also made another observation: if developers are borrowing from a local lender with whom they expect to conduct business in the future, their reputations are at risk and they will be more careful than when the money is guaranteed, since guaranteed money may be seen as "free." 1/

One conclusion can be drawn: none of the development entities, with the exception of the developer of The Woodlands, either had the financial resources and/or the willingness to commit such resources to carry their projects through difficult periods caused by the recession and other problems. To secure the developer's commitment in The Woodlands, HUD's Office of General Counsel obtained a written agreement from him that he could not sell his majority ownership in the very prosperous parent company (Mitchell Energy and Development) without approval from the Secretary of HUD. This was a unique occurrence in the program which, ultimately, became a source of contention between the developer and HUD.

Relationship between HUD and developers. One of the problems with the New Communities program, on which there is virtual consensus among developers, local officials, program staff members, and sponsors of the Title VII legislation, was the nature of the relationship between HUD and the developers. For the most part, during the early years, there was a strong sense of partnership between the New Communities

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1/ Interview with James Gilleran, Vice President, Western Division, Mission Viejo Development Company, July 1983.

program and the developers. Ultimately, however, the relationship between NCDC and the developers became adversarial; suspicion of each other's motives characterized interactions between the two sides, although there were significant exceptions, depending on the personality or roles of those involved.

A particular source of confusion and controversy existed over the exact role that the New Community Development Corporation was supposed to play. At the outset of the program, NCDC acted as a passive guarantor of funds. As noted in a 1976 report, in the minds of the developers,

> there was an underlying assumption that NCA was there to assist and facilitate in the 'starting-up' and paper-processing of these new community development entities. NCA was seen as a support entity to the new town company, in much the same way as a friendly neighborhood banker, at the start-up of a new (and seemingly low risk) venture. 1/

As the new communities began to experience financial difficulties, however, the New Community Development Corporation became much more like a co-manager or active overseer/regulator involved in making major decisions concerning finances, personnel, marketing, and other management decisions. A great deal of the criticism of NCDC by new community developers stemmed from a discrepancy between what the developer thought was an appropriate role (that of passive guarantor of funds), and the role which NCDC began to play over time (that of co-manager and overseer). Complicating this situation was the fact that communication between NCDC and the developers' organizations was often confused by the large number of contact points between the two organizations. This led to additional frustration and confusion on both sides, "since a communication to a contact point was often untraceable thereafter and accountability was impossible to place." 2/

Interestingly, when private new communities have experienced financial difficulties, their financiers have also exercised considerable financial controls and involvement in management decisions. Perhaps one significant difference was that decision-making in the New Communities program remained very centralized and remote to most of the developers, as well as slow in coming. While asset managers were put on site once HUD foreclosed, they had little authority and were often overruled by the NCDC staff in Washington. In contrast, for

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1 / Kenneth Leventhal and Company, Report on Intensive Studies of Selected Title VII New Community Projects, Contract No. H-4085, 1976, p. 167.

2/ Kenneth Leventhal, Op.Cit., p.170.

example, Connecticut General, the financier of Columbia, had a representative on site within a very short period of time after Columbia's financial problems so that the development pace was not seriously interrupted.

The next chapter examines how successful the Title VII new communities have been in addressing the program's objectives.

Chapter Five

ADDRESSING TITLE VII OBJECTIVES: WHAT WAS ACHIEVED?

How successful were Title VII new communities in meeting the four basic goals of the program? To answer this question, a systematic assessment of the actual achievements of the thirteen communities receiving Title VII loan guarantee assistance was undertaken. 1/ While a final evaluation of performance relative to program goals or other standards should, necessarily, be deferred until the communities are more fully developed, this interim assessment suggests how close to target the communities are, as of the date of the program's official termination.

In the first four sections, the projected goals for each community are compared with their actual achievements to date; differences in achievements among Title VII communities are described with respect to the goals of:

- o Providing balanced, orderly physical development in order to create a desirable social environment;
- o Increasing the choices of living and working locations for low- and moderate-income and minority households;
- o Encouraging innovative community development practices and techniques;
- o Contributing to the welfare of surrounding areas through positive environmental, economic, and fiscal impacts.

The final section summarizes the achievements of the communities and tallies their costs.

Goal One: Providing Balanced, Orderly Physical Development in Order to Create A Desirable Social Environment.

New communities were to be developed in a balanced, orderly fashion in order to ensure a satisfying social environment for their residents. This was

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1/ Information is drawn from program files, the 1980 Census, and discussions with those involved in each community's development. In Soul City, Gananda, Riverton, and Maumelle, there was so little development by 1980 that Census data are not available. Thus, for those measures drawn from the Census, information on only nine of the thirteen Title VII communities is reported.

to be accomplished through:

- A mix of land uses. A mix. including residential. commercial/industrial. and open space. was considered necessary to creating relatively self-contained communities where residents have convenient access to work, shopping. and recreation facilities. There was no particular balance of land uses prescribed by HUD; the intent was to ensure the phased development of commercial/industrial and open space areas along with whatever residential development the developer had targeted.

- The provision of open space. In contrast to the primarily residential character of a typical subdivision or planned unit development. residential areas in Title VII communities were planned to have more open space which. in turn. was intended to preserve and enhance the natural environment.

- Relatively high residential densities. It was anticipated that communities with higher densities would be more efficient because. for example. there would be fewer miles of roads and utility lines; also. more compact communities would have fewer negative environmental impacts. Residential areas which consumed fewer acres per housing unit were intended to be balanced by the increased amount of open space in new communities.

- Adequate facilities and community participation. Title VII communities were to contribute to good living conditions by having adequate public. community. and commercial facilities. and by providing opportunities for participation in community governance.

This section assesses the extent to which Title VII communities addressed this goal of providing balanced. orderly physical development and a desirable social environment.

Land use patterns. The original plans (see Table 5.1) for Title VII new communities set out a mix of land uses: 44 percent of the combined 77.336 acres for all 13 communities was intended for residential development; 16 percent for commercial and industrial development; and 40 percent set-aside from development for recreation. schools. and open space and other non-saleable uses. 1/

To date. only two Title VII communities have achieved a relative mix of land uses in their developed acreage: The Woodlands and Maumelle. (See Table 5.2.) These communities, along with Harbison and St. Charles,

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1/ As of 1982. development in the nine communities for which information is available, taken together. is as follows: 35 percent of the developed acres was used for residential development; 29 percent for commercial and industrial uses; and 32 percent was set aside from further development, primarily for open space.

TABLE 5.1

Planned Land Use in Title VII Communities
(In Percents)

	Residential	Industrial	Commercial	Schools	Open Space/ Recreation	Roads	Other	Total a/
Cedar-Riverside b/	83	--	17	--	--	--	--	100
(Urban Renewal Area)	28	--	3	--	17	19	32	99
Flower Mound c/	49	7	4	4	24	6	7	101
Gananda	52	5	4	6	21	10	1	99
Harbison	46	13	3	1	13	6	17	99
Jonathan	30	24	3	4	21	6	13 d/	101
Maumelle e/	38	20	2	4	32	3	--	99
Newfields	54	10	3	1	20	6	6	100
Park Forest South	60	12	4	3	11 f/	--	9	99
Riverton	49	19	8	4	20 g/	--	--	100
St. Charles	62	7	3	2	22	5	--	101
Shenandoah	32	13	6	7	25	12	5	100
Soul City	33	18	5	11 h/	28	6	--	101
The Woodlands i/	37	12	3	--	24	10	15	101
Weighted Average	44	13	3	3	22	7	8	100

a/ As reported in the initial project agreement; totals may not equal 100% due to rounding.

b/ As reported, schools are included in non-residential building. Most open space is in the larger Cedar-Riverside renewal area, not the Title VII area.

c/ These figures exclude a "primary reserve" of 1,113 acres and a "land bank" of 4,026 acres.

d/ As reported, this includes church, agricultural and recreation reserves.

e/ Maumelle's project agreement covers only 12 years of development but these land use statistics are for the entire project.

f/ Additional open space areas include 838 acres of residential neighborhood open space and six acres for schools and Governor's State University. The "other" category primarily reflects acreage for Governor's State University campus.

g/ As reported, this figure includes land for medical and institutional uses.

h/ As reported, schools are included with roads and utilities under the "road" column.

i/ As reported, these figures include a 1,800 acre reserve and a 400 acre university site; roads are included in the open-space figure.

have been the most consistently productive Title VII communities -- that is, each has built at least 25 housing units per year for seven years or more. 1/ The Woodlands most closely followed a phased development strategy in which different land uses were developed simultaneously; it began commercial development -- including a large convention center -- during the initial residential development stages and now has shopping facilities at the neighborhood level with plans for development of a regional shopping center. Maumelle's commercial/industrial development initially out-paced residential

TABLE 5.2

Mix of Land Uses in Selected Title VII Communities a/
(as percent of developed acres)

	Residential (%)	Commercial/ Industrial (%)	Other saleable (%)	Non-saleable b/ (%)	Total (%)
Flower Mound	53	24	11	12	100
Harbison	68	14	1	17	100
Jonathan	23	12	2	63	100
Maumelle	29	27	14	30	100
Park Forest South	19	26	11	44	100
St. Charles	68	18	--	14	100
Shenandoah	26	67	--	7	100
Soul City	7	72	2	19	100
The Woodlands	38	30	3	29	100
Weighted Average	35	29	5	32	101

a/ Reported by developer, as of December 1982. This list includes only those communities where a developer was active for at least five years; it excludes Newfields, Riverton, Gananda, and Cedar-Riverside.

b/ Non-saleable acres include open space, land dedicated to public uses, and other land uses which preclude development.

1/ The most consistently productive Title VII communities (those which built at least 25 housing units per year for seven years or more) are: St. Charles, The Woodlands, Maumelle, and Harbison. The least consistently productive communities (those which built 25 housing units or less per year, for four years or less) are: Flower Mound, Gananda, Newfields, Cedar-Riverside, and Soul City.

development; although there is a mix of land uses at this time, commercial/industrial land uses are now somewhat greater than originally planned and residential development is slightly less. In contrast, St. Charles is close to communities with adequate shopping facilities and did not develop its own shopping facilities until later in its development. Similarly, Harbison's proximity to employment and amenities in Columbia, S.C. made industrial and commercial development less of a priority initially.

In general, those Title VII communities with less consistent production records have more significant imbalances in their land-use patterns. In Flower Mound, for example, residential land use -- most of which occurred when the community was managed by HUD -- is twice that of commercial development. Likewise, Shenandoah's land-use pattern is skewed by its successful industrial park development; until late 1982, the absence of an active developer to undertake residential or commercial development forestalled more balanced land uses.

These examples suggest that the timing of mixed land-use development is a strategic developer choice that is influenced by the rate of development, although not necessarily bound by population size. In particular, population size is not a rigid determinant of the ability to provide a mix of residential and commercial development; in Jonathan, there was a neighborhood center with shops, offices, and community facilities as early as 1974 when it had a population of only 2,245. In contrast, Park Forest South had a population that was sufficient (6,300) in 1982 to support commercial facilities, but had only a small neighborhood shopping center and some banking facilities.

In sum, only a few of the Title VII communities -- generally, those with continuous production -- have so far effectively staged residential and non-residential development to reach a mix of land uses that approximates their original plans.

Land set aside for open space. Comparisons of planned and actual acreage set aside for open space in Title VII communities are limited by variations in reporting of this information. Because developers report open space for various purposes in different categories, the broader category of non-saleable acres is used here to measure how much land has been removed from development. 1/

In nine Title VII communities for which data are available, 32 percent of the total developed acreage consists of non-saleable land, most of which is open space (see Table 5.2). Seven of the nine have set aside fewer non-saleable acres than originally planned (see Table 5.3), while two (Jonathan and Park Forest South) have set aside a greater proportion of non-saleable

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1/ See footnotes to Table 5.1. In most communities, non-saleable acres are set aside primarily for open space and recreational purposes but they may include land set aside for roads, schools, and other purposes.

acres than projected. 1/

In sum, most Title VII communities have not yet set land aside from development in the proportions that had been planned. This is the case even for those communities with consistent production records; of these, Maumelle comes closest to approximating their plans for setting land aside from development.

TABLE 5.3

Planned and Actual Non-saleable Acres in Title VII Communities a/

	Planned (%)	Actual (%)	Actual Acres
Cedar-Riverside	68	N/A	N/A
Flower Mound	37	12	93
Gananda	22	N/A	N/A
Harbison	36	17	51
Jonathan	40	63	1,184
Maumelle	35	30	415
Newfields	32	N/A	N/A
Park Forest South	20	44	1,017
Riverton	20	N/A	N/A
St. Charles	27	14	224
Shenandoah	42	7	40
Soul City	34	19	N/A
The Woodlands	49	29	1,235

a/ Reported by the developers, as of December 1982. "Non-saleable acres" include roads, open space, and recreational areas; they are mainly composed of open space acreage, but interpreting these figures solely as open space would overstate the extent of that use.

1/ In Park Forest South, this increment of open space is partially attributable to the developer's donation of a large tract of land to a university; it also includes additional wooded acreage purchased, with HUD assistance, to resolve an environmental dispute among residents over the balance of open space and residential development within the community.

Residential density. In the original plans for the thirteen new communities, projected residential densities ranged from 4.4 units per net residential acre, for Maumelle, to 10 units, for Shenandoah (see Table 5.4). Actual residential densities, as of September 1982, were fairly close to the planned final densities in four communities. Achievement of planned residential densities does not, however, appear to be consistently related to housing production records. Of communities with more than seven years of active housing production, St. Charles and Maumelle have approximated their planned densities, but The Woodlands and Harbison have not. Despite less consistent production records, Park Forest South and Jonathan have approximated their planned densities.

Even if some communities failed to develop at their planned densities, many did improve on conventional patterns. Residential densities of greater than 3.3 units per acre, a level which the Real Estate Research Corporation describes as characteristic of "urban sprawl", are interpreted here as improving on the physical characteristics of less-planned development. 1/

TABLE 5.4

Planned and Actual Residential Density
In Title VII Communities a/

Community	Planned	Actual	Greater Than "Sprawl" Density (3.3 units per acre)
Cedar-Riverside	15.0	N/A	N/A
Flower Mound	6.1	2.4	No
Gananda	8.9	N/A	N/A
Harbison	10.1	6.8	Yes
Jonathan	6.3	5.9	Yes
Maumelle	4.4	4.5	Yes
Newfields	7.0	N/A	N/A
Park Forest South	7.6	7.1	Yes
Riverton	7.6	N/A	N/A
St. Charles	6.3	5.6	Yes
Shenandoah	10.0	4.2	Yes
Soul City	7.8	N/A	N/A
The Woodlands	7.4	5.0	Yes

a/ Reported by the developers, as of December 1982. Residential density: Total residential lots sold divided by acreage developed and sold.

1/ Real Estate Research Corporation, 1973. The Costs of Sprawl. Washington, D.C.: U.S. Government Printing Office.

Harbison, Jonathan, Maumelle, Park Forest South, Shenandoah, St. Charles, and The Woodlands achieved densities substantially higher than 3.3 units per acre.

Overall, the majority of the Title VII communities have achieved a higher residential density than that found in conventional development patterns, but those communities with brief housing production periods have been less effective in meeting their physical development goals. In terms of three measures -- balanced land uses, non-saleable acreage set aside from development, and residential density -- Maumelle and The Woodlands have been most effective to date in meeting the goals of creating balanced, orderly physical development. The Woodlands has created a community of relatively balanced land uses with the greatest number of acres set aside for open space of any Title VII community, although it has not yet met its own residential density and open-space goals.

Social environment. One of the major rationales for the development of planned new communities, as opposed to less comprehensively planned development or suburban sprawl, is to promote ease of access to places of work and to facilities and services. New communities were expected to be far more than residential settlements; they were expected to offer benefits and services normally associated with cities or towns.

The notion of pre-servicing was implicit in some of the early thinking about new communities -- i.e., that facilities and services should be available when the population moved in. Political and fiscal realities made this goal difficult to accomplish. Newly incorporated new communities have difficulty raising money when revenues are minimal. And other levels of local government tend to be reluctant to provide a higher level of service for one group than for others within their jurisdictions. Although it was recognized that developers could not be expected to provide a full range of the services typically provided publicly or commercially, it was anticipated that they would facilitate the location of these within their communities.

In contrast with other Title VII goals, there are no standards or specified goals against which to measure achievements in this area. What can be said is that, of the thirteen Title VII communities, those with a relatively greater number of years of consistent development tend to provide more services and facilities. Among the more consistently productive Title VII communities:

- The Woodlands and St. Charles provide schools, recreation centers, shopping facilities, libraries, medical facilities, and internal transit.
- Maumelle and Harbison, with similar production periods, do not have as extensive a range of services and facilities.

But the relationship between consistent production and availability of facilities and services does not always hold. Among the less consistently productive communities:

- o Shenandoah provides community-wide recreational facilities but residents rely on the nearby city of Newnan for schools, shopping and other facilities and services.

- o Gananda has its own school district and multi-purpose school facilities as well as a sewage treatment plant; also, Soul City, with minimal development, nevertheless provides a regional water and sewer system.

In addition to the consistency of development, variations in service provision and facilities often correspond to differences in service-provision responsibilities of State and local governments and differences in the capacity of Title VII community associations to participate in service delivery.

(A) Relations with local and state governments. Many service-provision issues hinge on whether a new community is incorporated as a self-governing body with elected officials, or is unincorporated and governed through a combination of public and private bodies. The division of responsibilities among local governmental entities and between public entities and the developers differs among the new communities studied, but the differences are associated with local statutes rather than Title VII regulations. Of the Title VII communities, Park Forest South is incorporated; Flower Mound is the major part of, and contains the bulk of the development of, an incorporated township bearing the same name; and Jonathan is within the corporate limits of Chaska. By merging with Chaska, Jonathan became part of a local government that qualified for Federal grants-in-aid and already was equipped to provide many basic services. All other Title VII communities are currently unincorporated.

Where not incorporated, Title VII communities have had to seek the cooperation and support of a variety of state and local government entities. The Woodlands, for example, falls within the extra-territorial jurisdiction of Houston and, therefore, has had to have its plans (but not zoning) reviewed by the City. It also works with the county and school district in which it is located and contracts for supplementary police services from the county. State and local support for needed services and infrastructure was not always forthcoming on a timely basis. 1/ In general, this was not a major problem for most of the thirteen Title VII communities, but there are significant exceptions. The low level of amenities was a problem for Gananda, as was the lack of highway access for Newfields and Jonathan, relatively low levels of financial commitment for water, sewer and/or roads for Cedar-Riverside and Riverton, and delays in local government approvals for St. Charles. In Shenandoah, delays in securing a water supply held up residential sales for over a

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1/ See Raymond, Parish, Pine, Weiner, Inc. and Logue Development Company, Inc., The Role of Local Government in New Community Development, HUD, March 1978.

year. In general, where local government help was not forthcoming on a timely or sufficient basis, developers paid for much of the infrastructure and, where possible, included the costs in the prices of developed land.

Some communities have experimented with the use of special districts for infrastructure development, although HUD generally discouraged the use of this option. In Texas, Municipal Utility Districts (MUDs), permitted by a 1971 state law, have been used by developers in several new communities, including The Woodlands, to develop water, sewer, and drainage improvements. 1/ Municipal tax-exempt bonds are issued by the utility districts, when a certain level of population exists in the area, to finance these improvements. Responsibility for paying off this bonded debt lies with the residents within the MUD service area.

Similarly, the Newfields New Community Authority (NNCA) was a state-authorized, special-purpose local government authority, but one whose primary purpose was to provide amenities rather than infrastructure. As a multi-purpose special district, the NNCA had bonding authority, the right to impose user fees, and the powers to develop land and facilities held in common. It was intended to operate with funds from a modest tax on residents' income but it never became fully operational because of Newfields' limited development.

(B) Community associations. Whether community facilities and services are provided by local government entities and special districts, by the developer, or by "dual developers" such as the Newfields New Community Authority, a community-wide association typically manages and operates some or all of the facilities held in common. Most frequently, community associations operate and maintain the open spaces, paths and bikeways, recreational facilities and community buildings; they also have some design review responsibilities, particularly for changes in existing buildings. Community associations may perform similar responsibilities in private new communities and conventional, large-scale subdivisions having recreational facilities, but they are required components of Title VII communities and a major means of citizen participation in community governance.

Local residents are represented on the boards of these associations but, generally, they are run by professional staff. The developer initially retains control of Title VII community associations by appointing board members; over time, the proportion of directors elected by residents is supposed to increase and governance authority is supposed to be transferred to citizen-controlled entities. In Newfields, there was more direct public representation from the start. Under Ohio law, the Newfields New Community Association was to have both public and private sector representatives -- 3-6 citizens appointed by the County Commissioners, an equal number appointed by the developer, and one appointed by the Commissioners to represent the county government. As in other Title VII community associations, the appointed members

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1/ In some States, special taxing districts can also be used to provide for development and maintenance of parks and recreation facilities.

were to be gradually replaced by elected members as the new community population grew. Although residents control neighborhood-level Title VII community associations, none of the Title VII community-wide associations are yet governed by elected, rather than developer-appointed, representatives. In these terms, citizens in unincorporated Title VII communities have fewer controls over governance than those in incorporated communities.

The effectiveness of Title VII community associations is also limited by financial constraints. Most community associations are initially capitalized by the developer and supported by assessments on residential property; if funds are insufficient to cover costs, the associations must charge additional fees or turn to private borrowers. This limits their capacity to deliver services and manage community facilities. All in all, no Title VII community association has yet achieved citizen control or financial autonomy.

Goal Two: Increasing the Choices of Living and Working Locations for Low- and Moderate-Income and Minority Households

Title VII communities were to improve both the living and working choices of lower-income and minority households by building communities with a mix of housing types and prices and with jobs suitable to the range of residents' skills.

Increasing living choices. With the exceptions of Newfields, Gananda and Flower Mound, which built no publicly subsidized (referred to here as "assisted") housing, each Title VII community tried two approaches to the provision of low- and moderate-income housing: building assisted housing units and constructing a wide range of conventional, non-subsidized housing that was intended to be affordable to households at various income levels, including the lower end of the market. The analysis in this section is based on selected performance measures of relative affordability: the amount of assisted housing; the proportion of rental units and median contract rents; and the median values of single-family housing. 1/

(A) Assisted housing. As planned, the Title VII program was to produce 59,578 units of housing affordable to low-and moderate-income households (not necessarily assisted housing) by the end of the 20-year build-out period in

1/ Two factors prevent direct comparisons of projected and actual provision of housing affordable to low- and moderate-income households: the varying definitions of low- and moderate-income used as the basis for projecting the proportion of affordable housing to be built in each community and incomplete information on housing costs. The only information available on actual housing affordable to low- and moderate-income households is the number of assisted housing units that would have been expected at this stage in development.

the thirteen new communities; this would have been 24 percent of the planned housing stock. (See Table 5.5.) As described in Chapter Two, low- and moderate-income housing came to be measured in terms of assisted housing: 3,518 units of assisted housing were available in 1982, which is about 17 percent of the total housing stock. Although this volume is far less than anticipated, in six communities the ratio of assisted to non-assisted housing is higher than, or equal to, the projected ratio: St. Charles, Shenandoah, Cedar-Riverside, Maumelle, Soul City, and Jonathan. These communities are providing low- and

TABLE 5.5

Planned and Actual Assisted Housing Units in Title VII Communities a/

	Percentage of Assisted Housing Units Planned	Actual Percentage of Assisted Units	Number of Assisted Units
Cedar-Riverside	43%	52	669
Flower Mound	20	0	0
Harbison	25	18	168
Jonathan	25	25	243
Maumelle	23	37	247
Newfields	15	0	0
Park Forest South	16	11	245
Riverton	40	4	20
St. Charles b/	20	28	912
Shenandoah	30	48	160
Soul City	31	76	25
The Woodlands c/	27	13	829
Total	24	17	3,518

a/ Reported by the developer, as of December 1982.

b/ The inclusion of units receiving aid under the State of Maryland's below market interest rate program raises the total number of assisted units to 1300.

c/ Recent development in The Woodlands increases the share of assisted housing: the developer estimates over 1,000 total assisted housing units starts by 1983; about 60 percent of these units are housing for the elderly.

moderate-income housing in the proportion, if not the volume, that was projected. 1/ This is a significant achievement in addressing the stated goals for low- and moderate-income housing; as will be noted in Chapter Six, Title VII communities are also superior to private new communities in their provision of affordable housing, including assisted housing units.

(B) Rental units. In the nine Title VII communities for which information is available, rental units ranged from 9 percent of the housing stock (in Flower Mound) to 99 percent of the stock (in Cedar-Riverside, where the only housing completed following its Title VII guarantee was a high-rise rental housing project). (See Table 5.6.) Cedar-Riverside, Jonathan, Park

Table 5.6

Availability and Cost of Rental Units in Title VII Communities a/

	Rental Units As Share of Total Housing Stock, 1980	Median Monthly Contract Rent, 1980	Assisted Housing Share of Total Housing Stock, 1982
Cedar-Riverside	99%	$185	52%
Flower Mound	9	646	0
Gananda	NA	NA	0
Harbison	13	340	18
Jonathan	42	247	25
Maumelle	14	182	37
Newfields	NA	NA	0
Park Forest South	40	271	11
Riverton	NA	NA	4
St. Charles	22	244	28
Shenandoah	40	116	48
Soul City	NA	NA	76
The Woodlands	29	293	14

a/ Availability and cost of rental units as reported in 1980 Census; figures on assisted housing provided by the developer.

1/The provision of assisted housing does not appear to be related to the number of active construction years, the projected level of assisted housing, the size of the community, region, or other factors which might influence the actual provision of assisted housing. Four of the communities where the current ratio of assisted units equals or surpasses the planned ratio had brief production periods in which assisted housing was an early, important component, and have had little subsequent development: Cedar-Riverside, Jonathan, Shenandoah, and Soul City. In Cedar-Riverside, Shenandoah, and Soul City, most of the actual development consisted of assisted units.

Forest South, and Shenandoah have a relatively high proportion of rental units compared to other Title VII communities. To the extent that a housing mix, including multi-family and rental dwellings, opens up housing opportunities for those unable to buy single-family houses, these four communities offer more housing opportunities for low- and moderate-income households than other Title VII communities; whether these units are more affordable depends on their rents.

In these same nine communities, the three with the highest median rents -- Flower Mound, Harbison, and The Woodlands -- also have relatively small proportions of assisted housing in their total stock, while those with lower rents have greater shares of assisted units. 1/ Affordable rents, therefore, are more likely in those communities where a relatively large share of the housing stock is assisted housing units.

(C) Median single-family housing value and household income. Of the nine communities for which Census information is available, median housing values in 1980 ranged from $97,200 (in Flower Mound) to $48,500 (in Cedar-Riverside, primarily a rental development) and $52,400 (in Shenandoah); the average housing value was $64,489 in the nine communities. (See Table 5.7.)

TABLE 5.7

Affordability of Single-Family Homes in Title VII Communities a/

	Median Value of Single-family Homes	Average Household Income in SMSA
Cedar-Riverside	$48,500	$23,700
Flower Mound	97,200	22,700
Gananda	NA	22,500
Harbison	57,300	19,900
Jonathan	72,000	23,700
Maumelle	57,500	20,600
Newfields	NA	24,214
Park Forest South	56,900	22,500
Riverton	NA	27,837
St. Charles	60,400	21,812
Shenandoah	52,400	20,300
Soul City	NA	24,978
The Woodlands	78,200	25,000

a/ 1980 Census data.

1/ Comparisons of median contract rents across Title VII communities do not take into account regional differences that influence rent levels.

With the exceptions of Flower Mound, Jonathan and The Woodlands, the median value of housing in these communities was less than three times the average household income in the nearby metropolitan areas in 1980. This suggests that, with a few exceptions, Title VII communities generally offer single-family homes that are affordable to a significant share of the local population.

In sum, even though the volume of housing produced was not as great as projected, from one-third to one-half of the Title VII communities provide the planned proportion, although not the volume, of assisted housing units and a mix of rental and ownership units; a majority also offer affordable, lower-priced single-family housing for their areas.

(D) Household income characteristics. Many different standards were used to define the low- and moderate-income housing objectives for the Title VII program. By 1975, it was official NCDC policy to look at the developer's efforts and success in obtaining assisted housing as a way of evaluating whether this objective was being met. Comparing the planned and actual percentage of assisted housing in the community's total housing stock, therefore, is one measure of income integration (see Table 5.5). However, with the many types of assisted housing programs available, each with different eligibility criteria, this will not fully reflect the degree of economic integration nor the pattern of income distribution within the community.

Among Title VII communities for which Census data are available, the average household income in 1979 ranged from $8,300 in Cedar-Riverside (primarily assisted rental housing units) to $35,073 in The Woodlands; for these nine communities, the average was $24,038, (excluding Cedar-Riverside: $26,005) compared to a national average of $20,400.

Direct comparisons of household income among Title VII communities are influenced, however, by regional income variations. A more appropriate comparison is to look at the average household income and income distribution in the Title VII community and the closest metropolitan area to see whether Title VII communities are providing comparable housing opportunities for low-income households in their areas. 1/ (See Table 5.8.) In three communities (Cedar-Riverside, Jonathan, and St. Charles), the average household income is lower than the metropolitan average and -- with the exceptions of The Woodlands and Flower Mound -- no Title VII community has an average household income more than ten percent above the metropolitan average.

1/ In some early project agreements, developers agreed to provide housing affordable to the lowest and second lowest income quartiles of the nearest SMSA. In each of these communities, the average value for single family housing is greater than three times the average income of the bottom two income quartiles in the SMSA; each, however, does provide some units affordable to households in these bottom income quartiles.

There is substantial variation in income distribution patterns among Title VII communities. Overall, 19 percent of the households in these nine communities had incomes above $35,000 (excluding Cedar-Riverside: 21%), compared to a national average of 13 percent. The Woodlands and Flower Mound have the largest percentages of high-income households of any of the Title VII communities; each also houses a substantially larger percentage of upper-income households than their nearby metropolitan areas.

Table 5.8

Income Characteristics of Selected Title VII Communities a/

	Average Household Income	Households With Incomes Above $35,000 (%)	Households With Incomes Below $15,000 (%)
Cedar-Riverside	$ 8,300	2	82
Minneapolis SMSA	23,700	18	35
Flower Mound	33,500	44	13
Dallas-Ft. Worth SMSA	22,700	16	39
Harbison	21,506	11	32
Columbia SMSA	19,900	12	44
Jonathan	23,600	12	29
Minneapolis SMSA	23,700	18	35
Maumelle	20,800	12	47
Little Rock SMSA	19,200	10	47
Park Forest South	24,525	20	21
Chicago SMSA	24,200	20	36
St. Charles	25,570	19	18
Washington D.C.	27,900	27	29
Shenandoah	23,467	11	37
Atlanta SMSA	22,200	16	40
The Woodlands	35,073	36	18
Houston SMSA	25,000	21	34
Average for Title VII communities	$24,038	19%	33%

a/ 1980 Census.

Overall, 33 percent of the households in the nine Title VII communities have incomes below $15,000 (excluding Cedar-Riverside: 27%), compared to a national average of 44%. Only Maumelle and, to a lesser extent, Shenandoah, have lower-income households in proportions comparable to those found in nearby metropolitan areas. Given the historical concentration of lower-income populations in central cities, the higher relative percentages of low-income households in these metropolitan areas are to be expected; with two exceptions, most Title VII communities have smaller percentages of high income households than in the metropolitan area.

Based on household income characteristics, Maumelle and Shenandoah have been more successful than the others in creating new communities whose residential populations approximate the income characteristics of the metropolitan area. In terms of income distribution, Park Forest South and St. Charles provide a balance in the proportion of high- and low-income households living in the community; each of the other Title VII communities tends to be more imbalanced, with one income group present two to three times more than the other.

(E) Minority population. There were no specific goals regarding the size of the minority population in a Title VII community (see Table 5.9) but, as of

TABLE 5.9

Minority Population in Title VII Communities

	Minority Population a/				
	Title VII Community, 1983 b/ (%)	Market Area, 1980 c/ (%)		Title VII Community, 1983 b/ (%)	Market Area, 1980 c/ (%)
Cedar-Riverside	35	14	Newfields	20	20
Flower Mound	3	13	Park Forest South	50	18
Gananda	2	3	Riverton	2	6
Harbison	15	25	St. Charles	8	41
Jonathan	3	3	Shenandoah	16	24
Maumelle	2	19	Soul City	98	64
			The Woodlands	9	11

a/ "Minority population" includes both Black and other minority individuals. In the market areas for the following communities, Black individuals comprise less than half the total minority population: Cedar-Riverside, Flower Mound, Jonathan, and The Woodlands. In the Title VII communities of Flower Mound and The Woodlands, less than half the minority population reported are Black individuals.

b/ Estimates reported by the developers, December 1983.

c/ Market area as defined by NCDC staff; 1980 Census data are used to report minority individuals in the market area.

December 1983, six of the communities had 15 percent or more minority population. Nearly half of the Title VII communities have minority populations in proportions equal to or greater than are found in their market areas. The highest percent minority, outside of Soul City whose residents are predominantly Black, is in Park Forest South: it is estimated that between 45 percent and 50 percent of its residents are Black. The smallest proportion of minority residents -- two or three percent -- is in Flower Mound, Gananda, Jonathan, Maumelle, and Riverton; in Gananda, Jonathan, and Riverton, these relatively low proportions are comparable to the minority population in the surrounding area. With the exceptions of Cedar-Riverside and Park Forest South, the greatest increases in minority population in the other communities have occurred in the last three or four years (See Appendix I, Table 8).

In sum, the degree of economic mix achieved is distinctive. The majority of the Title VII communities have average household incomes comparable to (less than ten percent above) the average household incomes in their metropolitan areas; they also have a lower percentage of high-income households, indicating the majority of developers are building communities affordable to their metropolitan areas. They are somewhat less successful in housing minorities, but nearly half had minority populations equal to or greater than those found in less comprehensively planned new development. 1/

Increasing the choices of working locations. While not intended to be completely self-sufficient, Title VII communities were to include a jobs base. This was to create the opportunity for a greater proportion of their residents to work in the community than has been the case in typical, post-war, suburban subdivisions. Since specific employment goals or forecasts of employment were seldom established, achievement of job availability goals is measured here in terms of the number of jobs, and the balance of households and jobs, within each community. The journey-to-work patterns of Title VII community residents are interpreted as an indirect measure of the suitability of these jobs to the skills and preferences of community residents.

(A) Job availability. The number of jobs within Title VII communities in 1982 ranged from 18 (in Newfields) to 4,730 (in the Woodlands). The total number of jobs reported in 1982 for all communities was 14,279.2/

1/ The desirability of economic and racial diversity within Title VII communities is clearly stated in the Title VII legislation: a project must "make substantial provision for housing within the means of persons of low and moderate income and such housing will constitute an appropriate proportion of the community housing supply" (712 (a)). Also, a project was to "increase for all persons, particularly members of minority groups, the available choices of location for living and working, thereby providing a more just economic and social environment" (710(f)).

2/ Information on jobs in Title VII communities is based on developers' reports; some estimates are of total jobs available and may include construction jobs.

In four of the six communities having more than 1,000 jobs in 1982, job creation occurred relatively early in the community's development. In Shenandoah, The Woodlands, Park Forest South, and Jonathan, nearly 1,000 jobs existed by the third year of construction activity. Each of these currently has a job surplus relative to households; these are permanent jobs, not related to construction, since only The Woodlands has significant construction activity at this time.

Although they also have over 1,000 jobs, job development in St. Charles and Maumelle occurred later in their development periods. In St. Charles, the pace of job creation continues to lag behind residential development; in Maumelle, however, the number of jobs doubled between 1979 and 1980, and the rate of employment increase, currently outpaces construction activity.

(B) The balance of jobs and households. Overall, there is currently a one-to-one balance of all jobs to households in Title VII communities (see Table 5.10), but there is considerable variation from community to community. Even a community with a reasonable balance between jobs and households, however, is not necessarily employing community residents; that is a question of a match between available jobs, residents' job skills, housing affordability relative to wages, timing of economic development relative to residential development, and the personal preferences of those seeking residential locations and employment.

This coordination of residential and economic development generally varies according to two factors: the period of consistent production and the initiation of econnomic development early in the development period. 1/ Of the four communities with the most consistent production periods, Maumelle and The Woodlands come close to a balance of jobs and households while St. Charles and Harbison lag in job development. Jonathan and Park Forest South have better balances of jobs and households than The Woodlands, Harbison, and St. Charles although they had briefer periods of consistent production; both Jonathan and Park Forest South, however, were underway well before the recession and coordinated their resident and economic development activities from their earliest development stages.

Shenandoah is a notable example of early economic development. In Shenandoah, residential construction has lagged behind industrial development in every development year. By 1977, 45 residential units had been built, but there were already 282 jobs in the community, primarily in the industrial park. This imbalance continued through 1982: jobs in the community increased

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1/ It should be noted that Soul City's relative balance reflects a low level of residential and economic development. The community got off to a strong industrial development start with EDA-supported construction of the Soul Tech I industrial building; by 1979, it had a job force of 214, a ratio of three jobs per household. The major employer failed, however, and there are currently few people living or working in Soul City; as of 1983, some employment has begun near, but outside the boundaries of, the Title VII community.

to 1,970, but only 335 residential units had been built.

TABLE 5.10

Jobs/Household Ratios In Title VII Communities

Community	Units built	Jobs	Jobs/Households Ratio a/
Cedar-Riverside	1,299	350*	.27:1
Flower Mound	575	250*	.43:1
Gananda	325	50	.15:1
Harbison	922	558*	.61:1
Jonathan	969	1,679	1.73:1
Maumelle	796	1,309	1.64:1
Newfields	68	18*	.26:1
Park Forest South	2,196	1,800*	.82:1
Riverton	550	40*	.07:1
St. Charles	3,224	1,500	.47:1
Shenandoah	335	1,970	5.88:1
Soul City	33	25*	.76:1
The Woodlands	6,013	4,730	.79:1
Total	17,305	14,279	1.07:1

a/ The jobs/households ratio in Table 5.10 describes the balance of jobs and households within each new community as of December, 1982: communities with a ratio higher than 1:1 have more jobs available than households while those with ratios below 1:1 have more households than jobs. This ratio is based on the developer's estimate of the jobs in the community divided by occupied units. Employment estimates marked with an asterick (*) are aggregate job estimates reported by the developer in that community, these may overstate the actual number of fulltime permanent jobs because they may include temporary, constructionrelated jobs.

(C) Types of economic development. The objective of the Title VII program was to influence the spatial organization of new growth rather than to intervene in existing development trends. Discussions with representatives of firms in four communities studied in more detail for this report 1/

1/ They are: Park Forest South, St. Charles, Shenandoah, and The Woodlands.

indicate that two types of growth characterize Title VII communities' economic development: the establishment of new or branch firms within the community and the relocation of firms from within the metropolitan area. Although systematic information on the origins of firms locating in Title VII communities was not available, discussions with local planners and economic development specialists suggest that the establishment of new or branch firms is more common and represents net growth captured by the Title VII community. Representatives of many of those firms which had moved to a Title VII community from within the metropolitan area indicated they had planned to relocate somewhere within the area, but were "pushed" from their previous location rather than "pulled" by the new community. In most communities, industrial and service-sector development (jobs in the industrial, research, office, and service sectors) was more frequent than commercial development, and proceeded somewhat independently of residential development.

The Woodlands, Harbison, Maumelle, and Flower Mound are located in "growth corridors" -- the areas where most new economic growth is occurring. Whether or not a new community can capture growth within such a corridor will depend on land prices, the type of growth occurring in the area, and the needs of the firms locating in that area. The type of economic development sought varies considerably: for example, The Woodlands is attempting to diversify its energy-related economic base by attracting high-technology and research/development firms; St. Charles is seeking labor-intensive light industries, small businesses, and warehousing facilities; and Park Forest South is attempting to attract durable goods manufacturing plants.

While regional economic development is a necessary condition for significant community-level development, developers and firms already located in Title VII communities also identified several features of new communities they see as increasing economic development prospects: the investment certainty created by the development controls and the planned environment; the infrastructure development and capital improvements incorporated in the development plans; the establishment of larger-scale water and sewage treatment systems; and the potential labor force available within the new community itself.

Those Title VII communities with relatively successful economic development, such as The Woodlands and Shenandoah, are characterized by a healthy growth rate in the surrounding area; the absence of competitive industrial parks; the attractiveness of the community to professional employees; consistent and capable development management; good transportation access; the developer's emphasis on industrial marketing; and county officials' and residents' interest in channelling local growth.

Certain regional and community-specific features also contribute to low levels of economic development in some of the Title VII communities. Slow or non-existent industrial and commercial development is associated with a slow rate of residential development; the developer's emphasis on residential marketing; high land prices in the new community relative to the infill area; the lack of available space for some types of industrial needs; poor transportation access; the proximity of existing shopping amenities; the lack of available labor or labor skills; and uncertainties about viable investment opportunities due to the default activities involved in HUD's withdrawal from several communities.

Overall, it is difficult to argue that Title VII had direct positive effects on job development. None of the positive economic development features cited are unique to the Title VII program; those new community-specific features attractive to firms can also be found in private new communities, so there are no direct gains attributable to Title VII support. And, although means were available to encourage Title VII job development -- such as placement of Federal facilities and selective investment tax credits -- the Federal government did little to contribute to the locational advantages of Title VII sites. To the extent that the program itself slowed the rate of residential construction, Title VII may have had indirect negative effects on job development. As discussed in Chapter Four, Title VII financing and implementation processes contributed to a rate of residential construction that was slower than anticipated; in some communities this delayed net job growth associated with new commercial or servicesector development.

(D) Journey-to-work patterns. The jobs created within the Title VII communities were to be suitable for a range of labor skills. The length of residents' journeys to work is an indirect measure of the accessibility and suitability of jobs in the community to the work force living there. Reducing the total number of miles travelled per resident, by providing a balance of jobs, housing, and other community facilities, presumably also reduces air pollution, noise pollution, and energy consumption. 1/

In the Title VII communities for which 1980 Census information is available, the median time for a journey to work was 21.7 minutes -- the same as the national average (see Table 5.11). 2/ While some variations among communities may stem from differences in income and job distributions among communities, the key factor characterizing brief Title VII journey-to-work patterns is proximity to existing employment centers. For example, as a new-town-in-town, Cedar-Riverside is surrounded by hospitals and universities, with multiple employment opportunities. Similarly, Harbison is located

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1/ An earlier study of thirteen relatively mature new communities, with an average population of over 17,000, showed significant total travel and energy savings compared to trend development. See Robert Zehner, Access, Travel and Transportation in New Communities, Ballinger Publishing Company, 1977.

2/ U.S. Department of Transportation, Office of Highway Planning, "Household Travel Report, No 9," 1977, Nationwide Personal Transportation Study, July, 1982, Washington, D.C.

within eight miles of a major employment center. In Jonathan, there are also briefer journey-to-work trips than the national average, but this is attributable to its own job development achievements as well as its proximity to Minneapolis (25 miles).

Not all Title VII communities with job surpluses, however, are characterized by brief journey-to-work patterns; Maumelle and Shenandoah, for example, have job surpluses but higher than average work trips. The ability to reduce the time spent traveling to work, at this early development stage, appears to be a function of location relative to other employment bases rather than job-development achievements. To the extent that location relative to existing employment is the key factor, Title VII communities would not necessarily exhibit shorter home-to-work travel patterns than other comparably located new developments.

TABLE 5.11

Length Of Journey To Work In Selected Title VII Communities, 1980
(Average Journey In Minutes) a/

Cedar-Riverside	19.1	Park Forest South	34.4
Flower Mound	28.6	Shenandoah	28.4
Harbison	21.7	St. Charles	37.9
Jonathan	17.5	The Woodlands	30.6
Maumelle	23.2		

a/ 1980 Census.

Goal Three: Encouraging Innovative Community Development Practices and Technologies

Another purpose of Title VII was to encourage experimentation in urban form and planning that was unlikely to occur without public support. If new communities became successful prototypes of more efficient urban development, it was anticipated that the innovative features would be adopted in other residential developments.

Defining "innovation" was a continuing issue in the implementation of Title VII. In reviewing applications, the HUD program staff came to define innovations as ideas and practices "new to the area," even though they may have existed in other areas. This criterion, therefore, is used here to identify and describe different types of innovations, planned and attempted, in Title VII communities.1/ Five types of innovation are considered: new

1/The concept of innovation is inherently comparative; comparisons of innovative practices relative to other communities are described in Chapter Six.

communities, themselves, as innovations; social innovations; technological and physical innovations; innovations in design; and organizational innovations in planning, financing, management, and service delivery systems. (See Appendix I, Table 9.)

(A) "New communities" as innovations. Five of the Title VII developers argue that large-scale, planned development, in general, would not have occurred at all in their areas without Title VII funding. These are: Gananda, Maumelle, Newfields, Riverton, and Soul City. 1/ In other areas where Title VII communities were started, it appears that development would have occurred on the site even without Title VII support, albeit at a different scale and size, and more similar to less comprehensively planned new development.

(B) Social innovations. As discussed above, the provision of economically integrated housing, in order to increase the choices of living locations for low- and moderate-income and minority households, was a major goal of the Title VII program. Title VII developers tend to point to their plans for achieving this goal as "innovations;" almost without exception, they assert that without Federal subsidies for land costs, they would not have been able to build a broad range of housing types and values in communities also characterized by high-quality physical design. Without this range of values, the degree of economic integration achieved would not have been feasible.

Although there are no hard measures of the mix of housing types and values at the neighborhood level within the Title VII communities, the achievement of this mix was emphasized by the developers of, and local officials and planners in, Cedar-Riverside, Riverton, and St. Charles.

The fact that there are Federal programs specifically designed to provide housing for low- and moderate-income households that are not tied to the Title VII program makes it difficult to know what mix of housing would have occurred on the Title VII sites in the absence of Title VII. As will be noted in Chapter Six, however, comparisons of four Title VII communities with less comprehensively planned development and with private new communities in their areas indicate more income diversity and a greater range of housing opportunities occur in Title VII communities. Therefore, by developing communities which are more economically and racially diverse than other types of development, Title VII developers were being innovative within their market areas.

(C) Technological and physical innovations. The contribution of the Title VII program is less clear when it comes to other types of innovation. Many planned technological and physical innovations were contingent on HUD grant programs and the availability of other Federal grants. The HUD grants for innovative practices never materialized and there were no mechanisms to ensure that other Federal grants would be directed to Title VII communities. As a result, many planned innovations, such as the integrated utility system in St. Charles, were never attempted due to the lack of financing.

1/Gananda and Riverton are both in the Rochester metropolitan area.

Federal funds, chiefly HUD Title I, Economic Development Administration, and Environmental Protection Agency grants, lowered the costs of some of the physical and technological innovations that did take place in Title VII communities. For example, the solar energy developments at Shenandoah were supported by Department of Energy funds; several local officials claim that, because of the involvement of Georgia Power and Light and Georgia Tech, solar energy facilities would have been located somewhere in the Atlanta region and this technological innovation cannot be attributed directly to the Title VII program.

(D) Innovations in design. Several Title VII communities have received national recognition for design innovations such as Jonathan's coordinated open space system and The Woodlands' incorporation of environmental conservation features. NCDC programs files identify other design features of national importance in Jonathan, The Woodlands, and Cedar-Riverside. Many other design features in Title VII communities, particularly the bikeways, pathways, and cul-de-sacs, were relatively standard design practices during this time period but it is likely that Title VII requirements and Federal funds allowed for more extensive, integrated, provision of these features in more affordable communities than would have occurred otherwise.

(E) Organizational innovations. Finally, innovations in the ways in which planning, financing, management and service delivery is organized in Title VII communities tend to be site-specific; that is, they are responses to local government characteristics or special needs of individual projects. The Newfields New Community Authority, for example, is the most frequently noted Title VII organizational innovation; the "dual developer" concept required State enabling legislation, however, and is applicable only to the Title VII community. Other than the general impact of planning practices associated with large-scale community development, organizational innovations are the least likely Title VII innovations to have diffused within the local area.

Less successful innovations. Some innovations that were attempted were not successful.

- o Many physical innovations, particularly sewage treatment processes, proved to be inefficient and costly since slow community development meant that the capacity available was greater than the need for service. It was difficult to operate these facilities at lower levels than planned; this caused major operational problems and significant expenditures. For example, many of Park Forest South's environmental problems with a new sewage treatment facility are attributed to the fact that its plant operated at under-capacity.

- o In the case of innovative technologies, such as the solar energy projects in Shenandoah, the experimental nature of the innovation meant significant operational problems that prevented full implementation; a solar-powered knitting mill and the solar collector field run by Georgia Power and Light are more successful solar innovations at Shenandoah than the solar-powered recreational center.

Innovations that were abandoned include: certain housing styles that were considered inappropriate to a local area or climate (Jonathan and St. Charles); technological innovations that proved inefficient or ineffective and were abandoned for more conventional techniques (some of Shenandoah's solar projects, and a permeable pavement at The Woodlands); and some technological innovations that were effective (such as the spray aeration system for sewage treatment at St. Charles) but were abandoned because of under-utilization due to competing conventional facilities. Generally, innovations that were planned but never actually implemented (such as the monorail system planned for Park Forest South and the integrated energy system for Cedar-Riverside) proved not to be financially viable or involved sufficient risk that private financing was unavailable. In the absence of the anticipated Federal funds, they were not carried out.

Goal Four: Contributing to the Welfare of Surrounding Areas

Three types of effects of Title VII communities' on their surrounding areas are reviewed here: impacts on environmental quality; spillover effects of economic development; and fiscal impacts. Overall, it can be inferred that the more developed Title VII communities have had positive impacts in each of these areas.

Environmental quality. The program's physical development goals were intended to create a community that was visually pleasing, with a higher quality physical environment than is usually available in less comprehensively planned development. Higher density, contiguous development, with sizeable areas left for open space, was presumed to have a more favorable environmental impact than lower density, noncontiguous "leap-frog" development. 1/ For example, in a report prepared in 1975 by the Real Estate Research Corporation, a "planned mix" prototype was presented for a community development pattern with positive environmental impacts, having a net residential density of 6.8 units, 22.6 persons per residential acre, and 18 percent of the total development designated as open space. An interpretive measure of the environmental impacts of Title VII new communities, therefore, is the degree to which they approximate this "planned mix" prototype. 2/

1/ No direct measures of the effects of Title VII development on environmental quality are available to use in assessing environmental quality within Title VII communities, comparing their environmental quality relative to other development forms, or evaluating their environmental impacts. Inferences about relative environmental impacts can be drawn by examining two measures discussed above: net residential density and the amount of land set-aside from development.

2/ Acccording to their analysis, the "planned mix" prototype with contiguous development generates 61 percent fewer pollutants from autos, 30 percent fewer pollutants from residential natural gas (due to higher density and more efficient housing), 39 percent less sediment from erosion, 19 percent fewer pollutants from storm water runoff (because less land was disturbed), 30 percent less water usage, and 40 percent less energy use due to less travel and auto usage. Real Estate Research Corporation, The Costs of Sprawl, Op. cit.

Using this suggested prototype as a benchmark, the Title VII communities appear to contribute positively to the environmental quality of surrounding areas. Typically, the majority of the Title VII communities had housing densities that improved on "sprawl" densities. With the exception of communities which had only a few years of active development, Title VII new communities were fairly compact: both Harbison and Park Forest South have net residential densities which approach the "planned mix" prototype and, with the exception of Flower Mound and Shenandoah, the acreage removed from development exceeds this prototype. More subjectively, Title VII communities are also perceived by the local developers, planners, and community association members contacted for this study as having positive environmental impacts, overall.

Apart from these positive impacts, some of the new communities have had specific environmental problems that provoked complaints from residents or nearby communities. Here are some examples:

- Shenandoah had persistent problems in fostering an agreement with neighboring local governments to provide an environmentally sound and modest-cost water supply.

- In Park Forest South, there were strong environmental arguments from residents against the development of Deer Creek Woods, resulting in HUD assistance in purchasing this wooded acreage. Also, during HUD's management of the community, there were charges that poor maintenance of the sewage system resulted in some leakage of untreated effluent affecting nearby residents. The current developer made the needed improvements and the complaints have subsided.

- An environmental law suit for Cedar-Riverside, challenging the proposed high density of that community, resulted in a victory for the plaintiffs from the surrounding area. Only the first stage of the proposed Title VII development was built and subsequent development was blocked.

Spillover development. To what extent did Title VII new communities generate spillover development -- that is, new or increased economic activity, occurring outside the boundaries of the new community itself, but which can be attributed to the new community? Nearly every Title VII community with a minimal level of development has generated positive economic spillover effects on the surrounding area (see Appendix I, Table 10). In most cases, this consists of the capture of new or relocating firms which locate near, but not within, the new community. Often, these firms are part of industrial clusters or service facilities serving businesses within the new community; several report that they did not locate within the new community because of the higher land prices there. While this capture of economic activity has had positive impacts on the surrounding area, it also reflects the failure of the Title VII communities to capture this growth within their boundaries.

The combination of increased consumer demand and minimal commercial development within most new communities has also generated significant spillover commercial activities; these commercial spillover effects include contiguous strip development as well as increased demand in nearby communities' shopping facilities. For incorporated communities, such as Park Forest South and Jonathan, this spillover development entails lost tax revenues from increased economic activity generated by their development.

Fiscal impacts. According to the local government finance officers, other local officials, and developers contacted for this study, the majority of Title VII communities have positive fiscal impacts on their local county governments at this stage (see Appendix I, Table 11); that is, they are perceived as generating greater tax revenues than the service costs they impose. Positive impact is attributed to the new communities' generation of tax revenues and the minimal levels of service provision by the county. Educational costs are borne by local school districts which have passed bonds to raise revenues for new construction; only Park Forest South reported the rejection of such a bond issue. Also, the increasing real and property values within most new communities produce significant tax revenues for the local county; to the extent that these households and firms would have located in another county in the absence of the Title VII community, these represent net fiscal gains. 1/

As they develop, Title VII communities have increasing service needs; for unincorporated Title VII communities this could mean significant costs for other local jurisdictions if new facilities or additional personnel are needed. Most local officials in the areas where the thirteen Title VII communities are located, however, do not consider service costs associated with this development to outweigh the revenues that are generated. In the majority of cases, this is because Title VII communities are in unincorporated areas, and the county has minimal service provision responsibilities; most services are provided through independent authorities on the basis of fees charged or assessments. Under these circumstances, few public-service costs are incurred: developers provide infrastructure and roads, passing the costs on to future community residents and, in Title VII

1/ Analysis of Title VII fiscal impacts is complicated by local variations in service provisions and accounting of tax revenues and expenditures. Because of the lack of fiscal impact data at the local level, particularly for unincorporated new communities and the significant variation in service provision arrangements across all thirteen communities, discussion is limited to the subjective assessments of developers, local officials, and local finance officers on the direct fiscal impacts of the Title VII communities on their local taxing jurisdictions. For unincorporated new communities, this primarily means the tax revenues flowing from the new community to the county and the school districts, and the service costs to those entities stemming from new community development. For incorporated communities, such as Park Forest South, this includes the taxes paid to and received from other jurisdictions as well as the costs of service provision by other jurisdictions such as school districts.

communities, to the tax-paying public.

The stipulation that Title VII communities provide housing opportunities for low- and moderate-income families, however, creates certain tensions with the program goal of contributing to the overall welfare of the surrounding community when fiscal impacts are taken into account. Specifically, some local officials argue that the range of housing available in Title VII communities generates lower property tax revenues, because of the assisted and lower-priced housing units, than comparable-scale trend development in the county. To the extent that assisted or lower-priced housing would not have located in the county if not for the Title VII community, these possible revenue losses represent fiscal costs to the county. To the extent that households living in these units relocate from elsewhere in the county, however, it can be argued that there is no change in the relative costs -- service needs and revenues -- to the county. Those Title VII developers who have provided significant amounts of assisted housing argue that these potential revenue losses, relative to less comprehensively planned development, are offset by greater commercial and industrial revenues.

Several factors contribute to the perceived fiscal impacts accompanying development in three unincorporated Title VII communities studied in more detail -- St. Charles, Shenandoah and The Woodlands: whether they are located in counties providing a significant level of services; whether education is a state or local responsibility; whether their economic development is perceived as generating off-setting tax revenues; and whether the developer had donated land and facilities for public purposes. None of these communities is located in counties that provide a significant level of services although in Shenandoah and The Woodlands education costs are significant local responsibilities. Since residential development, alone, is generally viewed as having negative fiscal impacts because of the increased education costs for local governments, the revenues generated by commercial and industrial development would offset some of the negative fiscal impacts of residential development. Here are some examples:

- Although Shenandoah relies on the nearby city of Newnan for school facilities, city officials see its industrial park as contributing to an overall positive fiscal impact on the area and, therefore, offsetting these increased educational costs.

- Similarly, The Woodlands' coordination of industrial and residential development is viewed as having positive fiscal impacts on the county and on nearby towns. Local officials point out that The Woodlands' development has increased assessed property values, and tax revenues, in the surrounding area; since The Woodlands provides or contracts for most services, their net fiscal impact is positive. Although there has been significant school construction associated with The Woodlands development, these facilities serve areas beyond The Woodlands, and the school district has successfully issued a series of bonds to support construction.

- Although school construction is a state responsibility in Maryland, there is a continuing dispute between St. Charles and Charles County over the "fiscal self-sufficiency" of St. Charles' development -- whether tax revenues generated by St. Charles are sufficient to cover the service costs of the residents 1/

Often, where local governments incurred major capital investment costs, such as for schools and for water and sewage treatment systems, local officials pointed out that this investment would have taken place anyway, but at a later date, even if the new community had not been developed. To local officials, the capital investment costs of new community development are an issue of timing, rather than the provision of facilities that would have been unnecessary if the new community had not occurred.

Most Title VII new community developers made significant donations of land for public facilities; this increases their positive fiscal impacts on the surrounding area while adding to the marketability of the community. The actual benefits of these donations, however, will vary according to their tax status and to operating costs over time. Unless increases in land values created by these facilities offset the operating costs and probable tax-exempt status of land donated to public bodies, such as library districts and community associations, the fiscal impacts on the surrounding area could be negative over time.

In sum, with the exceptions of Gananda, Riverton, Soul City and Newfields (which have had little residential or economic development), Title VII communities are perceived to have positive fiscal impacts; local finance officials and planners expect these impacts to remain positive over time -- particularly with further economic development. 2/

1/ Under their original agreement with the County, St. Charles provides annual development reports to the County; if negative fiscal impacts are determined, the County has the right to halt residential building permits until it determines there is sufficient commercial/industrial development. St. Charles continually challenges the validity and comprehensiveness of the fiscal impact analyses conducted by the County and the County has not used its authority to "freeze" permits even though recent analyses indicate negative fiscal impacts. This requirement to annually report on "fiscal self-sufficiency" pertains only to St. Charles, not to other development in the County.

2/ These expectations, however, generally exist in the absence of information on actual service costs or fiscal impact analysis. Local jurisdictions in which Title VII communities are found do not calculate actual service costs; rather, they allocate costs among communities on the basis of population characteristics or various other accounting procedures. Assessing service costs of Title VII developments, therefore, is a relatively subjective process. Not only are actual service costs rarely accounted for, there is some indication that some initially private costs associated with community development (e.g. the creation and maintenance of lakes and driveways that become part of road systems) are now public costs or will be in the future. These would be unanticipated operating costs beyond those accruing from public operation of developerprovided facilities such as roads, sewers, school -- the usual sources of "hidden" fiscal impacts.

Assessing Overall Effectiveness and Costs

As described, there were multiple, overlapping goals in the Title VII program. And, as is apparent from the preceding discussion, there is no one answer to the question of how effective the program was in meeting them. Similarly, there is no one way to measure all the costs involved in the program, nor to allocate such costs among the different goals. 1/

To take into account both costs and achievements; however, this section estimates the relative net costs of the thirteen Title VII communities, then describes the two most distinctive sets of communities:

- o Considering both costs and achievements, over one-third of the Title VII communities, particularly those that never reached a satisfactory rate of development, were less effective and more costly: there were substantial public costs with few achievements to show for them.

- o About one quarter of the communities are relatively more effective and less costly: they achieved more than other Title VII communities at a relatively low cost.

Program costs. Three cost measures are available: the net direct project-related costs to the Federal government; the net Federal costs per dwelling unit; and adjusted net Federal costs per dwelling unit for the current period and projected to the year 1990. Overall, the net direct project-related Federal costs are estimated at over $565 million. In terms of direct project costs, some communities stand out as being less costly to the Federal government than others. Flower Mound and The Woodlands have the smallest net investment of all the Title VII communities; The Woodlands never defaulted, and a larger amount of money was recovered from Flower Mound

1/ Because of their brief, disrupted development histories, it might be argued that it is inappropriate to judge some of the Title VII communities. Nearly two-thirds of these communities, however, had at least five years of continuous production (producing at least 25 housing units per year); and, therefore, it seems appropriate to evaluate their effectiveness in light of the Federal costs involved. Significant constraints on making such assessments, however, should be taken into account: in particular, many of the goals and benefits achieved are not amenable to direct measurement; program records do not fully account for the Federal government's total costs in grants, assumed debentures, interest, and operating costs, and varying procedures for estimating the value of the land and the equity investment in each community make it difficult to estimate true costs and true risk. Overall assessments of program efficiency at this stage also are distorted by the most severe cases: those communities with minimal development and substantial Federal losses due to failed debentures and interest costs paid by the Federal government. In communities with development continuing beyond, or resuming after HUD's withdrawal, these current public costs will leverage additional private investment that improve program efficiency.

Table 5.12

Estimates of Federal Net Direct Costs Per Dwelling Unit, 1983 and 1990

Communities Ranked According to Net Direct Federal Costs a/		Rank	Net Federal Cost Per Dwelling Unit, Based on Total Program Cost b/	Rank	Net Federal Cost Per Dwelling Unit, Based on Partial Program Cost, 1983 c/	Rank	Estimated Net Federal Cost Per Dwelling Unit, Based on Partial Program Cost, 1990 d/	Rank	Estimated Net Federal Cost Per Improved Residential Acre, Based on Program Federal Costs, 1983 e/
1. St. Charles	$49,257,000	2	$ 13,721	4	$ 11,251	4	$ 5,202	3	$ 36,810
2. Shenandoah	$42,090,000	11	125,642	9	44,171	6	6,735	7	91,341
3. Park Forest South	$36,108,000	3	16,443	2	10,359	3	4,677	5	51,119
4. Maumelle	$32,563,000	6	22,740	5	13,416	5	5,629	4	46,973
5. Harbison	$31,975,000	8	32,396	8	27,537	7	8,856	9	130,667
6. Gananda	$30,021,000	10	105,337	11	69,522	12	31,203	11	238,721
7. Jonathan	$28,075,000	7	28,795	7	24,764	8	9,216	6	56,677
8. Cedar River-side	$27,996,000	5	17,630	6	21,552 f/	N/A	N/A g/	13	3,499,500
9. Riverton	$27,335,000	9	54,129	10	45,468	10	16,555	10	194,588
10. Soul City	$23,989,000	13	615,103	12	159,927	11	17,820	8	115,503
11. The Woodlands	$23,265,000	1	3,411	1	2,285	1	846	1	9,522
12. Newfields	$22,258,000	12	216,097	13	198,809	9	12,617	12	379,210
13 Flower Mound	$14,923,000	4	16,704	3	10,858	2	2,797	2	27,212
Total Program Cost	$561,000,000								
Average Unit Cost			$28,253		$ 17,496		$ 6,917		$ 69,718

Footnotes for Table 5.12

a/ Net direct project-related costs include costs of the principal and interest for the loan guarantee (including assumed debentures and accrued interest) plus operating costs and Federal grants minus fees, interest, and cost recoveries paid to the Federal government. Gananda received no grants and Cedar-Riverside and Newfields received negligible amounts; the largest total amount of grant funds went to: The Woodlands ($27 million); St. Charles ($25 million); and Maumelle ($22 million).

b/ For each community, net direct Federal costs are divided by the number of dwelling units, as reported by the developer, December 1983. For the average unit cost in the program, total program costs are divided by the number of dwelling units.

c/ Adjusted costs for each community are determined by taking the percentage of land improved for residential and nonsaleable uses relative to that improved for commercial and residential sale and using this ratio to determine the partial share of total Federal costs to attribute to community and residential development purposes. This adjusted, or partial, share (which ranges from 26% net total Federal costs in Soul City to 100% in Cedar-Riverside) of net Federal costs is divided by the number of dwelling units built by December 1983 to arrive at the adjusted net cost per unit in each community. For the average unit cost in the program, total adjusted program costs (partial costs plus total administrative costs) are divided by the number of dwelling units.

d/ The same method of allocating costs is used as described in footnote (c). The number of dwelling units projected for each community was arrived at through developers' estimates and forecasts based on the most recent market analysis reports available for each community. All of these reports were undertaken after the Title VII communities had experienced financial problems; the estimates, therefore, are more conservative than the original growth estimates. Estimates were revised downward for Harbison, and upward for Flower Mound, based on reports of current activity. Since these forecasts covered different periods, the estimated number of dwelling units for each community in 1990 was derived by multiplying the average projected growth in residential units in that community by seven; this figure was then added to the 1983 figure to reach an estimate for 1990 for each community. Average unit cost was derived as in (c).

In addition to current developers' estimates, forecasts were derived from the following studies: Flower Mound (Kenneth Leventhal, Task Order 9, Flower Mound) Harbison (Robert Lesser and Co., Evaluation of Harbison, Vol. I, May 1977) Jonathan (Wortman and Man, Vol. I, Economic and Market Analysis Study, June 30, 1979); Maumelle (Economic Research Associates, Maumelle Valuation Analysis, October 1981); Park Forest South (Questor Associates, Liquidation Evaluation Analysis of Park Forest South, February 1976); Riverton (Kenneth Leventhal and Co., Riverton Planning and Implementation, October 1977 and RERC appraisal of land, 1976); St. Charles (Frederick Lauterbach, Appraisal Report, St. Charles Community, 1981); Shenandoah (AVCO Community Developers, Shenandoah Marketing Analysis, December 1979); Soul City (Economics Research Associates, Evaluation of Impact of Perdue Sale, 1981 and AVCO Community Developers, Inc., Analysis of Financial Viability of Soul City, June 21, 1979 for estimated housing generated by employment); Newfields Sycamore Woods (Kenneth Leventhal and Co.); The Woodlands (Pardue, Heid, et al; Economic and Market Analysis Study, The Woodlands, March 1980). Estimates for Gananda were provided by the current developer.

e/ The same method of allocating cost is used as described in (c). These partial Federal costs are divided by the number of improved residential acres in 1982 for each community. For average cost per acre in the program, total adjusted program costs (partial costs plus total administrative costs) are divided by total developed residential acres.

f/ As reported by the developer, some commercial uses are included in residential areas.

g/ Cedar-Riverside is located within the city of Minneapolis; no forecasts were made since the growth of the community is contigent on Minneapolis' development choices and patterns.

(thereby reducing its net costs) than from any other community. (See Table 5.12 which reports weighted averages). In comparison, five communities incurred total net Federal program costs greater than $30,373,000 -- the average cost for the program: St. Charles, Shenandoah, Park Forest South, Maumelle, and Harbison. (See Table 5.12). These are communities that received substantial Federal grants (Maumelle, Harbison, St. Charles, and Shenandoah) or where only modest returns were recovered by the Federal government on large loan guarantees (Park Forest South and Shenandoah).

Strictly speaking, the Title VII program was not solely a housing production program; the community-scale physical and social planning, as well as the economic development needs integral to new community development, entail significantly different costs than housing programs subsidizing individual units. 1/ When net Federal expenditures are divided by the number of dwelling units produced in the thirteen communities, the subsidy cost per dwelling unit is $28,455, (see Table 5.12). This is nearly one-half the median value of the housing units ($64,489) in the Title VII communities.

Given the scale and type of development involved, however, allocating all Federal program costs to the production of housing units misrepresents the multi-goal effort involved. Therefore, to roughly approximate the share of program costs that can be attributed to community-scale development, an adjusted percentage of program costs -- the percentage of improved ("developed") acres used for residential and non-saleable purposes -- is divided by the number of units; the average net Federal cost per dwelling unit is then $17,496. 2/

These per unit costs, of course, will go down as development continues. For example, the adjusted subsidy cost per unit in the year 1990, based on the current developers' projections of the number of dwelling units that will be built by that year (adjusted for the costs of developed acres for residential and non-saleable purposes) is $6,917.

Less effective and more costly communities. In comparison to other Title VII communities, four are relatively costly and ineffective in achieving

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1/ The Title VII program was an innovative departure from other HUD programs. HUD is also involved in new multi-family housing construction programs but they are not at the same scale as a new community nor do they involve the provision of a jobs base or community facilities and services as in the Title VII program. For comparative purposes, the per-unit development costs in HUD multi-family programs range from $30,818 to $33,537. Urban Systems Research and Engineering, 1982. The Costs of HUD Multi-family Housing.

2/ Costs would be higher if adjusted for present value but the order of magnitude would be the same. Rankings based on partial program costs are similar to those using total program costs with two exceptions: based on adjusted program costs, St. Charles is slightly more costly per unit and Shenandoah is slightly less costly per unit. These shifts reflect the volume of housing produced relative to the share of land uses devoted for residential and non-saleable purposes.

their goals: Newfields, Gananda, Soul City and Riverton. With minimal housing production, they are more costly, per unit, than the other Title VII communities and they are not particularly effective in meeting other program goals. None has achieved its physical development goals, none provide more than 100 jobs, Newfields and Gananda provide no assisted housing, Gananda and Riverton have small minority populations, and none is considered to have innovative, positive impacts on the welfare of their surrounding areas (at best, their impacts are seen as neutral because of modest development).

Despite their lower net costs relative to other Title VII communities, on a per-unit basis these four prove to be among the more costly communities (their subsidy cost per unit is over $110,000). For Gananda and Newfields, the inability to sustain consistent production accounts for these cost-effectiveness problems. In Riverton, even with six years of consistent production, the community failed to establish a competitive advantage relative to other new development in the Rochester area. And even with the continuous involvement of an active developer in Soul City, production was erratic due to serious financial and management problems. While there is some current development activity in these communities -- in Newfields (now Sycamore Woods), for example, forty homes have been built since January 1982 -- it is not at a rate or in a mix likely to improve their standing relative to other Title VII communities.

More effective and less costly communities. Four communities -- St. Charles, Maumelle, Park Forest South, and The Woodlands -- stand out as being relatively effective across several goal areas, although all four fall short of achieving some of Title VII's social objectives. And, although three of these entailed above-average net Federal costs, the four are among the more cost-effective Title VII communities, with a subsidy cost per housing unit of $10,057.

Over time, St. Charles, Park Forest South, and Maumelle are projected to be among the most cost-effective Title VII communities (see Table 5.12). They are effectively meeting Title VII's physical development goals; also they have a better balance of jobs to households than other Title VII communities and the housing stock in each community includes substantial proportions of affordable rental or assisted housing.

Although not the least costly Title VII community, The Woodlands is generally regarded as the one "successful" Title VII community since it is the only one to have avoided default. This analysis indicates it is, and will be, the Title VII community with the lowest net Federal costs. Given its high volume of housing production and the relatively modest Federal investment, the Federal project-related costs of producing housing in The Woodlands are lower than in any other Title VII community. In comparison with other Title VII communities, the mix of land uses and the balance of jobs to households is better in The Woodlands; and more housing has been built, with more open space provided, than in any other Title VII community. It is less effective, however, in terms of housing affordability and income diversity; although The Woodlands had produced 829 assisted housing units by 1982 (second only to St. Charles' 912 units), the significant amount of higher-priced housing in The Woodlands lowers its overall affordability relative to other Title VII communities and to nearby new development.

None of these four has effectively integrated minority households. Park Forest South, with the largest minority population, has had difficulty in maintaining a stable racial mix; St. Charles and Maumelle have low percentages of minority households relative to other new development in their market areas and The Woodlands does no better than other new suburban development in housing minority households.

In sum, to the extent that The Woodlands, St. Charles, Park Forest South and Maumelle meet their physical development goals and improve both the affordability of their housing stock and the accessibility of the community to minority households, they will come closest to meeting planned Title VII goals, at the lowest net costs, of any of the thirteen communities.

Chapter Six assesses the program on two additional criteria: the extent to which the physical development and social goals of the Title VII communities improved on what was occurring in new, less comprehensively planned development in their areas; and the extent to which Title VII communities reached goals that were not attained in private new communities.

Chapter Six

TITLE VII COMMUNITIES COMPARED TO OTHER TYPES OF DEVELOPMENT

As has been detailed above, proponents of the Title VII program anticipated that, with government support, new communities could be built with more compact, balanced physical development features and a greater degree of self-sufficiency and residential integration than is usually found in less comprehensively planned development. To determine whether this is being accomplished, it is necessary to compare Title VII communities with other forms of development.

For this purpose, four metropolitan areas were studied intensively: Chicago, Washington, Atlanta, and Houston. In each area, the Title VII community is compared with less comprehensively planned new development and a private new community. These comparisons show whether the Title VII program resulted in communities with distinctive physical and social development characteristics, and suggest what type of development might have occurred in Title VII locations without Title VII support. More specifically:

- o Comparisons with census "growth" tracts are intended to show whether the features of Federally subsidized new communities differ substantially from those of less comprehensively planned new development in the area. 1/

- o Comparisons with private new communities are intended to identify those features more likely to occur in new communities receiving public support than in those developed without a subsidy.

1/ Census "growth" tracts are tracts in the market areas of the new communities which had significant growth during the same period as the Title VII communities. The "market areas" are those defined by local market experts and used by staff of the New Community Development Corporation and consultants during the selection process. To identify the growth tracts in a Title VII community's market area, all Census tracts in that area having at least 1000 dwelling units in 1980 were ranked according to the percentage change in housing units between 1970-1980 (the start-up period for most Title VII projects). For purposes of comparison, the five Census tracts with the highest housing growth rates were designated "growth tracts"; it is assumed that these tracts reflect the demographic and housing stock features of unassisted new development in the area during the Title VII development period. Two of the private new communities studied in detail for this report -- Elk Grove Village and Columbia -- had significant development prior to 1970; the comparison period for these private new communities is 1960-80.

These four areas and their Title VII communities -- Park Forest South in the Chicago SMSA; St. Charles in the Washington, D.C. SMSA; Shenandoah in the Atlanta SMSA; and The Woodlands in the Houston SMSA -- were selected because there were private new communities in the same general area and because these Title VII communities differed from each other in terms of their degree of financial backing and in terms of the relative advantages or disadvantages of their locations. 1/

- o Shenandoah had the smallest equity investment by the developers of any other Title VII community and had continuous financial difficulties; it is one of the less developed Title VII communities. Although it is in a location that currently offers some advantages for industrial development, its distance from Atlanta continues to constrain residential development.

- o St. Charles is less than thirty miles from Washington, D.C. and is located in a non-metropolitan county experiencing substantial residential growth; a significant amount of cheaper, industrially-zoned land is available closer in to the metropolitan area, however, and industrial development in St. Charles has been slow. St. Charles has had financial difficulties as well and the recession in the early 1970's caused significant cash flow problems for the developer.

- o Park Forest South is located outside the major growth corridors in the Chicago area; the establishment of a rapid transit stop in Park Forest South has reduced the commuting time to the Chicago metropolitan area but it took place later than anticipated and after active development had slowed. There has been some industrial development within the community itself but sites closer to the metropolitan area currently offer more competitive residential and industrial development opportunities. Park Forest South's financial difficulties were persistent and exacerbated by the substantial carrying costs associated with the large area under development; these costs became particularly acute when a turndown in the local residential real estate market occurred prior to the national recession.

- o The Woodlands' is located in one of Houston's growth corridors, near a major highway, and is attracting both residential and industrial development. Substantial financial backing by the Mitchell Energy and Development Corporation has carried the project through short-term cash-flow problems and contributed to its financial viability.

In sum, special attention is given to the following locations and to the "growth tracts" in the market areas for each Title VII community:

1/ For each of these locations, information on development characteristics was collected from program files, quarterly project reports, the 1980 Census, and through discussions with relevant persons on site.

FIGURE 6.1

LOCATIONS STUDIED IN DETAIL FOR THIS REPORT

Title VII Community a/	Private New Community b/	County and SMSA
Park Forest South, IL	Elk Grove Village, IL	Cook and Will Counties; Chicago SMSA
Shenandoah, GA	Peach Tree City, GA	Coweta and Fayette Counties; Atlanta SMSA
St. Charles, MD	Columbia, MD	Charles and Howard Counties; Washington and Baltimore SMSAs
The Woodlands, TX	Kingwood, TX	Montgomery and Harris Counties; Houston SMSA

a/ Through discussions with developers and local planners, the boundaries for unincorporated new communities, such as St. Charles and Shenandoah, were plotted by New Community Development Corporation staff; Census data are reported for the Census tracts and blocks within these mapped boundaries. Data on incorporated places and Census-designated places, such as Park Forest South, are systematically recorded by the Census and reported here in terms of the Census boundaries for those areas. Data reported here are drawn from Summary Tape Files 1 and 3 of the U.S. Census of Population and Housing, 1980 and Census materials published by National Decision Systems (1980 U.S. Census Population and Housing Characteristics).

b/ Since the primary focus of this report is on the relative performance of Title VII communities, the comparisons with other types of development are in terms of Title VII goals. Applying these performance measures to developments that may have had different objectives is, therefore, intended to describe rather than evaluate these other development patterns.

Title VII Communities Compared to Less Comprehensively Planned New Development

Do Title VII communities differ from other types of new development with respect to physical development characteristics and available living and working choices? To answer this question, comparisons are made between Title VII communities and new development (in "growth tracts") in each market area. This suggests the type of new development that would likely have occurred without Title VII assistance and indicates the extent to which the Title VII community improved on the prevalent growth patterns in the area.1/

Physical development. While direct comparisons of some physical development features are not possible because of the lack of standardized information on land uses. open space. and residential densities for counties. metropolitan areas. and unincorporated areas. inferences on residential density patterns may be drawn from information on the mix of housing types. 2/ For example, in general. the greater the proportion of multi-family housing units in a community. the greater the residential density. In three of the four Title VII communities studied. the larger percentages of multi-family dwellings in Title VII communities suggest that their residential densities are greater than those of other new development. (See Table 6.1.) In St. Charles. residential density is comparable to that of new growth tracts in its market area; while density in the market area as a whole tends to be lower than in St. Charles. the average for the growth tracts is high because two

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1/ For comparisons between each Title VII community and the five "growth tracts" in their market area, the average value for these tracts is compared to the Title VII community's value to determine whether Title VII communities differ from unassisted new development. It is assumed that these tracts are representative of new growth in the market area but some factors, if present. may introduce distortions in these comparisons. These tracts are not necessarily contiguous. for example. and may contain a range of development types. such as PUDs or large-scale multi-family housing developments. Also. since the boundaries of these tracts are an artifact of Census definitions. community features that lie outside of a particular tract's boundaries but are integral to the community. such as nearby employment centers or assisted housing developments, will not be reflected. We assume that these possible sources of distortion are randomly distributed among the fast-growing Census tracts; given this assumption. comparisons of aggregate growth statistics. are assumed to introduce less bias than alternative analytic strategies. such as matching a Title VII community with a comparable less-planned community.

2/ The planners. developers. local officials, and community association representatives who were contacted for this study consistently rated the open space and recreational arrangements in Title VII communities as better than those in conventional. less-planned development in the area. Also. these communities are seen as more aesthetically pleasing than most other new developments; the bikeways. trails. lakes. and design features of Title VII communities are seen as enhancing the visual quality of the community.

tracts are dominated by new apartment complexes. 1/ In general, the Title VII communities have more compact development than is found in new development in their market areas. 2/

TABLE 6.1

Proportion of Multi-family Housing Units in Housing Stock of Title VII Communities Compared to Other New Development a/

Park Forest South	45%	St. Charles	31%
Market Area Growth Tracts	30%	Market Area Growth Tracts	30%
Shenandoah	23%	The Woodlands	19%
Market Area Growth Tracts	12%	Market Area Growth Tracts	16%

a/ U.S. Census, 1980.

1/ Although these physical features were to contribute to a more desirable social environment, standardized information on the social characteristics of new communities is not available. The thirteen new communities were, however, perceived by local planners, developers, community association representatives, and public officials contacted for this study, as offering social environments that were superior to other local development in terms of: opportunities for citizen participation; freedom from crime; traffic and pedestrian safety; recreational facilities and programs; pedestrian and bicycle access; and the visual quality of the community. The quality of the schools, and other public services in Title VII communities that are less amenable to developer control, were generally rated as similar to other new developments. Most Title VII communities, however, were rated as having poorer access to shopping than other new development. It should be noted that these ratings are based on discussions with developers, local officials, planners, and community association representatives, not on a representative sample of residents of either the Title VII communities or of other forms of development within each area.

2/ This is less often the case when comparing Title VII communities with cumulative development in the county and metropolitan areas. As anticipated, there are greater proportions of multi-family housing in the older housing stock in metropolitan areas; each of the four Title VII communities, however, has higher percentages of multi-family housing than is found in their surrounding county. In conjunction with the data on growth tract development, this suggests that Title VII communities are improving on the low density and consequent sprawl development characteristic of most post-war suburban development.

Living choices. To compare the living choices in the Title VII new communities with those in other types of development, the following indicators are used: housing prices; rental housing availability and costs; and the size of the minority and low-income populations.

(A) Housing prices. Overall, the distribution of housing values in Park Forest South and St. Charles clearly offers more housing choices for the lower end of the market than other new development in their market areas; The Woodlands and Shenandoah do not appear to be as effective as less planned new development in providing affordable housing. ("Affordability" refers to the housing price and does not control for quality). 1/

- In Park Forest South and St. Charles, the median value of single-family housing is lower than the median price of homes located in "growth tracts" in the same market areas. Furthermore, there is more lower-priced housing than in other new developments in their market areas, especially in Park Forest South; also, a smaller segment of residential development is devoted to higher-priced housing than in other new development in their areas. (See Table 6.2)

- The situation with respect to The Woodlands and Shenandoah is more mixed. The Woodlands' median single-family housing value is slightly lower than the median home value in other new local development, but The Woodlands has a higher percentage of high-priced homes than in other new development and a similarly low percentage of lower priced homes.

- Shenandoah's median single-family housing value is similar to the average new home value in new local development; less planned new development in its market area also offers higher percentages of low-priced housing. Thus, neither The Woodlands nor Shenandoah appear to improve substantially on the living choices available in less planned new development.

1/ Park Forest South and St. Charles also have smaller percentages of higher-priced housing than is found in their surrounding county; the county and metropolitan areas, however, offer larger shares of lower-priced housing. In St. Charles, median home values are lower than in the county and the median for Park Forest South is comparable to the average value for the county. In contrast, median home values in both Shenandoah and The Woodlands are higher, and the percentage of lower-priced housing in their housing stock, is lower than in their respective county or metropolitan areas. Their distribution of higher-priced housing differs: Shenandoah has a lower percentage of higher-priced homes than either the county or metroplitan area, while The Woodlands has a higher percentage of higher-priced housing than in their county or metropolitan areas.

TABLE 6.2

Housing Affordability in Title VII Communities
Compared to Other New Development a/

	Median Value of Single Family House	Homes With Value Greater Than $80,000 (%)	Homes With Value Lower Than $40,000 (%)	Rental Housing Units (%)	Median Contract Rent
Park Forest South Market Area	$56,900	10	7	40	$271
Growth Tracts	73,880	35	4	17	297
St. Charles Market Area	60,400	7	2	22	244
Growth Tracts	76,760	38	1	19	370
Shenandoah Market Area	52,400	4	19	35	116
Growth Tracts	52,780	9	23	27	181
The Woodlands Market Area	78,200	55	1	29	293
Growth Tracts	80,860	50	1	22	373

a/ U.S. Census, 1980

(B) Rental housing. All four Title VII communities have a greater percentage of rental units in their stock than other new development in the growth tracts. In some communities, however, comparably priced rental units are available in less comprehensively planned new development: within the market areas of St. Charles and The Woodlands, for example, several tracts have median contract rents comparable to those of the Title VII communities. Thus, St. Charles or The Woodlands may not necessarily provide more affordable rental housing than would have occurred otherwise in their markets (although the quality of units may be higher) even though the average rents in The Woodlands and St. Charles are lower than the average for the five growth tracts studied. 1/

(C) Low-income and minority households. The Title VII program was aimed at increasing housing opportunities for low-income and minority households in new developments. Therefore, to the extent that they effectively addressed this objective, these communities should contain greater proportions of lower-income and minority households than other new development. As it turns out, this is more often the case for lower-income than for minority households. (See Table 6.3)

- Three of the four Title VII communities have lower average household incomes than the "growth tracts" in their market areas; average household income in The Woodlands is higher than in other new development in the area. All four communities have substantially higher proportions of lower-income households in the community than is found in nearby growth tracts.

- Park Forest South and Shenandoah have larger percentages of minority households than the growth tracts with which they are compared. In contrast, there are smaller percentages of minority households in St. Charles than in nearby growth tracts and, in The Woodlands, the percentage of minority households is comparable to that in the growth tracts in its area.

1/ Again, the older housing stock in each metropolitan area offers a broader range of housing values but, in terms of rental housing availability, the Title VII communities appear to improve on the housing choices generally available outside of metropolitan areas. Each, with the exception of St. Charles, offers a greater percentage of rental units than in their surrounding county; St. Charles provides a comparable share and does not improve on the county pattern in terms of availability of rental housing. In terms of rental housing costs, however, the picture is varied: Shenandoah rental units have a lower median rent than either the county or the metroplitan area; the other communities have higher median rents than their metropolitan and county areas, with the exception of St. Charles where the median rent is lower than that in Washington, D.C.

TABLE 6.3

Population Characteristics of Title VII Communities
Compared to Other Development a/

	Minority Households (%)	Average Household Income, 1980	Households With Incomes Below $20,000 (%)		Minority Households (%)	Average Household income 1980	Households With Incomes Below $20,000 (%)
Park Forest South	47%	$24,525	34%	Shenandoah	23%	$22,628	59%
Market Area				Market Area			
Growth Tracts	1	26,903	28	Growth Tracts	13	25,379	47
Will County	9	23,329	39	Coweta County	27	18,688	49
Chicago SMSA	18	20,726	48	Atlanta SMSA	21	21,812	54
St. Charles	8%	$25,570	29	The Woodlands	4	$35,073	26
Market Area				Market Area			
Growth Tracts	23	33,650	18	Growth Tracts	4	32,263	23
Charles County	11	25,523	39	Montgomery Cty.	4	25,112	43
Washington SMSA	25	27,837	41	Houston SMSA	17	24,978	47

a/ U.S. Census, 1980.

Metropolitan and county population characteristics are also reported in Table 6.3 since metropolitan population profiles initially were used as standards for projecting minority and low-income populations for some Title VII communities. In Shenandoah, the income distribution is particularly distinctive: a larger proportion of households in Shenandoah have incomes below $20,000 than in either Coweta County or Atlanta. In three communities, the average household income is higher than in the county or metropolitan area, with The Woodland's average household income more than $10,000 higher than either Houston's and Montgomery County's. St. Charles is a notable contrast, with the average household income lower than Washington, D.C.'s and comparable to Charles County's.

Among the four communities, Park Forest South stands out: there is a much larger percentage of minority households there than in either the county or metropolitan area. The pattern is more varied in the other three communities: Shenandoah approximates the overall racial mix in both the county and metropolitan area; The Woodlands matches the mix in the county; and St. Charles falls short of matching either profile.

- o In Park Forest South, there is now some concern that the current racial balance will give way and the community will become predominantly Black; in the past, there has been significant controversy and litigation over real estate "steering" practices and fair housing programs.

- o Shenandoah's low income population can be attributed to the significant number of assisted housing units built early in its brief development period; with further development it is likely that the income distribution will become more balanced. But, since there is little assisted housing in the county outside of Shenandoah, it is possible that Shenandoah will continue to have a larger proportion of low-income households than Coweta County.

Title VII Communities Compared to Private New Communities

As shown, Title VII communities have improved on some of the physical development patterns of conventional, less comprehensively planned development and offer more housing opportunities for lower-income households. But could this have been achieved without public subsidy? To answer this question, Title VII communities are compared to private new communities in their market areas.

Physical development. Two measures of physical development are used: residential density and open space.

- o Using the proportion of multi-family housing stock as an indirect measure of residential density, the density in each Title VII community is greater than that of the private new community in their market areas (see Table 6.4). The public subsidy, therefore, resulted in more compact physical development than that which was being produced privately.

o As a consequence of both planning and environmental constraints, the private new communities of Columbia and Kingwood provide somewhat more open space than the Title VII new communities in their areas. 1/ On this measure, the differences between public and private new communities are not consistent, but do not appear to be substantial. 2/

Table 6.4

Proportion of Multi-family Housing Units in Housing Stock of Title VII Communities Compared to Private New Communities, a/

Park Forest South	45%	Shenandoah	23%
Elk Grove Village	29	Peach Tree City	9
St. Charles	31	The Woodlands	19
Columbia	28	Kingwood	11

a/ U.S. Census, 1980.

1/ Two of the four private new communities -- Elk Grove Village, IL and Columbia, MD -- experienced significant growth during 1960-70; thus, they developed under different market conditions and are more mature developments than the Title VII communities. Inferences on differences between public and private new communities drawn from comparisons between these older communities and Title VII communities must take into account these differences in development stage. Peach Tree City, GA also developed at an earlier period -- land was acquired in the 1960's and construction was underway by 1970 -- and under different market conditions than Shenandoah. On the other hand, Kingwood's development was roughly contemporary with that of The Woodlands; as such, it offers a more direct comparison of differences between public and private new community development.

2/ The Title VII communities and the private new communities offer comparable basic educational and recreational facilities but the private communities provide a broader range of such facilities (see Appendix I, Table 12). When local planners, developers, community association representatives, and public officials compared the two types of new communities, the differences that they observed appear to be associated with the maturity of development, and the incorporation status of the community, rather than whether the community was developed with or without public support.

Living choices. Does the public subsidy make housing in Title VII new communities more accessible to lower-income households? Comparisons of living choices in Title VII and private new communities can be made with respect to: housing prices; percentage of assisted housing units; rental housing availabilty and costs; and the racial and income characteristics of residents.

In general, the Title VII communities provide more affordable housing opportunities than the private new communities in their areas. (See Table 6.5). Of the four private new communities, Columbia comes closest to meeting the social objectives guiding Title VII new community development: it is the only private new community studied that provides assisted housing units, and it has a greater percentage of rental units in its stock than does St. Charles. Renters in Columbia, however, pay higher rents, and homeownership is less affordable, than in St. Charles; also, Columbia's median housing prices are higher, and the distribution of housing values is skewed toward the higher end more than in St. Charles.

A comparison of resident characteristics in public and private new communities illustrates the positive effects of public involvement in new community development. (See Table 6.6). Again, with the exception of

TABLE 6.5

Housing Affordability in Title VII Communities
Compared to Private New Communities a/

	Median Value of Single Family Home	Homes With Value Greater Than $80,000 (%)	Homes With Value Less Than $40,000 (%)	Assisted Housing Units in Housing Stock (%)	Rental Housing Units (%)	Median Contract Rent
Park Forest South	$56,900	10	7	11	40	$271
Elk Grove Village	78,700	47	5	0	25	367
St. Charles	60,400	7	2	28	22	244
Columbia	84,300	58	0	29	32	302
Shenandoah	52,400	4	19	48	35	116
Peach Tree City	67,800	39	6	0	13	295
The Woodlands	78,200	55	.9	14	29	293
Kingwood	95,400	72	.7	0	14	391

a/ U.S. Census, 1980.

TABLE 6.6

Population Characteristics of Title VII Communities
Compared to Private New Communities a/

	Minority Households (%)	Average Household Income	Households With Incomes Above $35,000 (%)	Households With Incomes Below $20,000 (%)
Park Forest South	47	$24,525	20	34%
Elk Grove Village	.8	29,947	30	24
St. Charles	8	25,570	18	30
Columbia	19	30,872	36	20
Shenandoah	23	22,628	10	59
Peach Tree City	1	30,580	27	20
The Woodlands	4	35,073	36	26
Kingwood	1	43,066	56	11

a/ U.S. Census, 1980.

Columbia, which made a public commitment to developing an "open community", there are larger percentages of minority households in Title VII communities than in the private new communities studied. Also, in all four Title VII communities, average household income is lower than in private new communities and lower income households are a greater percentage of the population.

Overall, these comparisons suggest that Title VII new communities more effectively meet the objectives underlying the Title VII program than new communities developed without Title VII subsidies. In terms of both housing affordability and the types of residents served, Title VII communities more often have a more diverse mix than private new communities; however, there are fewer differences between public and private new communities with respect to physical development characteristics: both improve on conventional growth patterns.

Other goals. There are few differences between public and private new communities with respect to other goal areas, suggesting that these goals may have been achieved without Federal support. For example, although sometimes innovative in comparison to less comprehensively planned development, many innovations claimed by Title VII developers cannot be directly attributed to the Title VII program -- they can be found in private new communities in the same metropolitan areas:

- o The regionalization of water supply and waste management systems is often described as a major technological innovation in Title VII communities; however, three of the four private new communities in the same areas had comparable regional systems. Therefore, this innovation cannot be directly attributed to the Title VII program.

- o Certain design features in Title VII communities claimed as innovations, particularly bikeways, pathways, and cul-de-sacs, were relatively standard design practices during this time period and were evident in private new communities.

In the cases of environmental quality and fiscal impacts, Title VII new communities appear to be superior to those of less comprehensively planned residential developments but, in general, they are similar to (and, therefore, no better than) those of private new communities located in the same market areas. 1/ The differences between economic development and spillover effects among new communities appear to be associated with their stage of development rather than the presence or absence of Title VII funding.

In sum, then, the Title VII communities offer more affordable housing and house larger percentages of lower-income and minority households than private new communities. With the aid of public subsidy, this greater income and racial diversity exists in communities where the quality of the physical development, generally, is comparable to that of private new communities. But it appears that other goals of the Title VII program are no more likely to be met in Title VII communities than in private new communities at comparable stages of development; also, older, private new communities have more extensive facilities, services, and economic development than Title VII communities.

The final chapter describes some of the lessons learned from these attempts to improve on the physical and social aspects of contemporary development through the Title VII program.

1/ For example, local developers, planners, local officials, and community association representatives rate both Title VII and private new communities as having more positive impacts on air and water quality, and noise pollution, than other types of new development, but see little difference between Title VII and private new communities in these regards.

Chapter Seven

CONCLUSION

Several Title VII new communities are making progress toward achieving some of their primary goals -- providing alternatives to sprawl and offering affordable housing -- although the program failed to meet the high expectations of both the developers and the Federal government. Furthermore, the benefits which have been produced, thus far, have been very costly. As a result of this record, there is disagreement among program observers and participants as to whether, in hindsight, the effort was worthwhile. Some argue that the very fact that twelve of the thirteen developers defaulted on their loans, leading ultimately to the premature termination of the program, is evidence enough that the experience was not worthwhile. In this category are several of the Title VII developers who have regrets about their participation in the program. Others take a different position, arguing that the program was worthwhile because it has produced some positive results and because some of the communities will be viable in the long run. Their view is that a few successful communities constitute a good outcome in a high-risk business such as new community development.

There are lessons which can be learned from any program, especially one which was as ambitious as this thirteen year effort. This chapter pulls together some of the more important conclusions and implications of this program experience. These are based on the information reported in the previous chapters as well as discussions with a large number of people who have participated in or are knowledgeable about Title VII.

Achievements of New Communities

Those who argue in favor of planned new communities emphasize the following kinds of distinctive features: (1) more open space and amenities; (2) a more controlled and protected environment (deed restrictions, architectural approvals, long-term developer or community association control of the use of land); (3) mixed uses of land to create greater self-sufficiency (i.e. jobs, shopping facilities, schools, and other facilities provided with residential development); and (4) to a lesser extent, innovative communication, transportation, and energy systems. As this study has shown, the extent to which all or any of these goals has been achieved is partly a function of the age, or stage of development, of the new community.

While all Title VII and most private new communities were designed to meet the above objectives, Title VII communities had an additional goal -- to promote economic and social integration. In and of themselves, the presence of the Federal guarantee and grants were not always sufficient to stimulate the sort of development pace anticipated originally by the developers. But, where development did take place, the new community's Title VII status generally helped to insure that more low- and moderate-income people were housed when compared to non-subsidized private new communities or conventional new residential development. Title VII new communities generally provide a higher percentage of rental units, more assisted housing, and a larger proportion of lower cost homes than do private new communities or conventional trend development.

Social and economic integration in new development is feasible, therefore, although it is not always easy. Most Title VII developers felt that considerable commitment by the developer is necessary, including special care and attention given to the design and maintenance of low-cost housing; this is especially true for assisted housing, to assure that existing higher-income residents are willing to stay, and that potential higher-income residents are willing to move to the new community.

In terms of other features attributed to new community development, such as the provision of more open space, more controls of the environment, more amenities, and mixed land uses, private and Title VII new communities are generally comparable, with both more successful in achieving such goals than less planned development. However, many private and all Title VII new communities have failed to materialize into self-sufficient communities where residents live, work, play, and obtain basic services. Certain private new communities, in particular, have significant percentages of their residents working in the community; this is reflected in shorter distances to work and less travel time. In no planned community, private or Title VII, however, does a majority of the residents work in the community. To some extent, the lack of a higher jobs-residents match is explained by the relatively early stage of development in these communities but it also reflects the extraordinary challenge that "self-sufficiency" represents.

One caveat, while noted earlier in the report, bears mentioning again. A survey was not conducted to tap residents' overall levels of satisfaction with the living environment of the community. A survey of residents of both private and Title VII new communities, as well as of nearby less planned development, would have been necessary to assess systematically the degree to which the additional features of new communities actually improve residential satisfaction. To some extent, their decision to live there may indicate a preference for the features of new communities. The failure of the Title VII new communities to capture their anticipated shares of the market, however, suggests that perhaps such features are not as desirable to as many potential renters or owners as some had believed.

The Future of New Community Development

With the termination of the Title VII program, new community development is left to the private sector, except in New York, where the New York Urban Development Corporation continues to sponsor such development. When Title VII developers were asked whether they would undertake another new community project, the answers were mixed. For the most part, they are not seeking additional sites for new communities. They believe that greater returns can be obtained with less risk in other forms of real estate development. 1/ Large-scale communities will be undertaken only in those instances where market conditions make it financially feasible and a large parcel of land becomes available at a very good price, or is already owned. One developer indicated that his company would undertake this type of development only if existing land-owners would agree to be equity participants in the development; according to him, it is increasingly infeasible, from a financial point of view, to purchase large land acreage in good locations and carry that land at today's interest rates and in uncertain markets. 2/ Because of these constraints, many specialists in large-scale development, urban trends, and government policy believe that new communities will not be a significant factor in shaping urban/suburban development patterns over the next decade or two. 3/

Most large-scale new community development, underway or being planned currently, is in the Southwest and West. In several of these cases, as noted in Chapter Four, the developer has owned the land for a long time and, thus, has had insignificant land-carrying costs, except for the taxes (usually based on current land-use value, that is, prior to development). For example, since the 19th century, the Southern Pacific Land Company has owned 240 acres of railroad yards in San Francisco, 195 of which it proposes to develop into Mission Bay, a new city within the City. Current plans call for building 8,000 residential units for just under 20,000 residents, and 15.5 million square feet of office space, with an ultimate goal of 50,000 jobs. The anticipated $100 million in infrastructure costs will be financed by the developer. The expected time frame for the project is 20 years -- the same as for the Title VII new communities. Also of interest, plans by the developer include providing a range of housing so that at least some of the housing will be more affordable. The Highlands Ranch is another recently started, planned, private community near Denver. Unlike Mission Bay, the land, covering 20,000 acres, was acquired by the developer. Currently over 400 households reside there.

Thus, while new communities will probably not represent a dominant force in shaping urban trends, they are unlikely to become an extinct "species." Financial problems of both private and Title VII new communities during the 1970's have made developers more cautious about undertaking such investments. Furthermore, with certain exceptions, private new communities are not likely to provide as much affordable housing as communities which receive some form of public subsidy.

1/ Unpublished publication of the Urban Land Institute, 1975.

2/ Interview with James W. Todd, development manager, Reston (Va.), July 1983.

3/ Center for Futures Research, The Future of New Communities (June 30, 1975), p.i.

Problems With The Title VII Approach and Alternatives to New Communities

The remaining discussion in this chapter focuses on (1) the implications of the Title VII experience for future new community development, and (2) alternatives to such development.

Clearly, most of the Title VII communities fell far short of their original goals in terms of housing production and job creation. As discussed in Chapter Four, multiple factors combined to undermine the achievement of their development goals, including the mid-70's recession, inadequate sites, poor management by both the developers and the HUD New Communities staff, as well as the financial structure of the program. This is not to say, however, that private communities have been exempt from development and financial problems in the early stages of growth; the truth is far from that. Even so, the Title VII program, as it evolved, exacerbated the already high-risk nature of the development undertaking.

Financial viability. From a financial-viability perspective, a better design for a new communities program would include a financial framework which accounts for heavy, up-front land-carrying costs, infrastructure costs, and service costs. Given the risks of new community development, the loan guarantee approach, in and of itself, was not sufficient. The accumulation and need for immediate repayment of debt service became a tremendous burden on Title VII developers at a stage in development when revenues were almost non-existent or, at minimum, less than their costs, and before land values had appreciated and equity had been built up.

Although smaller new communities would probably provide fewer opportunities than those available under Title VII for community facilities or community self-sufficiency, they are likely to have a greater chance of financial success and long-term viability. Smaller parcels of land would at least have helped to alleviate, if not prevent, the financial difficulties faced by the developers of Shenandoah, Gananda, and Park Forest South. Other financial mechanisms to reduce the burden of the land-carrying costs on the developer are described later in this chapter.

Infrastructure and public service/facility costs, while usually not as burdensome to the developer as land costs, are also substantial in the early stages of new community development; the available evidence suggests that, by and large, local governments have not provided extensive infrastructure to the communities. As in the case of land acquisition and carrying costs, the new communities program should have more equitably distributed costs among the developer, local authorities normally responsible for such services, and present and future residents of the new community. The financing approach should have, as much as possible, insured that no group or level of government pays more than its "fair share" of the costs.

Program implementation. This report has also highlighted significant problems in the administration of the Title VII program. These included: inadequate numbers of staff with large-scale development experience; insufficient attention to real estate feasibility criteria in the selection of new community proposals; insufficient financial controls over expenditures of funds early on; excessive delays and bureaucratic "red tape"; and discontinuous and often inexperienced program leadership.

Two implementation issues deserve particular emphasis: (1) the process by which new community sites and developers were selected; and (2) the nature of the relationship between Title VII developers and the New Community Development Corporation. To begin with, the selection process was not premised sufficiently on conventional real estate underwriting criteria. The New Communities staff failed to discount adequately the very optimistic capture rates given for the new communities by the developers. Both developers and HUD staff must share the responsibility for the unrealistic expectations about development although, in fairness to both, the effects of the recession in the mid-70's were not anticipated by most market consultants. Even so, the high-risk nature of building a new community should have led to a more cautious process in selecting sites and developers.

A second observation about the implementation of the program relates to the change in the relationship between developers and HUD. The structure of the Title VII approach was intended to rely on the private sector to select the site and acquire the land for the new community, plan and develop the new community, and deal with local government to obtain the needed approvals. The government's role consisted of being a guarantor of the money loaned to the developer at a below-market interest rate, as well as providing grants to encourage some of the social and innovative objectives in the legislation.

As Title VII developers began to experience financial difficulties, the New Community Development Corporation exerted more control over developer management. This role of "overseer" was perceived as necessary to protect the taxpayer's interest. From the developers' point of view, however, this increased level of involvement by the government was considered burdensome. Another aspect of the relationship which created many problems were the continuous changes in program leadeship and staff and, consequently, changes in program priorities and decision-rules. Based on his experience, one Title VII developer concluded that public-private partnerships of this sort will seldom work because developers are faced with continually changing partners and an unstable decision-making environment. In contrast, he sees partnerships between private partners as more stable and less vulnerable to political cycles. "One partner can die or be taken over by another company -- but generally, there is a stronger bond and stronger sense of responsibility of a private partner to you than of a public partner to you," he asserts. 1/ A former New Communities manager echoed similar sentiments -- that is, that the private sector will learn not to trust

1/ Interview with Lewis Manilow, original developer of Park Forest South, August 1983.

changing administrations to carry out long-term commitments. 1/

Perhaps something can be learned from the nature of the relationship between developers and their private financiers in similar situations. The development team of Columbia, Maryland, anticipated its financial crisis and went to their lender, Connecticut General Life Insurance Company, with a plan for cutting costs. At that point, Connecticut General sent an audit team to conduct a management review of Columbia's development. The result was basically positive and Connecticut General remained committed to the community. It provided Columbia with additional funds, and moved from having a 50 percent interest to, in effect, assuming a 100 percent ownership. However, Connecticut General did require that a representative of the company, henceforth, monitor the project, and participate in major management decisions; the Rouse Company was relied upon to provide detailed staff support in managing the new community. In sum, a high-ranking representative from the lender, with authority to make decisions (unlike the Title VII asset managers), was on site within a short period of time.

In the case of the Title VII program, there was an insufficient realization by the New Community Development Corporation of the risk involved in these projects. When the new communities did not match the expectations of either developers or HUD program staff, the government was ill-prepared to respond expeditiously -- either through immediate foreclosure of those communities with little or no development potential, or by refinancing quickly those that were more viable. Long delays between initial failure by the developer to make his interest payments and acquisition by HUD, and between the time the new communities were eventually sold to a new developer, meant that the new community was in limbo for several years, with little development occurring during this period. These delays also added considerably to HUD's costs, since it was paying the interest on the debentures during this period.

State and local involvement. Another frequent criticism of the Title VII legislation is that it created too preponderant a Federal role in new community development without sufficiently tying the development process into state and local government decision-making. In particular, there was often insufficient state/local input into site-selection decisons.

The failure of states to build needed highways to some of the new communities, as expected, is one example of how this coordination between a Federal program and state and local governments failed to occur. Another example is the lack of coordination of the new communities program with either Federal, state or local economic development programs. Since one of the most crucial characteristics of new community development is the creation of jobs, as well as housing and other facilities, new communities that are closely woven into the targeting efforts of state and local economic development programs, from the very start, will be in an advantageous position.

1/ Interview with James Dausch, former head of the New Communities Administration, June 1983.

Beyond the rather strong consensus on the need for more state or local involvement in such an undertaking, there is less agreement on what the nature of that involvement should be. On their own, states have not generally been very aggressive in this area, except for New York via its Urban Development Corporation (UDC). In UDC's new communities, financing for land acquisition and development has been accomplished through state appropriations and general obligation bonding. The corporation, like the Title VII program, experienced critical financial problems in the mid 1970's, problems which came close to terminating its operations. Its financial situation was improved through a combination of state appropriations, and short-term and long-term private and public loans. 1/ Like most of the Title VII new communities, its communities (Roosevelt Island, Audubon, and Radisson), cannot yet be considered financial successes.

Most other states do not appear to have a strong interest in following New York's approach. The major obstacles to more state-wide participation are: no-growth attitudes; lack of significant expertise in large-scale development; funding problems, in general; lack of state land-use planning powers; and lack of any significant constituency for new communities. 2/

Cities and counties, also, are not likely to become involved in new community development for many of the same reasons. One concern expressed by a number of city officials contacted for this study concerns the potential negative impact of satellite new communities on inner cities -- a concern primarily focused on the potential loss of jobs as firms might move to new community locations. For them, the notion of a new-town-in-town is attractive because of its beneficial impacts on cities. This type of new community may, however, be even more difficult to implement than other kinds of new communities; land assembly can be even more arduous and time-consuming, as well as costly. Once again, however, there are exceptions like the proposed community, Mission Bay in San Francisco, where the Southern Pacific Land Company owns a large parcel of in-city land. This form of new community development, even more than the free-standing or satellite communities, cannot occur unless there is a very close working relationship between the private and public sectors, although it is unlikely that cities will contribute financially to such partnerships. It is unrealistic, for example, to expect them to use their Community Development Block Grant funds for large-scale projects such as new communities, given competing demands for other urban needs. 3/

1/ Robert T. Dormer, "Three New Towns", Journal of Housing (February 1979), p. 86.

2/ Center For Futures Research, Op. Cit., p.56; also interviews conducted during this study with state and local officials.

3/ Center for Futures Research, Op. Cit., p. 65.

In summary, criticism has focused on the Title VII legislation for not integrating state and local governments sufficiently into the development process. Without Federal financial incentives, it is not likely that either state or local governments will take up on their own where the Federal government has left off because of financial constraints and the lack of a strong enough constituency or interest in new community development *per se*.

Alternatives. In assessing alternative ways of achieving some of the same benefits provided by large-scale new communities, three issues are important to examine: (a) methods of financing; (b) methods of controlling development; and (c) the scale or form of development.

(A) Different methods of financing. Financing is probably *the* critical issue in long-term development. While the loan guarantee approach of the Title VII program provided the long-term money necessary to finance development and land-carrying costs, the fatal flaw of this mechanism was the need to make very substantial debt service payments, from the very start, regardless of cash flow position.

Land and infrastructure are the two major costs facing a new community developer. Land costs can be covered without public subsidy to the extent that on-site operations on undeveloped land held by a developer are income-producing; these might include farming, a timber industry, gas or oil production, a shopping center, etc. However, in many of the new communities examined in this study, such operations were minimal and did not produce revenues sufficient to cover costs. Another approach which does not involve public subsidy is for the developer to encourage landowners to be equity participants in the development. Examples of this approach, however, are infrequent.

A variety of public sector aids, each allocating benefits and risks differently, has been suggested to reduce a developer's land-carrying and infrastructure costs. These suggestions have been discussed in more detail elsewhere and are only briefly described here. 1/ One such proposal, by the Advisory Commission on Intergovernmental Relations in the early 1970's, was for a property tax deferment for new community developers until they are in position to be able to pay. The local government would be reimbursed for its lost revenues by the state.

An alternative approach is for public subsidy of land-carrying costs where, for example, a non-interest bearing loan would be paid back once the developer realized a cumulative positive cash flow position. A variant of this would be a single purpose grant to a developer of an existing viable community for such purposes as providing open space or infrastructure in return for the developer's achieving certain social goals, such as pro-

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1/ Department of Housing and Urban Development, *New Communities: Problems and Potentials, Appendix C, An Assessment of the Causes of Current Problems*, (1976) pp. 26-40.

viding more affordable housing.

A technique which has been used to finance other kinds of development costs is the creation of an independent entity which provides facilities, services and, in some cases, infrastructure. Basically, this approach passes on these costs to future residents of the new community, rather than to all taxpayers (as in the Montgomery County "Germantown approach" explained below). For example, if state legislation permits, municipal districts such as Texas Municipal Utility Districts or Chicago Park Districts can be used for the development and maintenance of parks and recreation areas as well as water, sewer, and drainage facilities. Tax-free bonds issued by the district are then paid off by special district taxes on residents.

Finally, under the California Community Development Law, public agencies are empowered to employ a financing scheme known as tax-increment financing whereby a local government issues special-purpose bonds to finance community facilities. The source of debt service is the increment of increased local revenues generated by the new community, thus avoiding the problem of imposing the fiscal burden on existing residents.

(B) Different methods of controlling development. As previously indicated, private new community development relies on a unified developer who purchases parcels of land and is responsible for financing land and development costs. Another approach is for the Federal or state government (as in New York through the Urban Development Corporation) to perform this role. The government acts as a land bank and/or developer, as it did in developing Oak Ridge, Tennessee and as it does in the British and French new towns programs. A special-purpose public corporation (whether at the Federal or state level) for land banking might have authority to acquire land through the power of eminent domain or through the open market. The government could either function directly as a developer or contract for development services. In this manner, the government assumes direct management control.

While landbanking attempts to gain control over the land through acquisition, another approach taken by Montgomery County, Maryland, attempts to control the land without cost, while allowing existing landowners to retain their ownership. In this case, the county designated a new community development area, within which capital improvements were to be made, and commissioned a master plan to be drawn up for the new community of Germantown, Maryland. Under this approach, the county passes zoning provisions that are intended to encourage the desired type of development. The county, therefore, is the master planner, unlike the case in most new communities -- Title VII or private -- where the developer performs this function. The county also provides the infrastructure, which means that existing county residents pay for this cost rather than the new residents of the privately sponsored new community. 1/

1/ Department of Housing and Urban Development, Op. Cit., p. IV-30

Thus, the need for large-scale land assembly and heavy costs for infrastructure are eliminated; this approach also allows for the presence of multiple developers.

To achieve mixed land-uses and provide affordable housing, special incentives can be put into effect for these districts, similar to enterprise zones. For instance, accelerated plan and building approvals, waiving of certain regulations, and special financial incentives could be offered if certain development criteria were met. Housing vouchers or other housing assistance could also be earmarked for these areas.

Another approach to increased local control over development involves condemnation or purchase of land adjoining major transportation corridors, such as subways or new highways, by local governments before major transportation decisions are made public. Still another method of development control to prevent unwanted sprawl along suburban and exurban roads is to charge a "tap in" fee to developers/builders, such as is now charged for access to sewer and water lines.

(C) Smaller-scale development. The experience of both Title VII and private new communities suggests that very large developments, measured both in terms of acreage and in the length of time needed to complete "build-out," are exceptionally risky. Developments with over 3,000 acres or those requiring more than five or six years to complete are financially uncertain endeavors because of the difficulty in forecasting future market growth, assembling land in good locations at reasonable prices, financing the land acquisition, and because of the shortage of qualified developers with experience in developments of this size and nature.

An alternative is smaller-scale development, ranging from 500 to 700 acres with a "build-out" period of six or seven years. (Developers generally believe that it is the length of time to complete a development, rather than its size, which is the critical factor.) Unlike Planned Unit Developments (PUD's), these would contain some internal mix of land uses leading to an integrated development. Another suggestion is a suburban "micro-town" built on an area of roughly one square mile, consisting of a shopping mall, five to six thousand units, approximately 30,000 residents, and taking not more than 10 to 15 years to complete. Interestingly, recent market analyses done for the Title VII new communities still under development indicate that their long-term potential is, in most cases, about 5,000 units (their original projections averaged about 20,000 units). Once again, this suggests that had they been smaller from the start, with much less land carrying and infrastructure costs, at least some of them would have had a greater chance of succeeding financially.

In conclusion, there are alternative approaches to new suburban and new town development that are not as ambitious, extensive, or complex as that undertaken under the Title VII program. Developers and local governments in several localities across the country are embarking on such ventures and are undertaking smaller-scale projects. What remains to be seen is whether these alternative approaches will be successful in achieving the types of development that did not fully materialize under the Title VII program.

Appendix I

TABLES

List of Appendix Tables

Appendix I, Table 1

The History and Current Status of Title VII Communities

	Month and Year of Original Project Agreement	Year First Failed To Meet Debt Service	Year HUD Acquired	Year Sold or Work-Out Deal Between Developer and HUD	Name of New Developer
Cedar-Riverside	12/71	1975	Not acquired but HUD sold mortgage, 1980	Original developer retained title	Same developer with additional others
Flower Mound	12/70-1/71	1975	1976	1982	Bellamah Community
Ganenda	12/72	1975	1971	1977	Core area sold to Home Leasing and remainder to original landowners Developers
Harbison	2/75	1977	Not acquired	Work-out, 1982	The Harbison Group
Jonathan	10/70	1974	1980	1980	First National Bank of St. Paul
Maumelle	12/71	1978	Not acquired	Work-out, 1982	Mid-South Mortgage Company
Newfields	11/73	1975	1979	Sales of different parcels between 1978 - 1983	Core area sold in 1983 to Sycamore Farming & Invest-
Park Forest South	3/71	1975	1977	1982	Monee Business Plaza, Inc.
Riverton	1972	1972	1978	Sales of different parcels between 1978 - 1982	Core area sold to Conifer Development
St. Charles	12/70	1973	Not acquired	Work-out, 1983	No change in developer or ownership
Shenandoah	3/74	1977	1981	1984	Jefferson Ventures, Inc. and Coweta County Development Authority
Soul City	1974	1974	1981	Sales of different parcels between 1981 - 1983	No single developer
The Woodlands	8/72	--	Not acquired	--	Woodlands Development Corp. merged with an affiliate, 1983

Appendix I, Table 2

Selected Data On Final Sales, Settlements And Termination Agreements

	CEDAR RIVERSIDE	FLOWER MOUND	GANANDA	HARBISON
HUD Initial Valuation for Land Actually Purchased by Developer a/	$19.5 mil. for 2.1 mil. sq. ft.	$11.9 mil. for 3583 acres acquired initially.	$11.5 mil. for 5631 acres.	$11.2 mil. for 1683 acres.
Acres Acquired by HUD After Foreclosure, or Available at Termination Agreement. b/	Foreclosure initiated, never completed. HUD sold interest.	HUD acquired 3400 acres at foreclosure.	Acquired 9000 acres (5800 plus 3700 in "land bank" outside of orig. project).	Foreclosure initiated, never completed.
Acres Sold or Transferred and Amount Received. c/	HUD received $2.37 mil. from bank for its interest, and funds from condemnation and escrow; total receipts were $2.8 mil.	Sold 3000 acres to new developer for $15 mil; during HUD mgmt. of project, sold $8.1 mil. in land; additional acres sold for $1.5 mil; total receipts -- $26 million	1500 acres sold to Gananda Partnership for $1 mil. in cash and $1 mil. note, renegotiated to $825,000; balance reverted to holders of purchase money mortgages.	Received $5.2 for forgiving debt and terminating interest in project ($1 mil. in cash $4.2 mil. in 30 months).
Developer Liabilities Paid by HUD at Settlement d/ (back taxes, etc.)	N.A.	N.A.	$2.2 mil. to creditors; $1.2 mil. property taxes; $768,000 in PMMs f/; $1.1 mil. for school; $208,000 to banks; total settlement -- $6 mil.	None.
Debt Redemption and Other Costs Assumed by HUD e/	$24 mil. redeemed debentures; $5 mil. interest; $3 mil. operating costs.	$18 mil. redeemed debentures; $1.8 mil. interest; $15.5 mil. in operating costs.	$22 mil. redemptions; $3.6 mil. interest costs.	Forgave past interest of $8.2 mil.; assumed principal and interest on $13 mil. in debentures.

Sources:
a/ Initial cost certification
b/ Termination Agreements
c/ Termination Agreements
d/ Closing documents
e/ Closing documents and Board Reports
f/ Purchase money mortgages

Selected Data On Final Sales, Settlements And Termination Agreements

	JONATHAN	MAUMELLE	NEWFIELDS	PARK FOREST SOUTH
HUD Initial Valuation For Land Actually Purchased by Developer a/	$5 million for 2401 acres.	$4.7 million for 4368 acres.	$12 mil. for 3601 acres	$21.1 million for 3669 acres
Acres Acquired by HUD After Foreclosure, or Available at Termination Agreement. b/	2400 acres	Never acquired by HUD, but in default. 4500 acres involved in sale to new owner (land value $8 mil).	3700 acres acquired upon foreclosure.	2280 acquired at closing; 1234 acres previously sold to partners in land purchase agreement.
Acres Sold or Transferred and Amount Received c/	2400 acres sold for $5 million to bank in negotiated settlement for debts to avoid protracted law suit.	HUD interest sold for $1.38 million in cash to Mid South; new owner assumed principal and interest of $6.9 million in debentures outstanding.	2237 sold to State for park for $4 mil; 473 acres sold or under option to developers	2280 acres sold to new developer for $3.5 mil. (including utilities co.).
Developer Liabilities Paid by HUD at Settlement d/ (back taxes, etc.)	$205,000 to community association; $150,000 for street improvements	N.A.	985 acres to bank to share proceeds w/HUD; $260,000 for taxes; $1.1 mil. to developer and bank for debts; $389,000 to local govt; $653,700 for PMM;	$66,000 for payment of claim of adjacent property owner.
Debt Redemption and Other Costs Assumed by HUD e/	$21 million debenture redemption; $5.4 mil. interest; $3.6 mil. in operating costs.	Cancels $6.3 mil. in past interest payments; assumed $6.5 million in debentures (principal and interest).	$18 mil. redeemed debentures; $3.4 mil. in interest; $1.1 in operating costs.	$30 mil. in redeemed debentures; $4.8 mil. in interest; $1.8 mil. in operating costs.

Sources:
a/ Initial cost certification
b/ Termination Agreements
c/ Termination Agreements
d/ Closing documents
e/ Closing documents and Board Reports

Appendix I, Table 2

Selected Data On Final Sales, Settlements And Termination Agreements

	RIVERTON	ST. CHARLES	SOUL CITY	SHENANDOAH
HUD's Initial Valuation for Land Actually Purchased by Developer a/	$6.2 million for 2076 acres	$17.5 mil. for 6982 acres.	$736,000 for 2087 acres.	$21.8 mil. for 7128 acres.
Acres Acquired by HUD After Foreclosure, or Available at Termination Agreement. b/	1000 acres acquired by HUD at foreclosure.	Never acquired by HUD, although in default.	3000 acres acquired by HUD in 1981.	5200 acres acquired by HUD on foreclosures; 1357 acres reverted to owners in PMMs.
Acres Sold or Transferred and Amount Received. c/	700 peripheral acres sold for $600,000; 260 core acres sold for $236,000.	5700 residual acres continued in existing ownership in return for $8.5 mil. in cash; $5 mil w/in 30 months; $3.4 mil 7 yrs from closing. Developer assumed $5.5 mil. in debentures outstanding.	Land sold by HUD for around $1 mil.; excludes 500 acres sold by developer.	5200 acres sold to public-private joint venture for $7.5 mil. at closing; $2.5 mil. in 36 months and $2.5 mil. for PMMs.
Developer Liabilities Paid by HUD at Settlement d/ (back taxes, etc.)	$179,000 to community association; $221,740 to township; $426,540 to county for real estate taxes; $488,789 for PMM pyaments; $90,689 to landowners.		Payment to developer to settle some outstanding debt.	N.A.
Debt Redemption and Other Costs Assumed by HUD e/	$16 mil. in redeemed debentures; $6.2 mi. in interest and operating costs.	HUD assumed $30.7 mil. in debentures and an estimated $30 mil. in past and projected interest costs.	$10 mil. debentures redeemed; $1.5 mil. in interest costs; $3.6 mil. in operating costs.	$25 mil. in redeemed debentures; $9.4 mil. in interest costs; $7.8 mil. operating costs.

Sources:
a/ Initial cost certification
b/ Termination Agreements
c/ Termination Agreements
d/ Closing documents
e/ Closing documents and Board Reports

4

WOODLANDS
$50 mil. for 3601 acres
N.A.
Termination agreement involved 20,250 acres.
N.A.
HUD holds $37.5 mil. in debt; developer assumed responsibility for repayment.

Appendix I, Table 3

Schedule of Costs by Community, through September 30, 1983 (In Thousands)

Guarantee Projects	Guarantee Costs						Net Costs		
	Principal	Interest	Total	Operating Costs	Total Costs	Fees, Interest, Recoveries	NCDC	Federal Grants	Total
Cedar-Riverside	24,800	5,107	29,107	3,088	32,195	4,899	27,296	700	27,996
Flower Mound	18,000	1,859	19,859	15,574	35,433	26,000[a]	11,214	5,490	14,923
Gananda	22,000	3,671	25,671	6,765	32,436	2,415	30,021	—	30,021
Harbison	13,000	7,973	20,973	208	21,181	5,731	15,450	16,525	31,975
Jonathan	21,000	5,479	26,479	3,648	30,127	6,317	23,810	4,265	28,075
Maumelle	6,500	6,035	12,535	261	12,796	2,214	10,582	21,981	32,563
Newfields	18,000	3,496	21,496	1,150	22,646	2,307	20,339	1,919	22,258
Park Forest South	30,000	4,859	34,859	1,872	36,731	6,114	30,617	5,491	36,108
Riverton	16,000	2,498	18,498	3,873	22,371	1,035	21,336	5,999	27,335
St. Charles	31,698	11,092	42,790	321	43,111	19,121	23,990	25,267	49,257
Shenandoah	25,000	9,430	34,430	7,893	42,323	12,000[b]	33,073	11,767	42,090
Soul City	10,000	1,540	11,540	3,654	15,194	1,539	13,655	10,334	23,989
The Woodlands	—	—	—	248	248	4,684	(4,436)	27,701	23,265
Total Guarantee Projects	235,198	63,039	298,237	48,555	346,792	94,376	256,947	137,439	389,855
Unallocated	—	—	—	1,105	1,105	2,371	(1,266)	—	(1,266)
Total Project Costs	**235,198**	**63,039**	**298,237**	**49,660**	**347,897**	**96,747**	**255,681**	**137,439**	**388,589**
Interest on Treasury Borrowings	—	—	—	147,297	147,297	—	147,297	—	147,297
NCDC Administrative Expenses	—	—	—	25,200	25,200	—	25,200	—	25,200
Total Unrecoverable Costs	**235,198**	**63,039**	**298,237**	**222,157**	**520,394**	**96,747**	**423,647**	**137,439**	**561,086**

[a] This includes receipts from additional land sales subsequent to the preparation of this table.

[b] This reflects total receipts from land sales at the total closing in June 1984.

Appendix I, Table 3.1

Annual Changes of Population, Housing and Jobs In Selected Title VII Communities, 1970 to FY 1982

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	Total to 1982	Units Projected for 1982	% of 1982 Target Achieved
Cedar Riverside																
units built			0	1299	0	0	0	0	0	0	0	0	0	1299	7641	17
population			0	2200	0	600	0	300	0	0	0	0	0	3100		
jobs[a]			0	unk	unk	unk	unk	350[b]	0	0	0	0	0	350		
Flower Mound																
units built			0	0	20	77	18	5	40	265	0	150	0	575	8214	7
population			0	0	30	185	110	25	100	400	950	500	0	2300		
jobs			0	0	161	-111[c]	0	0	0	90	0	110	0	250		
Harbison																
units built							42	46	71	238	139	272	118	926	2881	32
population							56	100	302	432	495	73	1042	2500		
jobs							98	0	0	47	305	108	-108	450		
Jonathan																
units built		257	294	169	94	0	0	0	0	114	27	3	11	969	7454	13
population		533	779	489	444	55	200	360	20	90	0	155	22	3147		
jobs		351	215	481	444	109	0	0	162	-62	0	100	0	1800		
Maumelle																
units built			0	0	6	17	59	50	112	150	173	120	109	796	1121	71
population			0	0	4	26	144	270	373	497	470	422	284	2490		
jobs			0	0	21	15	61	144	127	186	138	552	415	1659		
Newfields																
units built					0	60	0	0	0	5	0	3	0	68	3400	2
population					0	100	22	0	0	103	0	0	0	225		
jobs				84	430	-290	-206	0	0	0	0	0	0	18		
Park Forest South																
units built	802	393	383	202	115	256	19	0	0	6	20	0	0	2196	4482	49
population	1748	1027	1145	385	943	752	0	0	0	243	2	55	0	6300		
jobs	unk	unk	1236	690	-402	392	-116	0	0	0	0	0	0	1800		
Riverton																
units built				112	184	43	3	0	74	89	0	0	45	550	4583	12
population				150	743	0	6	101	0	200	0	0	0	1200		
jobs		79	-15	154	59	-204	-33	0	0	0	0	0	0	40		
St. Charles																
units built					61	50	447	369	599	687	608	186	217	3224	12400	26
population					228	182	390	1700	2029	1171	3480	388	702	10270		
jobs					162	190	-72	379	42	1142	-43	0	200	2000		
Shenandoah																
units built						0	18	27	70	35	115	8	62	335	N.A.	
population						0	7	93	134	168	348	0	0	750		
jobs					24	1	25	257	652	414	452	200	0	2000		
Soul City																
units built						0	10	0	11	11	0	1	0	33	1015	1
population						0	unk	94	32	26	8	0	0	160		
jobs					100	0	0	38	49	27	-164	-5	-20	25		
The Woodlands																
units built				0	78	183	382	582	603	880	908	1401	1133	6150	13085	47
population				0	128	616	1335	1346	1800	2035	2239	3057	3088	15647		
jobs				517	419	-236	280	1030	633	773	907	1107	720	6150		
All 13 Communities																
units built	802	650	677	1782	558	1097	2853	1244	1665	2726	2207	2735	1927	20923	66276[d]	32
population	1748	1560	1924	3224	2520	3370	5316	5193	6531	5910	9235	4940	7116	58587		
jobs	unk	430	1436	1926	1745	-131	4382	2704	1550	2777	1745	2231	1037	21832		

[*] Source: September quarterly reports for all Title VII projects, as corrected by developers. For years for which there was no September reports, data were estimated by project managers and derived through other sources.

[a] Because separate, reliable counts of construction vs. permanent jobs were not available, the figures for jobs given in this table include both.

[b] This is a comulative figure.

[c] A negative number means that jobs were lost in that year. The majority of those lost were construction jobs.

[d] This figure does not include numbers of projected units for Shenandoah.

Appendix I, Table 4

Federal Grants Awarded to Thirteen Title VII Communities
As of December 31, 1982

Federal Grants Awarded	Cedar Riverside	Flower Mound	Gananda	Harbison	Jonathan	Maumelle	Newfields	Park Forest South	Riverton	St. Charles	Shenandoah	Soul City	The Woodlands	Total
Title I Grants														
Developer				12,024		385	1,031	1,702		14,953	6,429	1,513	17,848	55,885
Community Association				1,855		2,166	888					494	1,639	7,042
Suburban Improvements District						10,658					5,338	1,238		17,234
County or Local Governments				558	1,806	1,206			501	454		1,701	695	6,921
Total	-0-	-0-	-0-	14,437	1,806	14,415	1,919	1,702	501	15,407	11,767	4,946	20,182	87,082
Basic & Supplemental Grants														
HUD	700	3,798		265	2,459	1,110		3,789	4,597	6,459		1,532		24,640
Others		1,761		1,823		6,456			901	3,401		3,856	7,519	25,751
Total	700	5,490	-0-	2,088	2,459	7,566	-0-	3,789	5,498	9,860	-0-	5,388	7,519	50,357
Total Grants Awarded	700	5,490	-0-	16,525	4,265	21,981	1,919	5,491	5,999	25,267	11,767	10,334	27,701	137,439

Appendix I, Table 5

Title VII New Communities: Residential Acres Developed and Sold[a] 1970-1982

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	Total
Cedar Riverside		P.A.[b]	8	0	0	0	0	0	0	0	0	0	0	8
			8	0	0	0	0	0	0	0	0	0	0	8
Flower Mound		P.A.	0	0	52	34	0	44	0	153	0	116	0	399
			0	0	18	42	15	5	13	105	53	124	100	277
Gananda				P.A.	60	0	0	5	12	0	0	0	0	77
					0	0	0	0	0	17	17	17	17	68
Harbison						P.A.								
						20	48	17	52	71	0	0	31	239
						0	15	10	43	40	31	2	10	151
Jonathan	P.A.	210	58	53	34	61	0	0	0	0	0	0	20	426
		64	32	0	25	84	0	0	0	0	0	0	7	212
Maumelle		P.A.	0	0	80	62	0	0	11	80	176	0	0	409
			0	3	10	0	25	47	54	40	33	8	0	220
Newfields				P.A.	44	6	4	125	0	0	0	0	d	54
					10	9	0	0	0	0	0	0		20
Park Forest South		P.A.												
	142[c]	71	120	112	0	0	0	0	0	0	0	0	0	303
	142	71	120	16	0	19	0	0	0	0	0	0	0	226
Riverton			P.A.	90	0	0	0	0	0	0	0	0	28	118
				32	48[e]	0	0	0	0	0	0	0	28	108
St Charles	P.A.	0	0	0	284	0	31	292	108	88	154	140	0	1097
		0	0	0	16	30	68	95	103	144	67	12	40	575
Shenandoah					P.A.									
					0	0	73	0	53	36	0	0	0	162
					0	0	7	10	27	36	1	0	0	81
Soul City					P.A.									
					0	0	24	30	0	0	0	0	0	54
					0	0	18	0	0	0	13	0	0	31
The Woodlands			P.A.	5	110	163	82	188	261	232	77	104	415	1637
				5	19	120	131	94	139	133	139	196	353	1329

[a] The first figure is the number of acres developed; the second is the number sold.

[b] P.A. = Project Agreement between HUD and Developer executed.

[c] Existing developed acres which were part of Park Forest South parcel when acquired by developer. They are not included in the total figure of the last column.

[d] Missing Data.

[e] This is an estimate.

Appendix I, Table 6

Title VII New Communities: Commercial Acres Developed and Sold[a]

1970-1982

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	Total
Cedar Riverside		P.A.[b]	0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0	0	0
Flower Mound		P.A.	0	0	0	25	0	0	0	0	0	0	0	25
			0	0	0	0	0	0	0	0	0	0	0	0
Gananda				P.A.	40	0	0	0	0	0	0	0	0	40
					0	0	0	0	0	0	0	0	0	0
Harbison				P.A.	0	0	0	0	0	0	0	0	0	0
					0	0	0	0	0	0	0	0	0	0
Jonathan	P.A.	6	0	0	0	12	0	0	0	0	0	0	0	18
		6	0	0	0	0	4	0	2	0	0	0	0	12
Maumelle		P.A.	0	0	0	10	0	0	1	0	7	0	0	18
			0	0	0	1	0	0	4	0	0	0	0	5
Newfields				P.A.	6	0	0	0	0	0	0	0	0	6
					2	0	0	0	0	0	0	0	0	2
Park Forest South		P.A.												
		0	10	0	0	7	0	0	0	0	0	0	0	17
		0	0	10	0	4	0	0	0	0	0	0	0	14
Riverton			P.A.	40	0	0	0	0	0	0	0	0	0	40
				2	0	0	0	0	0	0	0	0	4	6
St Charles		P.A.	0	0	0	40	0	0	0	3	7	7	0	57
			0	0	0	2	1	5	0	6	25	1	0	40
Shenandoah					P.A.									
					0	0	0	10	0	0	17	0	0	27
					0	0	0	4	1	0	1	0	1	7
Soul City					P.A.									
					0	0	0	7	3	0	0	0	0	10
					0	0	0	0	3	0	0	0	0	3
The Woodlands			P.A.	327	0	1	0	196	8	5	0	0	267	803
				327	0	0	1	0	7	2	0	196	195	728

[a] The first figure is the number of acres developed; the second is the number sold

[b] P.A. = Project Agreement between HUD and developer executed.

Appendix I, Table 7

Title VII New Communities:
Industrial Acres Developed and Sold[a]
1970-1982

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	Total
Cedar Riverside		P.A.[b]	0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0	0	0
Flower Mound		P.A.	0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0	245[c]	245[c]
Gananda				P.A.	0	0	0	0	0	40	0	0	0	40
					0	0	0	0	0	5	0	0	0	5
Harbison				P.A.	0	21	22	32	30	0	0	1	0	106
					0	0	1	1	1	29	1	2	0	35
Jonathan	P.A.	70	113	21	8	0	0	0	0	0	0	0	0	212
		70	26	46	0	0	3	0	1	5	22	5	0	178
Maumelle		P.A.	0	0	20	76	0	0	0	0	258	0	0	354
			0	0	4	0	6	1	0	1	143	4	0	159
Newfields				P.A.	0	0	0	0	0	0	0	0	0	0
					0	0	0	0	0	0	0	0	0	0
Park Forest South		P.A.												
		0	163	75	335	0	0	0	0	0	0	0	0	573
		0	0	47	163	0	0	11	27	16	0	16	0	280
Riverton			P.A.	40	0	0	0	0	0	0	0	0	4	44
				4	0	0	0	2	0	0	0	0	1	7
St Charles	P.A.	0	0	0	67	109	59	0	0	0	2	0	0	237
		0	0	0	38	0	13	9	11	3	3	0	0	77
Shenandoah					P.A.									
					0	0	273	0	0	0	103	13	0	389
					0	0	107	5	20	81	0	13	0	226
Soul City					P.A.									
					9	0	0	51	0	0	506	0	0	566
					9	0	0	0	0	0	500	0	0	509
The Woodlands			P.A.	7	8	0	0	68	80	15	117	37	162	494
				7	8	0	0	32	33	17	43	33	74	247

[a] The first figure is the number of acres developed; the second is the number sold in any given year.

[b] P.A. = Project Agreement between developer and HUD executed.

[c] Sold for agriculture uses.

Appendix I, Table 8

Annual Changes in Assisted Housing and Minority Population
In Selected Title VII Communities, 1970-1982[a]

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	Total in '82
1. Cedar Riverside														
Assisted Units				669	0	0	0	0	0	0	0	0	0	669
Minority Population				UNK	UNK	UNK	504[b]	0	0	0	0	0	0	868[b]
2. Flower Mound														
Assisted Units							0	0	0	0	0	0	0	0
Minority Population							10	0	3	12	29	15	0	69
3. Harbison														
Assisted Units								0	0	24	10	112	22	168
Minority Population								25	67	95	7	28	153	375
4. Jonathan														
Assisted Units				129	0	0	0	0	0	114	0	0	0	243
Minority Population				40	7	0	3	7	0	2	0	35	0	94
5. Maumelle														
Assisted Units					0	0	0	0	0	0	0	20	227	247
Minority Population					0	0	0	0	16	10	10	8	5	49
6. Newfields														
Assisted Units						0	0	0	0	0	0	0	0	0
Minority Population						0	24	0	0	21	0	0	0	45
7. Park Forest South														
Assisted Units		0	59	0	0	186	0	0	0	0	0	0	0	245
Minority Population	62	215	223	219	184	656	0	0	240	1,180	0	0	0	2,979
8. Riverton														
Assisted Units		0	0	0	0	0	0	0	0	0	0	0	0	20[b]
Minority Population				0	0	0	0	20	0	4	0	0	0	24
9. St Charles														
Assisted Units					0	0	208	0	236	76	392	0	0	912
Minority Population					0	12	22	16	40	24	345	306	7	772
10. Shenandoah														
Assisted Units							0	0	0	0	100	0	60	160
Minority Population							0	8	8	12	25	0	0	53
11. Soul City														
Assisted Units							0	0	0	0	0	0	0	25[b]
Minority Population							0	78	26	44	–6	0	0	142
12. The Woodlands														
Assisted Units					0	0	0	0	8	148	260	413	0	829
Minority Population					0	0	41	27	36	114	67	343	802	1,430
Total														
Assisted Units	0	0	59	798	0	186	208	0	244	362	762	545	309	3,518
Minorities	62	215	223	259	191	668	604	181	436	1,518	477	735	967	6,900

[a] As reported by the developer, FY 82.
[b] Cumulative to this date.

APPENDIX I, TABLE 9

INNOVATIONS IN TITLE VII COMMUNITIES THAT ARE DESCRIBED AS NEW TO LOCAL AREA

	TYPE OF INNOVATION			
	PHYSICAL	DESIGN	SOCIAL	ORGANIZATIONAL
Cedar-Riverside	The scale and design of high-rise development	Barrier-free design	The degree of residential integration	Multi-disciplinary planning team.
Flower Mound	Tertiary sewer treatment plant	Joint open space		
Harbison	Sewage treatment plant; underground infrastructure, such as electrical lines.	Paths; roadway design; cul-de-sacs.	The degree of residential integration	Non-profit, minority-controlled developers.
Gananda	Sewage treatment plant.	Multipurpose facility incorporating school, community, commercial, and office space; road design and cul-de-sacs.		A new school district coterminous with Gananda's borders.
Jonathan	The park system; putting overhead wires underground.	"Stack units" for modular office and apartment units; the separation of walkways and auto traffic.		Condominium development of Crosby Industrial Park
Maumelle				Consolidated delivery of public safety services.
Newfields				The dual developer concept: the Newfields New Community Association was a special purpose local government authority intended to act as a third-party "public" developer-local government negotiations.

1(a)

	INNOVATIONS DUE ONLY TO TITLE VII SUPPORT	EVIDENCE OF DIFFUSION	INNOVATIONS THAT WERE ABANDONED
Cedar-Riverside	The subsidized housing is only available because of Title VII; Cedar-Riverside would have developed at the same scale, however, because of the city's prior interest in developing the area.	Possibly, diffusion of high-rise condo developments within the central city area.	Solid waste disposal system that would service heating and cooling systems.
Flower Mound	Without Title VII funds, Flower Mound development would have been at a smaller scale.		
Harbison	The sewage plant; the degree of residential integration; design features, and infrastructure treatment would not have occurred without the Title VII program.		
Gananda	Gananda would not have developed without Title VII support.	Some evidence of diffusion of design features in Rochester area.	
Jonathan	There was a commitment to Jonathan's development prior to Title VII but the loan guarantee reduced costs and allowed development at a greater scale and with greater speed; the residential integration would only be possible with Title VII funds.	Integration of the parks and walkways with the neighboring town and diffusion of those features in the neighboring town; land use planning techniques.	Some housing styles were unpopular and inappropriate for this area.
Maumelle	Maumelle would not have developed without Title VII. The public safety facility involved Title I discretionary funds which were available to Title VII communities.		
Newfields	Newfields would not have developed without Title VII support. The NNLA is linked to participation in the Title VII program.		

2. TYPE OF INNOVATION

	PHYSICAL	DESIGN	SOCIAL	ORGANIZATIONAL
Riverton		Quality of open space and housing.	The dispersal of small-scale rental housing throughout the community (no rental units have more than 15 units).	
Park Forest South	Inclusion of commuter railroad stop in the new community.	Bike paths.	The degree of residential integration.	
St. Charles	Spray aeration system for sewage treatment, cable TV.	Cluster housing; the housing quality and street design; open space areas.	The dispersal of low-income housing at the neighborhood level; the degree of residential integration.	The impact on the planning staff at the county level; community association-operated bus system; a combined fire/police facility.

2(a)

	INNOVATIONS DUE ONLY TO TITLE VII SUPPORT	EVIDENCE OF DIFFUSION	INNOVATIONS THAT WERE ABANDONED
Riverton	Riverton would not have developed without Title VII program. Integration of rental housing would have occurred in the absence of Federal support.	Some diffusion of integration of rental units in other Rochester suburbs.	
Park Forest South	The degree of residential integration and the location of a commuter railroad station at Park Forest South would not have occurred without the Title VII program.		The monorail system; sculpture garden (now at Governors State University); the ice rink; some housing styles.
St. Charles	The spray aeration system, Cable TV, the size and composition of St. Charles would not have occurred without Title VII.	Physical design features, including clustering of houses and mixed housing prices, have been adopted in some development in the surrounding area.	The Modular Integrated Utility System (MIUS) co-generation system; the spray aeration sewage system.

3.

TYPE OF INNOVATION

	PHYSICAL	DESIGN	SOCIAL	ORGANIZATIONAL
Shenandoah	Heating and cooling of recreation center with solar energy; solar-heated housing; solar collectors for industrial use. Solar powered kniting mill.	High quality residential development.		
Soul City	Regional water and sewer system.			Regional planning commission established.
Woodlands	A storm-water management system relying on natural drainage; permeable parking lot materials.	Cul-de-sac's; bikeways and pathways; the provision of open space within villages, not only as a buffer between villages.	The degree of residential integration.	

3(a)

	INNOVATIONS DUE ONLY TO TITLE VII?	EVIDENCE OF DIFFUSION	INNOVATIONS THAT WERE ABANDONED
Shenandoah	The solar development is supported by U.S. Department of Energy funding for Georgia Power. It is likely that Georgia Power would have located the solar facilities somewhere within the Atlanta SMSA, if not within the Title VII community, but it is possible that it would not have been used for recreational facilities if not for the Title VII program.		The solar projects must be backed up with conventional systems; the ice rink.
Soul City	Soul City would not have developed without Title VII support. The regional water and sewage treatment plant and the planning commission, would not have occurred without Title VII support.		
Woodlands	The degree of residential integration and the extensiveness of the sytem of pathways and bikeways would support.	The bike and pathway system and cul-de-sac's are apparent in other new developments including Kingwood. It is not clear that The Woodlands introduced these features.	The natural drainage system; permeable material for parking lot construction.

APPENDIX I, TABLE 10

REPORTED SPILLOVER EFFECTS OF
TITLE VII NEW COMMUNITIES

CEDAR-RIVERSIDE	FLOWER MOUND	GANANDA	HARBISON
Litigation has meant a freeze on private investment in the area; therefore, the Title VII community has had a negative economic impact on the surrounding area. Cedar-Riverside includes a tax increment financing district that continues to accumulate tax revenues because the lack of development means lower expenditures. These revenues are increasing at a significant rate and have not been spent out.	Some spillover development resulting from roadways built for Flower Mound.	There is poor road access, so there is little spillover: the likelihood of future spillover development is small. The Title VII default meant the loss of a firm that planned to relocate in Gananda but then decided to stay in Rochester. It was felt that this firm would have provided enough income and revenue to avoid the cash flow problem in the community. It is possible that the industrial park in the next county, located closer to the Rochester SMSA, would capture spillover development from future Gananda development.	Some spillover providing jobs for the area. Also, the local town of Walworth is buying the sewage treatment plant in Harbison at - an advantageous cost. There is good economic development potential, contingent on development of road access. Spillover impacts will be influenced by the fact that residential development for Harbison is in one county and commercial development is occurring within another county; therefore the economic impacts will be greater for one county.

REPORTED SPILLOVER EFFECTS OF NEW COMMUNITIES

JONATHAN	MAUMELLE	NEWFIELDS	PARK FOREST SOUTH
Some spillover.	Discount retailer's regional warehouse in Maumelle facilitated opening of new stores by firm in Little Rock area.	No spillover development yet.	Spillover includes: Governors State University; some industrial development; increasing county eligibility for Federal funds; and the increased demand for shopping in the surrounding area due to the lack of commercial development in Park Forest South. These effects will occur most likely in in nearby Cook County rather than in Will County.

REPORTED SPILLOVER EFFECTS OF NEW COMMUNITIES

ST. CHARLES	SHENANDOAH	SOUL CITY	THE WOODLANDS
Spillover effects include the development of the White Plains Industrial Park which is now competing with St. Charles for industrial development and the K-Mart Shopping Center and other strip commercial development outside St. Charles. Also, the demand generated by St. Charles' residential development with minimal commercial development is stimulating strip retail development on Highway 301.	The primary spillover effects are the jobs created by the industrial park; also there is increased spending by Shenandoah residents in the area, due to the lack of commercial development in the new community itself.	There is a lack of development in Soul City but some businesses are locating on the periphery, on Soul City acreage sold to individual investors.	Spillover effects include restaurants and service firms locating outside the community along the highway. Many residents live nearby in Conroe but work in Woodlands; other indirect effects include increased shopping in Conroe which increases tax revenues there. These effects are taking place in the context of tremendous county growth; however, and may have occurred anyway. Housing values in Woodlands are 10 to 15 percent higher than in surrounding areas; therefore, they generate greater tax revenue and increase property values in the surrounding area.

APPENDIX I, TABLE 11

PERCEIVED FISCAL IMPACTS
OF TITLE VII COMMUNITIES

CEDAR-RIVERSIDE	FLOWER MOUND	GANANDA	HARBISON
This was a fully developed area prior to The Cedar-Riverside Project so no capital expenditures were necessary; previous infrastructure had been set in place through the Urban Renewal Program. With lower expenditures due to the limited development, the existing infrastructure, and the accumulation of tax revenue through a tax increment financing district, the fiscal impact of Cedar-Riverside	Positive fiscal impacts from increased tax revenues. Indirect fiscal impacts from spillover development along access road.	Although there is little development in Gananda, currently Gananda generates more tax revenue than the town provides in services. The higher home values in Gananda bring higher tax revenues from the Gananda area. Also, because Gananda has its own schools, there are no additional school expenditures for the town or the county. Road maintenance is the major extra-jurisdictional cost, but the higher density development is seen as creating lower road maintenance costs relative to the population itself.	The sewage treatment plant in Harbison increases the capacity available for the surrounding area although it is currently underutilized. School costs are seen as a significant cost for the larger community of Walworth.

JONATHAN	MAUMELLE	NEWFIELDS	PARK FOREST SOUTH
Jonathan's property values constitute half of Chaska's tax base. Miles of unused interceptors that were built with Federal funds are available and provide low-cost future industrial sites for Chaska. There is an excess utility capacity that will also lower the cost of future industrial and commercial development. No schools have been built in Jonathan since 1975 and no additional utilities.	Although the county usually pays for services, Maumelle built its own roads and provides its own police and fire services. The positive fiscal impact is attributable to the lower service costs.	As part of Trotwood, local officials claim Newfields costs more to the town than they are contributing in property and income tax.	The positive fiscal impact of Park Forest South is due to the minimal services provided by the county (primarily road maintenance, sheriff, and administrative functions) and the property tax revenues generated by the residential and industrial development in Park Forest South. The industrial park at Park Forest South is seen as the major factor in the positive fiscal impact. Also, the developer has donated significant amounts of land to the school district, Governor's State University, and other areas. The school district requires upfront payments from developers to cover the capital costs of school construction. Some argue that if school operating expenditures are taken into account the fiscal impact is negative.

ST. CHARLES	SHENANDOAH	SOUL CITY	THE WOODLANDS
St. Charles historically has had a positive fiscal impact on the county; in the last few years the county argues that St. Charles now has a negative fiscal impact. They arrive at this conclusion by a formula used to allocate costs according to population, rather than allocation of actual service expenditures. The developer argues that this calculation is wrong, that the spillover benefits from St. Charles should be taken into account, and that actual costs should be considered. Also, the developer feels that St. Charles is not receiving the services that are paying for; that is, there is an imbalance in the revenue generated by and for St. Charles and the services actually received from the county. The developer donated land ($5.4 million worth) to the county for parks and other public facilities. Also, housing values in St. Charles are lower than the rest of the county and the low-income housing means that there is a lower tax contribution from the community.	Shenandoah has had a positive fiscal impact: the low level of residential development means few burdens are placed on the school district and the successful industrial park generates tax revenue for the county. Also, county service responsibilities are slight so few costs are involved. Records show that the valuations in areas have gone up significantly since the new community developed.	There are indirect positive fiscal benefits provided by the regional water and sewer system and the recreational facility established through the Title VII program. There is a negative fiscal impact in Soul City due to to the minimal development and some service demands by the small residential population.	There is a positive fiscal impact: there is some industrial and commercial activity in Woodlands and county service responsibilities and costs are minimal, (Sheriff, road services, public housing, criminal justice). The housing in The Woodlands is 10 to 15% higher than the surrounding areas; this generates increased property tax revenues for the county. The Woodlands' tax revenue also contributes to the school district tax base. Indirect fiscal impacts include the increase in property value in the surrounding area and increased sales tax revenues in nearby Conroe.

APPENDIX I, TABLE 12

SELECTED SERVICES AND FACILITIES IN NEW COMMUNITIES

	ST. CHARLES	COLUMBIA	SHENANDOAH	PEACHTREE CITY
Schools	Six school sites donated by developer within or adjacent to St. Charles; built and managed by County.	12 public elem. schools; 4 intermed schools; community college; branches of two colleges, five day care centers; 16 coop and private pre-school facilities. County-run school system.	Schools within five miles; in Newnan.	One senior high school one Jr. High; two elementary schools Schools run by county
Recreation	Three neighborhood recreation centers (two, HUD assisted) Neighborhood pools, built by developer, pid for through lot prices; Regional Park with golf on land donated by developer; (HUD grant for development) open to all.	4 neighborhood community centers; 5 village centers; three golf cources; three lakes; 450 acre game preserve; 19 swimming pools; 40 tennis courts; 41 miles paths; 2300 acre open space. Built, managed by Col. Assn; initial loan from developer. Some open to outsiders.	50,000 s.f. solar heated rec. center w/gym; skating ring closed; four tennis courts swim pool open to all; field house, riding stable.	Two recreation centers with lighted tennis courts; park with swimming pool; boat dock on 250 acre lake; golf course (private) 8 acre pond; many playgrounds, soccer fields and other facilities. Developer built recreation facilities turned them over to city. Higher fees to outsiders.
Shopping	442,000 sq. ft. village shopping center; convenience stores	1.3 million sq ft. retail space, including regional mall, six village shopping centers.	All shopping in Newnan within five miles.	119,000 sq. ft. in three shopping or convenience centers; regional shopping 15 miles away in Shannon Mall.

	PARK FOREST SOUTH	ELK GROVE VILLAGE	THE WOODLANDS	KINGWOOD
Schools	Innovative elementary school, built by developer, sold to Monee School district; junior high school built on land partially donated by developer. Federal aid and Ford Foundation assistance for "open class room" innovative schools; bussing required because of number of minorities in Park Forest South. Governors State University on 750 acres donated by developer.	Full range of schools built by several school districts which include large EGV industrial park.	Three elementary schools, two junior high schools, one senior high built by school district. 30 acres donated by developer; 400 acres donated by developer for University of Houston Campus, not yet built.	Five elementary schools, two middle schools, one high school funded by two school districts.
Recreation	Thorn Creek, Deer Creek Woods.* Two golf courses built by developer; trails; swimming pools; one recreation center turned over to community was torn down due to construction problems and inadequate voluntary membership.	Three olympic-size swimming pools; ten percent open space in neighborhoods donated by developer; 450 acres under Park District jurisdiction; large regional park district adjacent to Village.	Neighborhood centers; swimming pools built by Woodlands Com. Assn with property assessment; major lake and golf course; initial loan from the developer to community association.	Large private golf course with 54 holes; 21 tennis courts; four major swinning pools, plus neighborhood pools; system of greenways and trails; 30 percent of 14,000 acres in open space. Land for parks, trails, swimminmg pools donated by developer.
Shopping	Inadequate shopping on-site; convenience shopping only; bussing to nearby regional mall in Park Forest.	Community-level shopping only; large regional shopping mall in neighboring community.	Commecial and conference center; four villages and other centers; 476,000 sq. ft. commercial space.	Several shopping centers with 267,000 sq. ft. of space.

* $3.7 million in Federal open space aid.

	ST. CHARLES	COLUMBIA	SHENANDOAH	PEACHTREE CITY
Cultural		Merriweather Post Pavillion; several theaters	All shopping facilities in Newnan.	1600 person amphitheatre.
Medical	Clinic in community; hospital within five miles (HUD assisted).	Howard County General Hospital (180 beds) comprehensive HMO.		
Other	County library; safety center on developer donated land. 16-18 busses a day run by St. Charles Area Transit; open to all.	20 busses a day to Washington in 1981; three to Baltimore by EYRE Bus co.; internal bus services; County provides all non-recreational services and facilities.		Four busses a day to city (50 minutes) two fire stations under city control; water supply and lake provided by developer.

	PARK FOREST SOUTH	ELK GROVE VILLAGE	THE WOODLANDS	KINGWOOD
Cultural	Programs at Governors State University.			
Medical	Hospital failed to materialize. Was to be built near transit stop.	Alexian Brothers Medical Center (451 beds); mobile health van; mental health center.		
Other	Local bus service to shopping and transportation; rail transit stop built by Illinois Central. Village center (police, fire, administration) built by developer, who helped pay for services for two years.	Inadequate bus service; good access to 42,000 jobs in community. Local services provided by village government.	40 van pools to city; but service in part on exclusive land to city; One public safety center ad one library. WCA provides for garbage collection supplementary security and fires.	Bus service to city. Kingwood Services Association contracts for garbage collection; maintains open space; provides supplementary police.

*Open space land assisted with $3.7 million in HUd open space grants.

Appendix II

THE GOALS OF THE TITLE VII PROGRAM: AN EXCERPT FROM THE PREAMBLE TO THE URBAN GROWTH AND NEW COMMUNITY DEVELOPMENT ACT

The multiple goals of the Title VII program are best conveyed by this excerpt from the Preamble to the Urban Growth and New Community Development Act of 1970. The Act was intended to:

> Encourage the orderly development of well-planned, diversified, and economically sound new communities, includiing major additions to existing communities, and to do so in a manner which will rely to the maximum extent on private enterprise; strengthen the capacity of State and local governments to deal with local problems; preserve and enhance both the natural and urban environment; increase for all persons, particularly members of minority groups, the available choices of locations for living and working, thereby providing a more just economic and social environment; encourage the fullest utilization of the economic potential of older central cities, smaller towns, and rural communities; assist in the efficient production of a steady supply of residential, commercial, and industrial building sites at reasonable cost; increase the capability of all segments of the home building industry, including both small and large producers, to utilize inexpensive housing needed to accommodate population growth; help create neighborhoods designed for easier access between the places where people live and the places where they work and find recreation; and encouraage desirable innovation in meeting domestic problems whether physical, economic, or social. 1/

1/ U.S.C. 42 paragraph 4511.

Appendix III

REPORT OF A CONFERENCE ON NEW COMMUNITIES: THE HUD EXPERIENCE AND ALTERNATIVES FOR THE 1980s

A conference entitled "New Communities: The HUD Experience and Alternatives for the 1980s" was held on May 11, 1984 at the J.W. Marriott Hotel in Washington, D.C. to discuss: HUD's evaluation of the Title VII program; the European new town experience; and other current, large-scale, mixed-use development in the U.S. 1/ In addition to the panelists, whose names and affiliations are listed at the end of this appendix, other participants included Title VII developers, other developers currently involved in large-scale, mixed-use development, national and local officials, representatives of financial institutions and professional associations, Congressional staff, planners, consultants, and university researchers.

The discussion was divided into three sessions:

- o Session I: Lessons Learned From the Title VII Experience
- o Session II: Alternative Approaches to Financing and Developing Large-Scale, Mixed-Use Developments and to Expanding Community Housing and Employment Opportunities
- o Session III: The International New Towns Experience

This appendix presents the major themes that emerged during the conference.

1/ About 130 persons attended the conference, which was conducted in a roundtable format. Topics for discussion were introduced by the moderator, generally followed by comments from several panelists, leading to an open discussion among panelists and other participants.

SESSION I: LESSONS LEARNED FROM THE TITLE VII EXPERIENCE

The discussion centered on three questions:

1. What were the problems encountered by developers and others involved with Title VII new communities?

2. Is there a future in the U.S. for new communities?

3. Is there a role for government in the creation of new communities?

Problems of Title VII New Communities.

Three possible sources of problems were discussed:

- o the Title VII legislation itself;
- o Title VII program structure and implementation; and
- o the changing economic and political context in which the Title VII program occurred.

Title VII Legislation. There was a divergence of opinion on the extent to which the problems of Title VII new communities stemmed from the legislation and the basic program design or the implementation process. The legislation was described as "politically unrealistic" in that it presumed site selection would be completely removed from the political arena. Some also argued that the Title VII legislation was at fault because it did not require local involvement or structure local responsibilities. One developer stated: ". . . there was no definition of what local involvement or approval meant." Another Title VII developer labeled the lack of definition for local involvement as ". . . a gross deficiency in the legislation . . . ." Several participants also noted that HUD's regional and area offices were ignored by program designers and managers and that the public-private partnership between the developer and HUD led to resistance in a number of localities.

Many participants suggested that the Title VII commitment to meeting social objectives led developers ". . . to do more than was economically possible within the realities of the environment. . . ." However, another panelist suggested that "...the social benefits of the Title VII new communities have really remained with us after the communities ceased to receive Federal funds." And, while achieving a balanced racial mix was identified by many as an important social objective of the Title VII legislation, it was also seen as a problem in that ". . . a number of the new communities were perceived to be minority communities." Some panelists hypothesized that this perception slowed development and discouraged non-minorities from moving into these particular towns.

While participants agreed that new towns should have diverse populations, the means of achieving this objective were strongly disputed. One panelist suggested that the emphasis should be on the creation of a climate of "openness" that allows socioeconomic mixes to occur. The non-Title VII new towns of Columbia, Maryland, and Reston, Virginia, were often cited as examples of diverse communities where developers practiced a kind of "positive steering" to include minorities but also to insure that ". . . no one block or neighborhood was only for a minority group."

A number of panelists agreed that creating a range of housing types (single-ownership, rental, townhouse, subsidized, and so on) is the most appropriate way to achieve the desired population diversity. One participant noted: "The issue is more class than race. It is moving down the economic scale. . . to permit the development of subsidized low-income and moderate-income housing of a quality that no one can tell the difference between subsidized and non-subsidized units."

The financing structure adopted in Title VII was criticized heavily. For example, several participants said that those designing the Title VII program did not recognize that ". . . there would be a substantial period of negative cash flow before the developer would be able to service the debt guaranteed by the government." The Title VII requirement that developers had to pay interest from "day one" also came under severe criticism; some felt that deferred interest payments might have mitigated some of the financial strains of the Title VII new communities. Finally, many pointed out that the lower interest rates offered to Title VII developers were not as cost-effective as originally expected because of the longer time-frame needed to obtain government approvals and guarantees.

Implementation. Other commentators felt that the legislation itself did not cause the problems; rather, these panelists stressed the lack of Federal commitment to Title VII new towns and the lack of leadership in the Title VII program. As one panelist noted: ". . . the Federal government . . . [has] . . . no coherent, continuing . . . development policy and philosophy." Another panelist described the barriers to effective Federal involvement:

> The changes every four years in the Federal government and in the policies that the Federal govenment pursues or chooses not to pursue in the area of urban development make the government an extremely unreliable partner for such enterprises as large-scale community development which must take place over four or five administrations and which, for success, require a continuity of commitment and continuity of management.

One Title VII developer also spoke to this point:

> I would like to observe that what we really had was an intention to create a public-private partnership . . . in which . . . the private partner was embarking on a minimum twenty-year program while the public partner changed leaders and courses thirteen times. Also, five years into the partnership, the public partner decided that it wanted out, but it reluctantly stayed in the deal for six more years, screaming all the way. This same public-private partnership was initiated by the public partner, with the promises by statute, of certain grants. Then, the public partner decided not to make the grants -- for political reasons, I assume -- even though it insisted that the private partner incur the costs. This is not the foundation for a successful development . . . .

And, as another Title VII developer pointed out, the withdrawal of funds for subsidized housing from the Title VII new towns made the achievement of socioeconomically balanced communities "almost impossible."

Participants generally agreed that location was the most important criterion for any major real estate development, followed by competent and experienced management and adequate financing. While the Title VII program had a number of guidelines for site selection (such as location near a major highway, or near a major metropolitan center with a positive growth rate), many panelists felt that these guidelines were often ignored when sites were chosen. Some participants held the view that most Title VII new communities were located in "no-growth" areas that could have been identified as inappropriate locales prior to the site selection process if appropriate market research had been carried out. There was agreement among many panelists and participants that at least half of the Title VII new communities should not have been funded either because the sites were inappropriate or developers lacked experience. In fact, one panelist said that the Title VII program ". . . approved the wrong locations with the wrong sponsors at the wrong point in time."

Furthermore, panelists also were in agreement that many developers of Title VII new communities lacked sufficient development experience. One panelist noted that ". . . the developers who became involved in the Title VII program were . . . too often . . . not sufficiently experienced and only became developers when their Title VII applications were approved." As another panelist put it, "anyone could come in off the street and file an application. If the applicant had enough chutzpah, he could convince HUD to fund his project, and, in fact, that is exactly what happened."

The lack of strong leadership at the national level also was cited as a major implementation problem. One Title VII developer flatly stated: "The problem . . . was a total lack of direction, a total lack of leadership . . . ." Other panelists were less sweeping in their criticisms of program leadership, but noted that the thirteen persons who served as program administrators during the life of the Title VII program were political appointees who ". . . were, in effect, amateurs. Development was not really their business, but they were appointed . . . [as] . . . general managers of a development program." Title VII administrators were portrayed as individuals drawn from fields that were far removed from real estate development. Many comments about Title VII staff were positive, however, emphasizing that the program had employed a high-quality professional staff. Participants agreed that ". . . the mistakes . . . were not made by the professional staff. The mistakes were made . . . by the appointees."

There was general agreement that several new communities, including several privately developed new towns, "did not work financially." Some claimed that, as a consequence, some form of government backing was needed for any large-scale development while others observed that the most successful new communities were outside the Title VII program and possessed no such guarantees.

In discussing the overall costs of the Title VII program, and its limited accomplishments, the general attitude seemed to be that while $590 million is a substantial outlay, it had to be put in perspective.

> . . . when you consider what the government has spent to do a lot of other things--many of which new communities development did incidentally--that amount does not look so bad. When you think of it in terms of job creation alone, for instance, that amount compares favorably with other programs which were funded entirely for the purpose of job creation.

In a similar vein, one panelist said:

> . . . Title VII was not financially successful . . . as a real-estate development . . . . The question that should be asked is whether it was successful as something else . . . . It was, I think, of substantial value as an experiment . . . . We are supposed to learn from our experiments rather than be discouraged by them . . . . I think that if the experiment shows us what things were wrong and encourages us to go ahead and to try some other things that may have a better chance of success, then the experiment may, in the long run, prove to have been worthwhile.

Economic and Political Context. Throughout the discussion, participants referred to the length of time that is needed to ". . . get projects off the ground." The concept of the Title VII program involved large-scale, long-term (forty to fifty years) development; in this type of development, economic externalities are critical and uncontrollable. In contrast, one developer currently involved in large-scale development said that, at the present time, most private developers believe that projects ". . . should be no more than five to seven years in duration from beginning to end because there are just entirely too many economic fluctuations today." Several developers identified inflation as the major reason for the failure of the Title VII new communities. As one developer noted: "The problems of HUD's new communities are no different than the problems of any large-scale developments during the 1970s. They were a good idea at the wrong time."

The confounding of economic and political uncertainty emerged when one international panelist pointed out that in Europe the financing systems for new towns are based on the premise of paybacks beginning twenty to thirty years after development begins. In answer, a panelist noted "a generic problem in America...the pressure to show immediate results." A commentator suggested that Americans have shorter time horizons because of the electoral process which leads to more frequent change. Another panelist said that the investment system in the United States is "a captive of present value;" several participants argued that the current value of many Title VII communities could not support the investment that was required.

The Future of New Communities in the U.S.

Despite the serious criticisms and the shortcomings identified in the Title VII new communities, the discussions revealed a widespread commitment to the concept of new communities. Many participants also expressed a deep-seated belief that despite their past and current struggles, many of the new communities originally funded under Title VII would succeed.

As put by one advocate of new community development, "We are denying the quality of life to the society of this country and to society of the future by not learning how to organize ourselves into communities." Another developer cited both the qualitative and economic benefits:

> Why bother with new communities? I'll tell you why we want to bother. We owe it to this nation to advance the state of our civilization by creating working, honest, well-balanced communities. Further, from an entrepreneurial point of view, it is more efficient to do so than to continue with haphazard sprawl development. It enhances real estate values. It insures appreciation of retail and residential components of those communities, so from a selfish point of view, new town development will make more money in the long run -- if we can get a system to work.

Yet, even though most commentators saw a future for new towns in the United States, there was almost total agreement that people involved in new town development, as carried out in the past, would not "do it again."

Ironically, there was greater interest in the "new-town-in-town" concept, an approach that has been tried unsuccessfully in government programs in the past. A current example of this approach is the Mission Bay project in San Francisco, which was described as ". . . complementary to the city as a whole rather than an entirely self-sufficient new town." The 195-acre Mission Bay site includes housing and commercial activity with substantial emphasis on retail and commercial outlets; as planned, the developer will bear most if not all of the infrastructure costs.

The Role of Government in New Community Development

Several panelists pointed out the American need for a clearly articulated national growth strategy. One panelist discussed this issue in some detail:

> The emphasis that I would put on new town planning for the future would be on the use of the new town concept to help communities make the transitions that they are going to have to make in order to provide the kinds of urban functions that they are being asked to perform.
>
> As the command and control centers of the country become more service-oriented, a different style of development will be demanded. As we move from the stereotypical suburban household of the '70s to smaller households and to single-person households, again, a different style will be required. In making that transition, people are still going to need and want high-quality communities, and as our cities compete with cities around the world to be the seat of an advanced economy, the amenity and quality of our cities becomes very much more important and imposes on us a national obligation to improve the quality of urban life and the physical environment within which the U.S. economy functions. So, a national policy must consolidate our leveraged capital and make it available for development, for infrastructure, for land assembly, and especially to support policies at the state and local levels that make it possible to pursue rational planning better than we have in the past.

While most of those present supported the concept of new community development, therefore, as well as some Federal involvement in community development, the most appropriate and effective means of government involvement continued to be a matter of debate. The dominant theme was that Federal involvement in financing of smaller-scale development was unnecessary but that some kind of public assistance was necessary to attain a "socioeconomic balance" within communities. That assistance need not be Federal, as argued by one panelist:

> . . . the Federal government is not the only way [new communities] . . . can happen. Without question, there are good things about new communities, and these things are most recognized by the people who live in the communities, themselves. These people have the most at stake . . . . If the new communities really mean something, then they mean something to the people most directly affected. There is no reason in the world why the states and localities can not do the same thing the Federal government tried to do in Title VII and do it a hell of a lot better.

The breadth of the Title VII legislation was noted, especially that it did not limit development to the classic new town form. Some panelists felt that it could, in fact, be used today to provide some continuity of Federal commitment to large-scale urban development.

SESSION II: ALTERNATIVE APPROACHES TO FINANCING AND DEVELOPING LARGE-SCALE, MIXED-USE DEVELOPMENTS AND TO EXPANDING COMMUNITY HOUSING AND EMPLOYMENT OPPORTUNITIES

The discussion of alternative approaches centered on two issues:

1. Alternative financing mechanisms: whether there is a viable means of combining public and private funds to finance large-scale, mixed-use developments;

2. Expanding housing and employment opportunities: whether there is a need for some form of government involvement to insure that large-scale, mixed-used developments meet the need for such opportunities.

Alternative Financing

As one participant put it, "there is no amount of creative financing that is going to help a project that is not inherently viable in the beginning." Nevertheless, several creative financing alternatives were proposed; they focused primarily on new methods of land assembly and emphasized providing incentives to encourage the participation of private sector partners. Among the alternative financing methods put forward:

1. Involving large investment banking firms as development partners.

2. Land banking through development districts or through institutions similar to New York's Urban Development Corporation.

3. Tax-sharing which requires regional planning, the "rational" location of employment centers, and staged building of infrastructure.

4. Other tax incentives, such as delaying the imposition of property taxes or deferring water and sewer connections on undeveloped parcels.

5. "First-instance" public funding for land acquisition, project management, and first-phase infrastructure development -- "first-instance" funds, like public highway and sewer monies, would not accumulate interest.

6. Classifying new communities as incorporated cities so that they are eligible for existing grants for building infrastructure.

An example of the alternatives considered was one developer's description of a public-private sector partnership in which the public partner would be the equity partner and the private financial institution would be the lender who appraised the viability of the loan and analyzed the financial feasibility of the project. The suggestion was that the public partner would provide 80 percent of the loan while the private partner would provide 20 percent of the total funds needed.

In response, a former Title VII developer suggested that such a public-private sector effort would be especially productive during the initial development period (usually three to five years), when there is likely to be a negative cash flow. He suggested that 85 percent of the interest could be accrued and added to the principal of the loan, and, unless land was actually sold, the new town developer would not amortize the loan or make payments on the principal until after this initial negative-cash-flow period. However, one year after the cash flow becomes positive, the developer would begin to amortize the interest which would include interest on interest.

Also, it was suggested that most of the government financing be structured as a convertible debt where accrued interest would be allocated to a capital account which would accrue to the Federal government so that the government would become an equity partner. If the government capital account became larger than the developer's capital account, the governmental partner could replace the developer.

The government role in the Urban Development Action Grant program was held up as a more appropriate means of assisting development; its particular advantage is that it is viewed as setting clear ground rules for local government responsibility and for private investment responsibilities. Even though the UDAG program is geared to project development rather than community-scale development, it was suggested that the UDAG program could be modified to include new community development activities:

> . . . where local public bodies in conjunction with local developers could demonstrate a commitment of their own resources to large-scale community development and indeed might be able to show results. They could apply for an unrestricted grant that would not have carrying costs and that could be used for any number of things, including infrastructure, but that might be used for additional land acquisition. However, localities would be given flexibility to make such decisions, and the planning for that decision would be done by local government working with the private sector.

This search for new means of approaching basic development issues also characterized the discussion of alternative approaches to financing and developing large scale, mixed-use developments that would meet the employment and housing goals of the Title VII legislation.

In contrast, several participants put forth the suggestion that public support need not be direct financial assistance. This view emphasized the significance of government provision of highways and access roads and infrastructure for large scale development, suggesting that better coordination and funding of these activities than occurred in the Title VII program was essential.

One developer took a different perspective, claiming that ". . . the best way to get excellence. . . is to reward performance and penalize those who do not perform." He suggested that the "fallacy" in the Title VII program was not in the financing but in ". . . the rewarding of performance. I suggest that Title VII can still be used with the grant programs funding infrastructure but only as a quid pro quo for meeting <u>all</u> the goals of the program."

In this same vein, another scenario was suggested:

> If a developer and a county want a piece of ground to be developed and if the developer is prepared to risk money on land acquisition and time to acquire approvals and if the developer and the county are together on it, then the Federal government will make available x number of dollars of grants every year for the next three to five years in exchange for that community meeting certain goals with regard to housing and employment. For those people who do a good job, they get a little bit more, and for those who do not do a good job, they get a little bit less.

Still another approach to financing new community development was the "Germantown" approach in Montgomery County, Maryland. There were some 100 owners of that 11,000-acre tract. The county planned the area as if they owned it; staged the development through incremental financing of infrastructure which took away the burden from the private developer; and staged the zoning and subdivision permission in connection with the extension of infrastructure. Although it will take 25 to 30 years more to develop than initially anticipated, one panelist thought that it would ultimately develop as a new town.

<u>Expanding community housing and employment opportunities</u>

In contrast to the discussion of mixing public and private financing activities, there was general agreement that some type of direct government involvement in community development was necessary to expand community housing opportunities. Several commentators drew attention to the European new town experience, which, in a number of instances, has successfully managed the relocation of industry or the establishment of new technology as part of an overall development plan. Participants seemed to agree that expanding the employment base often led to expanded housing opportunities. However, as one panelist pointed out: ". . . in order to attract large businesses, you need to have housing suitable for a wide variety of incomes because salaries for jobs in a large industry will vary across a broad spectrum."

Some current domestic programs were also cited as useful means of reaching these objectives. Panelists noted that the Section 8 housing program, for example, had been successfully implemented in a number of communities as a means of providing below-market-rate housing. Others suggested the use of industrial revenue bonds (IRB) for financing multi-family housing as another method for providing low-income housing since 20 percent of all units funded under an IRB must be allocated to certain income categories. Again, the emphasis in this discussion -- as in the discussion above on Title VII's social objectives -- was on establishing a broad socio-economic mix within large-scale developments, rather than on achieving a racially integrated community.

The achievements and similar issues involved in new community development in Europe provided a larger context for discussion of alternative American development approaches.

SESSION III: INTERNATIONAL NEW COMMUNITIES EXPERIENCES

This session of the conference consisted of informal comments by one of the representatives of the Government of France, formal presentations by the French and Dutch representatives, and informal comments on new towns in the United Kingdom by the Secretary General of the International New Towns Association. This section presents an edited verion of the full text of the formal remarks, and summarizes the informal comments.

Informal Presentation by The Representative of the Government of France *

Something that has impressed me very much here this morning is how easily people in the United States, or at least the people at this conference, react to changes. It seems that you are able to modify your policies very quickly and with forethought so that when a policy turns out to be outdated or passe you can move on and adopt a new policy that is better for you. In France, it is much more difficult for us to react quickly to external change.

In France, during the past forty years, there has been large-scale urban development. As you know, there was massive destruction in France during World War II, and we had to recognize the need to rebuild. I think, however, we were slower to realize what we had to do about urban development. Nevertheless, we did realize very quickly that there was not enough new construction, so we adopted an active urban development policy, particularly during the 1950s and 1960s. The central government was heavily involved in creating urban development policies and in building housing in general. Suburbs developed around the major cities. As a result, I think that we are now faced with some very serious management problems.

Thus, at this point in time, we in France are entering a new period of development because we feel that many of our basic needs have been met. Consequently, it is unlikely that, in the foreseeable future, there will be any new, large-scale urban development, similar to what has occurred in the past. As I just noted, we have a different problem now. We are trying to master the development of suburbs or other areas around my country's major cities. Also, we are attempting to renovate older neighborhoods in many of our cities.

To this end, the French Government has adopted what, for us, is a rather revolutionary policy of decentralization. We are transferring most urban development responsibilities from the highly centralized national government to city governments and to what we call departments or regions. The traditional trusteeship -- or the omnipresence of the central French Government -- is now being transferred to local communities. This decision represents a huge change from a government that has

* Edited translation of comments by Monsieur Michel Dresch, Secretary General, Central Group for the New Towns, Government of France.

traditionally been highly centralized with a particular emphasis on and around the capital city of Paris.

In summary, I would like to make four points. First, as I just noted, decentralization in France has begun, and I think that we have been quite successful at this point. We are giving more and more of the responsibility and the initiative for urban development to local communities.

Two, we are placing more and more emphasis on a more realistic urban development policy, which we hope reflects something mentioned frequently today -- a correct and proper balance between housing and jobs. We are also concerned with designing new towns which offer a population mix -- balancing between people who live there and people who visit to take advantage of what is special in the new towns.

The third point is that urban development, in France, is pretty much complete, but now we are involved in a new program -- renovating old neighborhoods, renovating older suburbs, and renovating the many old beautiful buildings that are an important part of our heritage. This project is obviously a huge one, and despite what I just said about decentralization, the central government will not abandon its responsibility in this area. This particular project is simply too big for the towns by themselves, so the central government will help renovate these deteriorating areas.

Fourth, over the years and especially quite recently, we have greatly modified our new towns policy. Our needs have changed, so we have changed our policy and our institutions to reflect our changed and changing needs.

Formal Presentation by the Representative of the Government of France *

During the 1960s, the construction of new towns became a priority project of the French central government. The major objective of this project was to control rapid urban development by concentrating such growth at clearly identified sites. The construction of five new towns in the Ile de France region was carried out simultaneously and in accordance with the Development Plan for the Greater Paris Region. Each of these new towns played an important role in carrying out the objectives of the development plan. Also, the siting of these new towns was closely coordinated with the construction of basic public services (roadways and mass transit systems, for example).

While these new towns were under construction, a highly structured organization was established (with a New Towns General Secretariat at the national level and regional development agencies at the local level). This organizational structure remains unchanged.

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* Edited text of "Paper for the HUD Conference on New Towns," presented by Bernard Avril, Technical Advisor to the Minister of Urban Development and Housing, France.

Achievements. Population and housing unit estimates for the new towns were based on an assumption that the Greater Paris Region would have a population of approximately 15 million inhabitants. These estimates, prepared in the 1960s, have been downwardly adjusted in recent years. However, the goals originally set for the new towns have, for the most part, been met. Actual achievements have been as follows:

- Construction of 165,000 housing units in eight new towns (five in the Paris region and three in the provinces).

- A total resident population of 800,000 persons in the new towns (with 40,000 to 50,000 new persons moving in each year).

- Achievement of a satisfactory balance in the mix of residential and business uses (except in one town).

- Few resident complaints about the lack of public services or inadequate transit facilities.

Financial assistance from the central government to the new towns is steadily decreasing as the local communities where the new towns are located become financially self-supporting.

In the Greater Paris Region, the new towns have helped to contain urban development, thus preventing an urban sprawl that would lead to lengthy commutes and that would use tracts of rural land.

These new towns have also served as a testing ground for architectural research and urban planning. A new generation of French architects has been able to display its urban design talents. New types of housing have been developed and constructed. Numerous experiments, chiefly in the area of energy-conservation, have been carried out in the new towns.

All of the French new towns initially shared a common organization plan and common goals. Over time, designs were modified to allow each town to develop a distinct personality. Several new towns have large, active downtown areas, which allow them to function as regional centers. Towns in this category include Cergy-Pontoise, Evry, and Marne-la-Vallee, all located in the Paris region. Other new towns are almost totally composed of residential neighborhoods. Constructing a downtown represents a final building phase for these other new towns: St. Quentin, for example, or, in the future, Melun Senart.

It is important, however, to note that the goal of concentrating urban development into new towns has been only partially achieved. Many villages and small towns in the Ile de France region have become heavily urbanized. This urbanization has aggravated the already serious traffic problems -- particularly daily commutes in the Ile de France region.

Both public and private funds generate economic activity in the new towns. While modest, the public funds allocated to the new towns are spent extremely carefully so that these monies will stimulate other development. There are now public, semi-public, and private investments of over 7 billion francs annually (for public services, housing, office buildings, and industrial facilities). In addition, some of these new towns have become major centers for high-tech research and manufacturing (Cergy and Saint Quentin-en-Yvelines, for example, in the electronics and electro-mechanical industry, and Evry in the field of computer sciences). All in all, ten thousand companies have settled in the new towns, creating 250,000 jobs.

Goals for the Future. The central objective is completing construction of the new towns within five to ten years with the following goals:

- Ensuring a satisfactory balance in the mix of residential and business uses, while taking into account any industrial or commercial specialization.

- Pursuing an ambitious construction policy aimed at providing a variety of quality housing units and at making new towns one of the cornerstones of technological progress in the construction field.

Despite the current economic slump and the slowdown of urban growth, the central government believes that the Greater Paris Region has a need for land in order to meet the high demand for individual houses from both young couples and families living in multiple-unit dwellings. Further, the government is committed to lowering both residential and industrial densities. Because the new towns include ample tracts of land, it appears that these towns are well-positioned to meet this need for space. It is projected that, when construction is complete, the eight new towns will have populations ranging from 60,000 to 200,000.

Although these new towns will remain projects of the central government, many responsibilities are now being transferred to local elected officials. Ties between these new towns and the various local governments in France (the departments and the regions) are also being strengthened. This duality -- a central government operation, for which local authorities progressively assume more and more responsibility -- will be maintained through the institutional changes described in a law recently enacted by Parliament (in July 1983). This law provides that:

- The operation of small and medium size public services shall be transferred over time to local governments. Intercity administrative authorities, however, will continue to be responsible for major public services.

- Representatives of locally elected officials will constitute a majority membership of the development agencies responsible for the new towns.

Thus, in addition to their "national identity" as a central government operation, the new towns must attempt to strengthen their "local identities" as well.

It should also be pointed out that, at the end of 1983, the territories in which the new towns are located were redistricted. This redistricting, which was approved everywhere by a clear majority of locally elected officials, allows more efficient and coherent groupings of local communes. As part of the redistricting, local elected officials must select which formula -- from among the four formulae proposed by the central government for intercity cooperation -- they wish to apply. Two approaches lead to the creation of a single communal government entity. The other two set up procedures for inter-communal cooperation through the establishment of a metropolitan area association.

On balance, new towns are and will continue to be an important part of the economic and urban development policies of the central government. Other priorities, such as strengthening industry in certain provinces, or rehabilitating traditional suburban areas (particularly low-income residential neighborhoods) have also been forcefully reaffirmed in recent years. Achieving these goals appears, given the terms of the IX Plan for Economic and Social Development, compatible with the implementation of a new town policy.

Formal Presentation by the Representative of the Government of the Netherlands *

This brief presentation is structured around four major issues.

1. What were the goals of the Dutch new town program?

2. What was actually achieved? What were the major successes and/or problems at the program level? What lessons have been learned?

3. What is the future of the Dutch new town program?

4. What is the likely Dutch government role in large-scale, mixed-use development in the future?

What were the goals of the new town program? The Dutch new town policy was developed during the 1970s as part of a national physical planning program. It was meant to answer the problems briefly described below.

After World War II, the large cities in the western part of the Netherlands lacked sufficient space to meet the growing need for housing. This shortage was caused by a growing population and by the fact that fewer people lived in a house in 1980 than in 1950 (4.5 persons per house in 1950 had ropped to 2.9 in 1980). In 1950, the Netherlands had

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* Edited text of "New Towns Policy in the Netherlands," by J. M. Koopman, Director General for Housing, Ministry of Housing, Physical Planning and Environment, the Netherlands.

a population of 10 million; by 1980, it was 14 million. The housing stock grew from 2 million to 5 million units. The result was a high level of what we call suburbanization, which in the Netherlands means the rapid expansion of small villages. The Dutch government recognized that the societal costs for this kind of development are high: spoiling nature; high costs of constructing and maintaining roads; inefficient use of public transport. The goal was to concentrate this overspill from the big cities into a few selected villages near these cities. We did not build totally new towns, except in the zuiderzee where there is newly reclaimed land. Two completely new towns are being built at these locations. The other eleven new towns are rapid extensions of existing villages, chosen by the central government with agreement from the councils of the local communities. Most councils require rather high extra subsidies before they agree to participate. Extra subsidies usually involve main road infrastructure. In each location, the central government set a target for the production of houses -- at least 6,000 in 10 years.

In addition to the spillover population from big cities, there was migration from the densely populated west of the Netherlands--which had a density of 1,000 people per square kilometer--to other parts of the country (415 people per square kilometer).

Four medium-sized cities were designated to receive this migration. Building targets of at least 10,000 houses in ten years were set. The emphasis is on housing not only in terms of production, but also in terms of quality of living conditions (quality of the environment, parks, schools, and shopping facilities).

A secondary objective is job creation, but no targets were set for jobs. In the first place, the government cannot be held responsible for the creation of jobs in the same way that, in the Netherlands, the government is responsible for housing production. Also, there was competition between the so-called donor cities and the new towns. The big cities did not want to lose jobs to the new towns.

What was achieved? What were the successes? What were the problems? What lessons have been learned? In terms of housing production, the policy was and still is a success. In 1972, 8 percent of the national housing production was built in new towns; in 1982, it was 22 percent. Close to 12 percent of total Dutch housing production occurred in the four largest new towns. In 10 years, 175,000 houses were built in new towns.

New towns were aimed at curbing suburbanization. They were rather effective in this respect. In 1975, housing stock outside traditional urban areas grew by 30 percent; by 1980, growth had slowed to 19 percent.

Surveys of new towns' residents indicate they are pleased with the houses, the environment, and the recreational facilities. These experiences are the successes. However, there are also some disappointing developments.

New towns were also meant to house the poor from the urban renewal areas in the big cities, where homes were demolished. In spite of large subsidies from the government, relatively few of the lower income groups moved to new towns. This failure led to a growing political opposition to new towns.

In general, job creation has been lacking. Thus, there still are heavy commuter flows from the new towns to the cities, with high travel costs for employees and for communities. New towns which are located very near large cities (within 15 to 20 kilometers) can easily serve as residential support neighborhoods. However, new towns, which are located longer distances (30 to 40 kilometers) from cities, need more to create jobs locally because long commutes are more expensive and because these towns need to function as regional commercial centers.

Over the years, there has been a growing criticism of the negative effect new towns have on the development of cities. The big Dutch cities have lost more and more people, mostly yount, well-paid professionals with small families. On the other hand, the cities received a growing number of elderly and jobless people. This population change had negative effects on such cities as Amsterdam and Rotterdam, where, between 1960 and 1978, 20 percent of the population left. Consequently, the remaining population cannot support the high-level public services citizens expect in the major cities.

Some observers have asked if the large amounts of government money spent on new town development might have been better spent on the development of some larger Dutch cities. For instance, in addition to average housing subsidies, which are high compared with USA subsidies, in new towns, the government provides average grants of 15,000 Dutch guilders ($5,000 U.S.) per house, paying a large part of the construction costs for new infrastructure as well as the extra management costs claimed by local authorities. Several studies were undertaken to estimate the costs and benefits of different urban strategies.

The studies showed that for the national government as a whole the costs of urban renewal policy or new town policy are almost the same. However, the distribution of the costs among the various departments differs with the chosen strategy. The department of housing pays more for urban renewal; the department for public transport pays more for the new town approach.

Another development in recent years is that in the larger cities there is more space available for housing than was originally estimated. For instance, some industries migrated to the outskirts of towns. Sometimes manufacturing concerns moved because their original downtown locations became obsolete. In other instances, companies were pressured to move because of pollution. A classic example is the city of Rotterdam, which is the largest seaport in the world. The docks, which were created in the late nineteenth and early twentieth centuries, cannot handle the large ships and new technologies (container shipping, for example) that have become the norm during the past forty years. Activities were moved to larger facilities, and the former docks are currently being transformed into residential areas. Rotterdam expects to build 14,000 to 15,000 houses in its dock area.

The Future of the Dutch New Towns. In 1983, the Dutch government promulgated a new fifteen-year physical planning policy. Its major goal is giving new life to the laarger old cities. What does that mean for the existing new towns? The new town program has not been cancelled, but it is stabilized and will not be extended.

The Dutch government distinguishes between new towns, where the infrastructure investments have already occurred and new towns where infrastructure has not been constructed. In the first case, the housing production targets set by the national government remain in place. In the second case, production targets are being revised. If its production target is lowered, a new town can receive compensation from the central government for its costs to date. Housing production targets remain for the four larger cities.

What is the likely Dutch government role in large-scale, mixed-use development in the future? In the Netherlands, large-scale development takes place within the established governmental framework. Local authorities in existing communities and the private sector are responsible for development with various kinds of help from the central government. Investment in industry and commercial activities in the new towns is, in the Netherlands, mostly the province of the private sector. Investment in housing is 50 percent public monies and 50 percent private funds. The national government either finances the construction of housing untis or provides 100 percent guarantees on the needed capital. In addition, extra grants for new towns are made available -- money for infrastructure, the price of land, etc. In general, the central Dutch Government makes it financially possible for local government to carry out large-scale development.

New towns submit their plans to a committee of government officials for approval. This committee, which is a special body for dealing with new town problems, reviews the plans and approves the new town grants.

In the future, the same kinds of grants will be given for large-scale development of the larger cities. The government has created an urban renewal fund to finance renewal developments within the cities. Every year, one billion Dutch guilders (about $300 million U.S.) are distributed among the communities. Each share is calculated on the basis of the number of deteriorated houses which are more than 50 years old in each community. Cities do not need to submit plans for approval. This approach is a highly decentralized method of giving money to local authorities.

In summary, then:

- o New towns were designed to concentrate the spillover from the big cities and the western part of the Netherlands and to stem the tide of suburbanziation. Each new town has a housing production tagret set by the central government. In general, the new towns have met their housing targets.

- o Because of the negative effects on large-city development (loss of the employed population, erosion of the tax base), the Dutch new town policy was reformulated in 1983. This policy's major objective is stengthening existing large cities, so no more new towns will be created.

Informal Presentation by the Secretary General of the International New Towns Association *

First of all, it is important to note that in the United Kingdom new towns have been an integral part of a central government urban policy. This policy was formulated just after the second world war. This commitment on the part of the central government differs fundamentally from the U.S. approach to new towns.

The essential objectives of British urban policy were: (1) to accommodate expected population growth, and (2) to ease the impacts of that growth. The foundation for this policy was laid before World War II in the garden city concept. Letchworth is a good example. It is a private development corporation -- the only one in the United Kindom. Letchworth is a fascinating model, because it was created by an act of Parliament, but it remains a private corporation.

Another type of new town development in the U.K. can be seen in Stevenage, Corby, and other towns. These places are no longer considered new towns. They are functioning district councils with the usual scope of authority that any district would enjoy.

Yet another British model is represented by Welwyn Garden City. This type of new town is located near a donor city, and the objective is the creation of a new, liveable community.

A more recent objective in British new town development is the revitalization of depressed areas. Washington, in County Durham, is one such town. This area is a mining locale, and, as a small town, it was just dying. So, the central government created urban development policies, aimed at revitalizing such areas.

A final type of new town development is strengthening existing cities or new towns. Peterborough is an existing city, a historical center, a hundred or so miles north of London, that has been revived in this way.

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* Edited comments of Jack Zapasnik, Secretary General, International New Towns Association.

The urban growth strategy in the United Kingdom has been based on two major actions:

1. The passage by Parliament of central legislation to create new towns. The act provided for centralized (i.e., federal) planning, site selection, costing, and housing guidelines.

2. The establishment, again by statute, of development corporations. These corporations are not federal guarantee programs such as exist in the United States. Rather, the corporation is responsible to the central government for all aspects of the development of the specific new town.

This responsibility was and is a temporary measure. Each of these corporations has a given lifespan. When the job is finished -- or when the Parliament or the central government considers the town to be finished, the corporation is abolished. By the year 2,000, there will most probably be few, if any, new town corporations in the United Kingdom. All these corporations will be dissolved. This dissolution includes the distribution of assets. A district council or a locally elected governmental entity runs the city, but the assets -- the houses, the land, the infrastructure -- are held by the corporation, and these assets must be sold off. Some corporations have transferred (by statute) their assets to the district councils. However, given the resource constraints in Britain today, other corporations have placed their assets on the market.

To reiterate, the development corporation uses the funds from the central government as up-front investments. The corporation is responsible for building the infrastructure needed for residential and industrial development.

There are two important characteristics of new town developments in the United Kingdom. One is professionalism. The professionals who were chosen by the central government knew their jobs and did them well. Such competence also created a certain dynamism that helped move the developments along. The second is independence. The corporations were accountable to the central government and not the local communities. Thus, a working model incorporates government funds, professionalism, and independence.

As noted earlier, the disposal of assets is a problem. At present, there is no acceptable, across-the-board solution, although it is clear that one is needed.

In the United States, there is now a speedy statutory move to foreclose on or to close down the development corporations. The focus in the U.S. seems to be on inner-city renewal. The new town development technique is being transferred also to the center cities in the United Kingdom. There is the London Dock Development Corporation; there is a similar organization in Liverpool. So, this new town technique of urban revitalization using federal national funds through a publicly appointed body has been integrated into British policy.

Some other development approaches that are in use in the U.K. are:

- o The urban development grant system, which is similar to UDAGs in the U.S.; and,
- o Enterprise zones, which are succeeding, not without difficulty, in some areas. The private-public partnership does not really exist in Europe. It is something for western European countries to learn.

A quick summary of new town development must acknowledge other parts of the world. The French efforts incorporate government support for national investment policies. If an investor or a developer or a multinational company wants to move into Paris, there is an agency that will provide location assistance and will direct the developer to a new town.

In the Netherlands, the new town movement is well-integrated into generalized national policy.

The USSR is building the greatest number of new towns in the world -- mostly as communities connected with specific industries. Little information is available on this development.

Much of the third world has experienced massive urban development. Governments of the developing countries and also international agencies (like the World Bank) suggest that the developed world help to build cities in the Third World. In fact, it is the people themselves who create Third World cities. The city slums in many countries incorporate acreage, forcing the government to intervene to upgrade the slum into a working community. In short, squatter settlements -- the slums -- are formally recognized by local and national governments, and their development is patterned on rather traditional new town revitalization.

It does appear, however, that private initiatives are somewhat limited in all types of new town development. The usual model has included a strong cental government role, with local governments as weaker partners.

CONFERENCE SUMMARY

The moderator, Mr. Neil Peirce, contributing editor of the National Journal , summarized some of the points made during the conference. The following is an edited version of his summary.

-- HUD Assistant Secretary Warren Lindquist said that the conference may be a wake for a specific Federal program, but not for the new communities concept.

-- HUD Secretary Samuel R. Pierce, Jr. said that this whole study and conference is an attempt to determine what did not work and why. This was done to determine what may work better in the future.

-- James Wilson, developer of St. Charles, argued that the Federal government's involvement new community development was absolutely needed. Without Federal involvement, we won't have integrated new communities. This was a strongly held view on the part of the group at the conference.

-- The Federal losses on the new communities should be put in perspective with the total size of the Federal budget. The Federal loss on the program may equal one weekend of subsidizing agricultural surpluses.

-- Lester Gross, developer of Harbison, made the point that the Federal government was an unreliable partner. Within four or five years after initiating the program, the federal government became hostile to the concept that it had initially blessed. For political reasons, they didn't make grants which they had originally promised.

-- James Dausch, former director of the New Communities program, said that the program was basically flawed and politically unrealistic. The frequent changes in administration made the government difficult to work with.

-- Mr. Dausch and others felt that there should be a continued federal involvement with large-scale development. Such a role will inevitably be played. For example, the decision to build or fail to build roads and sewer lines will have a great impact on a given community.

-- We should remember the admonition of Mr. Lindquist that the three key variables with regard to real estate and large-scale development, in particular, are not "location, location and location" , but rather "location, real estate expertise, and adequate private finance"

-- A question that recurred at this conference is why bother with new communities?. Of course, economic and racial integration and curbing urban sprawl are important. Also critical are testing innovations and creating good urban design. Among the other benefits are creating a "sense of community" which is often achieved in new communities. A greater number of amenities can also be created, along with more sophisticated concepts of mixed land use. We are gradually divesting ourselves of the idea that the blocks or sections of our cities should be purely devoted to single land uses.

-- The evaluation report on the New Communities program pointed out that the Federal government was a passive partner. It waited for the applications from the developers to be submitted without any overall plan. By contrast , in Europe a national urban policy is developed and implemented from the top down. Yet in the U.S. more recent public-private partnerships are not exactly arms-length relations between the public and private sectors. Local governments often provide an equity contribution to these partnerships and are involved in a very close and ongoing coordination with the private sector.

-- A basic question raised by Mr. Lindquist is how small pools of government capital can leverage private development investment in projects which will provide greater economic and racial mix than the open market will provide? Further, how should such strategic intervention be planned?

-- Another thought presented at the conference was that the Federal role was too weak. The feeling was that if the program were to be done again, there should be a government-wide commitment and not a commitment of just one department.

-- Bary McComic, former President of AVCO, developer of private new communities in California, said that government could assist large scale development by providing government rate loans covering 80 percent of land acquisition and development costs. The private sector would provide 20 percent because you must keep the private sector at risk. Government aid would be in the form of loans which did not require repayment of interest during the early predevelopment years.

-- Monsieur Michel Dresch of France raised the point that it should be a local decision of whether or not an expansion of an existing city or a new site should be chosen for a new community. This comment is interesting in that only recently has France been decentralizing what has traditionally been a highly centralized government structure.

-- Mr. Dausch had the idea of providing assistance to large scale development by making use of the Urban Development Action Grant (UDAG) approach. Grants would be made to local governments who would have a real commitment to the projects.

-- Edward Logue, former Director of the New York State Urban Development Corporation, developer of two new communities, questioned how easy it was to get local approval for projects involving racial and economic integration.

-- Richard Brown, Vice President for planning, the Woodlands, emphasized the importance of building communities in this country, as opposed to merely providing shelter.

-- The European presentations emphasized the shifting focus to the renovation of older urban cores and suburbs. This raises the point that

that new towns in town could grow rapidly in the U.S. A presentation was made at the conference on such a project in San Francisco (Mission Bay). There may be many more opportunities in dock areas of the U.S. which are served with rail lines and have abandoned industrial areas.

-- There may be other possibilities, although not raised at the conference, of developing small towns. An example of a small town development program is the Main Street Program of the National Trust for Historic Preservation which attempts to revive small downtowns through an aggressive retail strategy. It could be combined with a similar policy on providing housing near these downtowns as an alterantive to rural sprawl along the country roads.

-- There may be ways to achieve the new community goals without consuming virgin land. Higher density new towns in town in suburban areas could provide for more compact and desirable development. In Santa Clara County, California, along El Camino Real are tawdry hamburger stands, stores and one-story motels. But there are some good mixed use developments in the area with a mix of housing, shops, and garden courtyards. In that setting, beauty and density can go hand in hand. One wonders whether housing for new households needs to devour open land as it so typically has. A number of higher density mixed use developments along El Camino Real could be combined into new towns in town. They could accomodate much more housing without the high costs of new infrastructure in newly developed areas.

-- There needs to be some thought about how Federal, state and local policy might more rationally accomodate growth, to bring people closer to where they work, to create a higher qualilty of life, and to cut down on this absolutely sinful consumption of open land in our country.

-- New towns in town may thrive within our cities and suburbs. But it may be time to put new communities on open land on the back burner for the time being. Thus, the lack of a Federal policy right now may not be such a tragedy.

-- Royce Hanson, former Planning Director of Montgomery, Maryland, said that some of the assumptions underlying the new communities program which were developed in the 60's are now obsolete. These assumptions were very high population growth and continuing flush federal treasuries. By the same token, some of today's assumptions about where urban form is headed and about the needs of our population may also be outdated in time. Just consider the impact of mass migration from Central America. We could find that we need additional space in the next decade for millions more people displaced by the turmoil in that region.

-- The real "bottom line" is that today we've been using the Title VII New Communities program as our whipping boy, but whatever today's grand failure may be, may, in some respect, be the seeds of salvation for our future.

CONFERENCE PANELISTS

U.S. Department of Housing and Urban Development

Samuel R. Pierce, Secretary

Philip Abrams, Under Secretary

Benjamin F. Bobo, Acting General Deputy Assistant Secretary for Policy Development and Research

Warren T. Lindquist, Assistant Secretary for Public and Indian Housing; former General Manager, New Community Development Corporation

Conference Moderator

Neal Peirce
Contributing editor, National Journal; syndicated columnist and noted author.

Panel Members

Richard Brown
Vice President for Planning, The Woodlands Development Corporation; involved in early development of Columbia and consultant to several Title VII communities.

Rochelle Brown
Community Development Coordinator, Howard County, Maryland; extensive experience with issues involved in provding range of housing opportunities in large-scale development.

Susan Clarke
Project Director, New Communities Evaluation; Division of Policy Studies, HUD.

Joel Cowan
Chairman of the Board, Fayette State Bank, Peachtree City, Georgia; original developer of Peachtree City.

James F. Dausch
Vice President and Senior Development Director, The Rouse Company; former director of the New Communities Development Corporation; directed South Street Seaport project in New York City.

Will Dawkins
Project Manager, Southern Pacific Land Company, managers of Mission Bay, a large-scale, mixed-use new community planned for the San Francisco waterfront.

Lester Gross
Executive Director, The Harbison Group; developer of Harbison, South Carolina; President, International New Towns Association.

Royce Hanson
Director, Hubert Humphrey Institute of Public Affairs, University of Minnesota; former planning director of Montgomery County, Maryland; developed "Germantown" approach to large-scale development.

Ruth Keaton
Member, Howard County (Maryland) County Council; local elected official in jurisdiction which includes Columbia, Maryland.

Edward Logue
President, South Bronx Development Corporation; former Executive Director of New York State Urban Development Corporation; former head of New Haven and Boston redevelopment authorities.

R. Barry McComic
Chairman of the Board, McComic, Inc.; former president of AVCO, developers of Rancho Bernardo and Laguna Niguel communities in California.

Robert Podesta
Chairman, Calument Industries; former board member of New Community Development Corporation.

Kenneth Thompson
Senior Vice-President, Ridge Development Corporation; currently involved in "second generation" new community development in metropolitan Washington, DC, including large-scale, mixed-use development in Prince William County, Virginia.

Shirley Weiss
Professor, Department of City and Regional Planning, University of North Carolina; co-author of NSF-sponsored study, "New Communities USA," landmark study of public and private new community development in the United States the early 1970s.

James W. Wilson
President, Interstate General Corporation; developer of St. Charles, Maryland, and other large-scale developments in the United States and Puerto Rico.

International Representatives

Bertrand Avril
Technical Advisor to the Minister of Urban Development and Housing, France.

Michel Dresch
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J. M. Koopman
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