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ABSTRACT

There are three major phases in the process of community development projected for the San Joaquin Valley's west side. The first phase involves agricultural experiments using different kinds of crops, agricultural techniques, and ownership arrangements. Beginning when enough people have returned to the land to create a demand for an expanded town, the second phase involves a population of up to 20,000 living and working on several tens of thousands of acres of land. The third phase invovles the overall regional development of the west side. Focusing on strategies for the second phase, this paper set out a long-term strategy for rural economic development; outlines a program for providing back-up services and the necessary community-building on the west side and discusses how rural communities might be organized and financed, what services they can provide, and what benefits might accrue from the development process. Discussed are the: economic considerations affecting west side development; present agricultural strategies of the planning groups; prerequisites for new town development with land reform; basic effect of land reform; land financing effects; estimate of expanded town development costs; economics of profit and nonprofit new town development; financing the rural new town; community/local government partnership for the town; and transition phases--from Huron to the rural new town. (NQ)

[illegible] FOR THE WEST SIDE OF THE SAN JOAQUIN VALLEY

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If there is to be significant economic and social development for farmworker families in the San Joaquin Valley, a coordinated land reform strategy will be necessary. This can grow out of enforcement of the 160-acre limitation clause of the Reclamation Act, and include programs for financial and technical assistance for farmworkers returning to the land as family or cooperative farm owners.

However, without major support services for planning and financing urban infrastructure, as well as agricultural and social development, land reform programs have a high rate of failure. In this paper we intend to set out a longer term strategy for rural economic development. We will outline a program for providing these back-up services and the necessary community-building on the west side of the San Joaquin Valley. We will discuss how rural communities might be organized and financed, what services they can provide, and what benefits might accrue from the development process. We will be looking, then, at the concept of an agricultural-based rural new town.

There are three major phases in the process of community development we have projected for the west side of the San Joaquin Valley. The first phase is similar to the Venture Strategy suggested by the West Side Planning Group. It involves agricultural experiments on a few thousand acres of land using different kinds of crops and agricultural techniques as well as different kinds of ownership arrangements. These individual projects can serve as an educational center that provides the basis for planning a small village. The mechanisms for change might include, for instance, land trusts and farm credit services outside commercial channels.

The second phase begins when enough people have returned to the land to create a demand for an expanded town. This phase involves a population of up to 20,000 living and working on several tens of thousands of acres of land.

The third phase involves the overall regional development of the west side of the San Joaquin Valley. The focus of this paper will be strategies for the intermediate phase -- a rural new town of up to 20,000 people.

POSITIVE ECONOMIC FACTORS

There are a number of positive economic factors presently favoring the development of labor-intensive agricultural production in the San Joaquin Valley. These have a direct bearing on the rural new town strategies we will be presenting.

(a) There is a growing volume of agricultural products in domestic and world trade. An increasing percentage of consumer's income is being spent for food and agricultural products in the United States as well as in other countries. In short, demand for food crops throughout the world is increasing.

One local indication of this is the prospective development by Boeing and Standard Oil of a cargo port in the Coalinga-Huron area. This airport would function primarily as a shipping center sending fresh fruits and vegetables from the Fresno area to Asian and other foreign markets.

(b) The long term trend of a falling farm population is leveling off. In the Fresno area, farm population has held relatively steady even during recent years of national decline, and indications are that the local farm population may even increase.

(c) The growth of specialty produce markets, such as organically grown food, has meant an increasing demand for high quality fruits and vegetables. This can have a positive effect on the national, state, and regional agricultural economy.

(d) Corporate agriculture as a model for production is not as efficient as had been thought. The benefits of corporate ownership are not to be found in efficiency of production as much as in tax policy and control structures. However, the corporate hierarchical structure is not particularly well suited to agriculture, causing problems at the field management level. There is even a tendency now for some corporate farm owners to consider moving out of production and opening up the fields to people who want to work the land.

These corporations would tend to maintain market distribution, however, contracting out the actual production. The Central Coast Counties Cooperative Campesina is an example of a farmworker owned-and-operated venture that maintains high quality production through family control but markets its crop through

Tenneco. Tenneco offers the best and most secure deal for the strawberry crop and has an international distribution network. This pattern may well be followed with other specialty crops, and may, at least initially, benefit both the farm coop and the corporate distributor.

Recent studies have shown that the vaunted economies of scale that were projected for corporate agriculture are not holding over time. The economies tend to level off at a relatively small size, about that manageable by one or two farm families for most crops. Such comparisons depend, however, on the assumed use of the most modern agricultural techniques by both corporate and family farmers. This often implies the sharing of expensive equipment by several small farmers -- a direct indication of the need for cooperative associations. The same need for cooperation arises with purchasing, marketing, and financing in order for family farms to even attempt to approach equal footing with larger corporate competitors.

(e) The importance of tax shelters in the agricultural economy are diminishing the relative advantage of capital-intensive as opposed to labor-intensive agriculture. As state and national legislatures close tax loopholes, farm tax shelters for corporate owners become less of a consideration than they have been. This trend, however, could be reversed at any time.

(f) The ever-increasing cost of agricultural technology is working against capital-intensive farming. Farm machinery is at once more necessary than ever and becoming prohibitively expensive. The cost of energy has sky-rocketed, in many cases doubling and tripling. Trained operator wages for advanced equipment is accelerating.

(g) The cost of capital itself has risen precipitously both for short and long term loans.

(h) Taxes on property and equipment are rising, and so are insurance rates.

The factors outlined above make capital-intensive corporate agriculture less attractive, and labor-intensive resident owner farms more competitive. This is a very important and favorable trend for the West Side Planning Group, since its constituents are looking initially at labor-intensive farm ownership.

LIMITS OF LABOR-INTENSIVE AGRICULTURE

We do not not intend to imply by this analysis that labor-intensive agriculture on the west side of the San Joaquin Valley is a panacea. Few communities would intentionally plan a long-term economy based exclusively on the intense hand labor required in field work. But for the initial period of land reform and rural development, it appears that hand labor can be highly productive and competitive with capital-intensive agriculture and could be used to great advantage.

FACTORS IN LONGER TERM PLANNING

For longer term planning, communities on the West Side should not base local economies solely on either intensive hand labor or on agriculture in general. As more and more people become involved, there will be a limit to the crops that can be produced from the land. The small-scale production model cannot be multiplied endlessly. In addition, there are too many inherent variables in agricultural production -- such as climate, overproduction, and market fluctuations -- for a secure long-term economic base.

Furthermore, as produce and transportation prices go up, the world market will tend to level off. Importing countries will move toward self-sufficiency, and the national market will decentralize. What looks like a booming agricultural future today could reverse itself in several years as the techniques of intensive production are exported.

Once the West Side economy has grown and diversified, the larger community will eventually have to introduce capital-intensive agriculture. Ironically, productivity per acre will be higher in the early, labor-intensive years than during more advanced stages of development.

INTERMEDIATE CONDITIONS

Nevertheless, for the forseeable future the positive factors favoring labor-intensive agriculture will outweigh the negative ones for the west side of the San Joaquin Valley. The area is strategically located, and it appears that agricultural prices and demand will continue to rise over the short and intermediate term. Solid profits can be made in the area of specialty crops, truck farming, and such field crops as cotton, as long as the agricultural program is diversified and capable of enough flexibility to anticipate and respond to fluctuations in the market. The negative factors will only tend to level off the substantial increases in regional wealth that can be secured during this period of labor-intensive farming.

RAISING LAND PRODUCTIVITY

The general economic conditions and market prospects only serve to underscore a fundamental principle of development. Any program for land reform has to look toward increasing the productivity of the land. The economic return to the land has to be increased. Therefore, land for agricultural use and development should not be purchased for its present productivity value. If the land is valued at full productivity, it will be very difficult to achieve further development in order to claim any incremental value. No venture strategy should be attempted that does not raise the productivity of the land.

The economic return from agricultural land can be increased in a number of important ways.

(a) Purchase land that has been used for capital-intensive agriculture and has the potential for much higher productivity. This can be achieved through truck farming, specialty crops, and labor-intensive farming.

(b) Create technological increases in land value, such as greenhouse production. This is highly capital-intensive, but greatly increases the productivity of the land.

(c) Market the produce more efficiently. Fortunate entry into the market at a time of peak demand would also increase land value.

(d) Plan urban uses for some of the land. As density and improvements increase, the value increases.

(e) Gain access to lower cost capital than that borrowed at conventional rates. This might be foundation financing, or local government financing. Securing substantially lower interest rates for capital is equivalent in practice to increasing the productivity of the land.

(f) Strict enforcement of the 160-acre limitation clause of the Reclamation Act for purposes of land redistribution. The act requires that land using federally financed irrigation water must be sold at its pre-water value. This would essentially create a differential between the purchase price and the market value of the land.

Each of these methods has to be looked at differently for the various strategies and time horizons of agricultural development. Obviously, there is no immediate hope for urban value increases on the West Side, although the method should be considered in a longer term strategy. On the other hand, the labor-intensive means of increasing productivity is an option better used now, because it is unlikely that large communities can be supported relying only on labor-intensive agriculture. The major point is that value, as well as people, can be brought back to the land if the uses of the land are planned for and development is controlled for and by the community.

PRESENT AGRICULTURAL STRATEGIES OF THE WEST SIDE PLANNING GROUP

The West Side Planning Group has initiated beneficial programs and strategies which are moving in the direction of the development goals outlined in this paper. These programs and strategies will serve as a firm base for later and broader development programs.

LOAN AND SUPPORT PROGRAMS

At present, the West Side Planning Group is acting as a development bank, making equity loans to individual farmworker families who can then secure commercial credit. This is an excellent program, capable of establishing a large number of families and cooperatives on the land and providing invaluable experience for the WSPG. Since each project is fairly small, the WSPG can even observe failures without endangering the overall stability of the program. For a reasonable amount of money, WSPG can reach a large number of people and can observe a wide variety of agricultural and marketing problems in real settings. The program is mutually reinforcing and beneficial for the parties involved.

WSPG is also developing some expertise in technical back-up for these projects. These equity loan and support programs are the most beneficial agricultural related programs WSPG has provided.

LAND TRUST

Another program being initiated by the West Side Planning Group is the purchase of several hundred acres of land itself to gain first-hand experience in agricultural production. WSPG will in effect set itself up as a land trust, then lease off the land for agricultural production to farmworker families.

AGRI-VILLAGE

A third concept presently discussed by the West Side Planning Group is the model new community, or "agri-village," similar to that being developed by the Central Coast Counties Development Corporation. Mentioned in the WSPG Venture Strategy, this project would involve purchase of a larger parcel of land, construction of housing, and the development of some basic urban and community services. The project would also be used as an experimental station for some of the WSPG ideas concerning crop production, governmental structures, and institutional arrangements.

RECOMMENDATIONS CONCERNING PRESENT PROGRAMS AND STRATEGIES

The West Side Planning Group programs and strategies outlined above should be pursued and expanded. The major reason for this, besides the obvious benefits for farmworker families, is that they build a constituency of people on the land. A formal mechanism, however, should be implemented to coordinate the activities of families WSPG has helped back onto the land. WSPG should encourage cooperative associations among the new farm owners. The purpose of the associations should be to build a strong organization that can fit into a larger strategy for rural development. WSPG constituents will be the people with ownership, management and cooperative experience who can educate others. An institutional structure is necessary to keep these farmers relating to each other so they can function as a social, political, and economic base for any future planning and development.

While certain present activities such as marketing can bring the farmers together, a specific cooperative association is required. Farmers should belong to the associations in order to qualify for aid from the WSPG. Members should communicate on a regular basis, through meetings and a newsletter. They should share information, and develop other cooperative relationships. When the farmers have sufficient economic strength, they should develop their own marketing services.

The farmers in the cooperative association should pay dues for internal support. In addition, part of the loan and lease payments to WSPG should be channeled into the association to provide additional cooperative support services. A more substantial part of the payments might also be funneled directly to the farmer association for the opening of a second revolving fund. The farmers themselves could then make additional loans and establish other land trusts. The intent would be to spin off as much central control as possible from WSPG to the farmers themselves.

The cooperative association could begin developing some of its own technical services. Since at this point WSPG would still control most of the money, WSPG should continue to support technical assistance directly or indirectly.

A general criterion should be worked into the structure of the association so that farmworkers who receive loans or lease land would have to meet the same standards as set by the WSPG. Farmers from the association should also be brought back into the WSPG structure. With continuity between the two groups maintained throughout, the entire WSPG operation might ultimately be phased into the association of farmers. This might occur at the same stage of development as the rural new town.

Furthermore, we believe that as important as the present WSPG programs and strategies are, it would be better if these initial phases were put within the context of a longer term strategy. It is always better to know where you want to put your major efforts in the future, and then do your initial work in the same area if at all possible. With limited resources, experimental projects should be located in the region where long term community development is intended. Experience can be gained with experimental projects in many areas, but with larger strategies in mind, scattered programs may ultimately only dissipate the economic and political resources necessary to develop an effective development program involving a self-supporting rural new town.

CONCLUSION

The programs and strategies of the WSPG gradually move towards the first phase of rural development mentioned in the introduction. They expand from family and experimental cooperative farms to the "agri-park" or "agri-village." The rural village can then either be developed into the rural new town, or maintained as an agri-village for the larger settlements that are developing elsewhere. The smaller enclave can act as a training center for education, experimentation, and acquainting people with the new institutional, social and cultural relationships of farm ownership and cooperation. Central Coast Counties, for instance, intends its agri-park as a training center specifically to prepare farmworkers for the responsibilities of self-management, ownership of land, cooperative relationships and the development of new agricultural techniques.

The strategies we emphasize in the remainder of this paper begin from such an expanding rural enclave.

FAVORABLE CONDITIONS FOR NEW TOWN DEVELOPMENT

One or more broad economic indications usually must be present in a region to justify new town planning and development. Each of these is discussed below within the context of existing economic conditions on the west side of the San Joaquin Valley.

(1) Market Trend

Obviously, there is no market trend that would currently justify construction of a new town on the west side of the San Joaquin Valley. The people of the area are not moving toward increased urban development, and there is no apparent natural trend for it to happen.

(2) Metropolitan Growth Area

In the United States, conventional new communities are almost always planned for metropolitan growth areas. Only a few have been built outside of growth areas, or on the outer fringes of them, and they have tended to fail. If a new town were to be planned according to natural market conditions, it would have to be located in a metropolitan growth area. The West Side is definitely not such an area.

(3) Agricultural-Industrial Investment

Intensive agricultural-industrial investment in a region, such as the proposed cargo airport in the Coalinga-Huron area, could justify new town development. This would not be a result of local market forces, but an external decision related to national and international markets. The cargo airport, however, is still in the early conceptual stages.

(4) Major Industrial Investment

Another economic reason for new town development would be major industrial investments, related or unrelated to agriculture in the area. These might require plant location along Interstate 5 or Highway 99, proximity to the California Aqueduct, or connection with the central valley rail lines. Corporations might locate in the area because it is midway between the two major urban regions of California, Los Angeles and San Francisco. This would entail presently unanticipated external decisions not related to current local market conditions.

(5) Public Policy

Governmental or public policy decisions could also justify the location of new towns. This is a common reason for their development in foreign countries, often as part of a larger urban decentralization plan. The public policy justification for development of the West Side was a dream discussed frequently in the planning profession of California during the 1950s and 1960s. Studies were made of the factors in new town construction in the San Joaquin Valley, conducted from a public policy standpoint. This justification would overlap with the earlier ones; an economic base would have to be created for the development to succeed. The public would either have to give incentives to certain industries, or actually direct their location in certain areas. This would be another external decision, not likely in the forseeable future for the West Side.

(6) Land Reform

None of the previous reasons for new town development relates in any direct way to the strategy and intent of land reform and rural community building. Land reform itself, however, is one of those economic reasons that could justify the development of a rural new community.

The re-distribution of land tends to minimize rural poverty, minimize the excess labor force in rural areas, distribute the rewards of agricultural production more equitably, and retard out-migration to the cities. For example, the economies of small farm communities in the Midwest are superior to those in the corporate and absentee-owned San Joaquin Valley, where productivity is much higher but is accompanied by rural poverty and unemployment. Since land is widely distributed and locally owned in the Midwest, the overall regional economy not only grows with agricultural productivity but the increased rewards are more equitably spread and this in turn expands the local economies through the multiplier effect of each dollar of increased production.

If land reform is enforced on the 600,000 acres of the Westlands Water District according to the 160-acre limitation, significant numbers of people will return to the land. Even if the land does not immediately become more productive, the population increase alone would create a demand for development of new or expanded urban communities. The people will need services and support systems in the area. Enforcement of the 160-acre limitation doesn't mean a new community would occur naturally, but it certainly would justify the contruction of one.

PREREQUISITES FOR NEW TOWN DEVELOPMENT WITH LAND REFORM

If land reform did occur on the west side of the San Joaquin Valley, uncoordinated growth would be the normal pattern of development. There would be expansion in Huron and Mendota, and crossroads would tend to become new market centers. But in order for the growth to develop into a new community, it would have to be intentional, planned, and focused on one or two specific locations. This is the heart of the strategy we will be discussing for the West Side.

Although enforcement of the 160-acre limitation would be a natural precurser to construction of a new community, it is not the only factor. Extensive land reform and new town development might be accomplished in the valley without the benefit of compliance with the provisions of the Reclamation Act. Land could be purchased, land trusts formed, and land reform initiated for a rural community based on 20,000-30,000 acres. The effect would essentially be outside support for land reform, rather than the more natural development that might occur if the 1902 Reclamation Act were enforced.

BASIC EFFECT OF LAND REFORM

With land reform, there would be an approximate net addition of 5,000 new households, or 25,000 people. A growing support population might double that figure to 50,000 spread throughout the 600,000 acres of the Westlands Water District. This is about three times the present population of the area. If this population could be concentrated, it would definitely provide a justification for a rural new town.

While land reform and rural new town development might be accomplished without enforcement of the 160-acre limitation, it should be planned for in the new town development process. If and when the Reclamation Law is enforced on the West Side, the planning process will have anticipated it, and its effects can more easily be absorbed into ongoing development efforts.

ECONOMIC EFFECT OF WEST SIDE AGRICULTURAL DEVELOPMENT

A rough estimate of the potential gross income to be derived from the agricultural use of the land in the Westlands Water District is $500 to $1,000 per acre.* Assuming these figures hold for all of the 600,000 acres in the district, the maximum gross income would be $300 million to $600 million annually.

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*Gross sales from the land assumes average sales from row crops now grown in the area, adding increased productivity with labor-intensive methods and crops, then generalizing the estimate throughout the district. These figures assume that the entire district will have access to California Aqueduct water.

Figuring in losses, the estimate for gross sales off the land would be $200 million to $400 million per year.

The possible return each year to the average farm family from the productivity of the land can be between $12,500 and $25,000. In certain cases, the land will be more productive than the $500 to $1,000 estimate, causing these figures as well to rise. We are looking at the potential then of raising farmworker family incomes from what they are now to between $12,500 to $25,000 per family. This assumes the family receives the labor value and the profits from the land.

Thus, the value of land reform in the Westlands Water District looks very high. Farmworker families now earning between $3,000 to $4,000 annually, or on welfare, would be moved into middle income status through this process. Because farmworker families are larger than average, however, an income of $12,500 would still be below the comparable regional median. It should be noted, however, that incomes in this range are as high or even higher than wages for industrial labor in the region -- indicating the great value of agricultural land reform for farmworker families.

These estimates of financial return are only for the agricultural potential of the Westlands Water District, not for the supporting, processing and service economies. A very rough estimate of those would be that they are equal to the agricultural potential of the local economy.

ECONOMIC EFFECT OF LAND REFORM ON FARM FAMILIES

A major question in agricultural economic strategy is the difference to the farmworker families between getting land at market prices, at pre-water prices set by enforcement of the 160-acre limitation, or at virtually no cost through wholly subsidized land reform.

(1) Market Price for Land

Assuming that farmers purchase land at a market price of $1,000 an acre, on the average, financing costs would be at least 10%, or $100 per year per acre. The $1,000 land might produce an average gross income of $500 to $1,000 an acre in sales. About one-third of that might be returned to labor and the owner, or $175 to $350.

(2) Pre-Water Price for Land

Under 160-acre land reform conditions, the land might cost as little as $300 an acre at pre-water prices. In this case, the yearly capital cost for land would be $30 per acre instead of the $100 at market price. This would amount to a savings of $70 per acre, increasing return to the farm family by 20% to 40%. If we assume the average family is getting $12,500 in net income from the land, this increase based on land purchases at pre-water prices could produce annual incomes of between $15,000 and $17,500 per family.

(3) Free Land

If farmworker families received the land free, they would save $100 in financing costs per acre. That would increase their return from an acre of land to between $275 and $450, a 30% to 60% increase in return to the farm family. Their incomes could then be between $16,000 and $20,000.

LAND FINANCING EFFECTS

Another major factor in these calculations is land financing. Public financing, or some other means of acquiring capital at less than the market interest rate, would definitely increase the annual return to the farm family. For example, if land were purchased at the $1,000 per acre level but financing costs were cut in half, the net effect would be the same as if the land were purchased at only $500 per acre. This in itself would represent a 15% to 30% increase in the return to the farm family.

So there are two critical factors in financing land reform. Reduced prices for land is one. But reduction in the carrying costs for financing land purchases can be just as important. Later in the paper we will emphasize alternative ways of securing cheaper capital for land reform and rural new town development.

CONSIDERATIONS FOR FUTURE STUDIES

In any future studies, it will be very important to define the most critical variables in agricultural production and new community building. These should be defined according to how large an impact they have on the farm families' income. The risk factors should also be defined, and how they would affect any economic projections. The major variables to check are financing, land prices, differentials in gross sales for types of crops, secondary employment, and such risk factors as weather and market conditions. Additional factors include guarantees in financing, purchasing and marketing.

STATE OF THE U.S. ECONOMY, 1975

It is also important to make a broad disclaimer about economic projections. The national economy has reached a point where predictions have been made for general economic instability. Obviously, anything we might say about yearly fluctuations and risks are minor compared with the macroeconomic condition. The combination of soaring inflation with recession is a problem within capitalist economic structure that conventional wisdom does not know how to handle. Assuming present economic conditions continue for any significant amount of time -- three years or more -- we believe the predictions of general economic collapse may hold true. In terms of land reform and new town planning in the San Joaquin Valley, all bets are off.

As far as our program is concerned, however, we will know if there will be economic collapse long before any of our strategies are implemented. Even the planning stages are not far enough along to be caught short by imminent economic disaster.

One positive aspect of the present economic situation is that we are at the worst possible time to make general economic projections. Because of inflated interest rates, energy costs, and economic uncertainties, any projections made today would in effect be conservative, or worst-case, projections. By contrast, the stable 1950s characterized by lower unemployment and lower interest rates would be the most dangerous time to make long term projections. In other words, short of general economic collapse, almost any program that could work today surely would work in the future.

RURAL NEW TOWN DEVELOPMENT

GENERAL ASSUMPTION

In the following review of rural new town development patterns, we assume that land reform or other major economic change enables a significant number of people to return to the land on family farms or farm cooperatives. Under this assumption, a number of different community forms can develop.

NO PLANNING

The first form would occur with basically no planning as people returned to the land. A trend pattern would develop. Under these conditions, the existing towns in the area would grow, and new commercial centers would begin at the existing crossroads. In the Westlands Water District, the towns of Huron and Mendota probably would receive the major growth, while Three Rocks, Cantura Creek and Five Points might develop into small commercial villages.

PLANNED DEVELOPMENT -- NEW OR EXPANDED

The second pattern would be based on planned development. Any rational planning in the area would emphasize concentration of urban and support services. These would be planned in one of two different ways. The first would be in completely new locations, planning virtual new towns in open areas. The other would follow already existing trends focusing on the towns of Huron and Mendota. These would be planned expanded towns, concentrating as much as possible of the support services, the light industry, and the agricultural processing that would normally locate in the area.

COMBINATION OF NEW AND EXPANDED TOWNS

The third pattern would be a combination of the new and expanded town concepts, and would occur over a longer period of time. Initially, planning would center on the towns already in the area until the local population and economy developed internal pressures for expansion. Then new areas would be established for the overflow growth. In effect, this pattern would be the phasing of the expanded town and new town concepts over time.

RECOMMENDATION FOR EXPANDED RURAL TOWN

In terms of this paper and our own overview, the most rational pattern would be planned concentration of expanded rural towns. There is a population base, some support services have been developed, and most of the urban infrastructure has been built. On the West Side, utilities and road systems are built, water is available, and most important, towns are located on rail lines. Basically, access to regional transportation, utilities and other services already exists in the area. When planned construction begins, capital outlays do not have to be made for these services. There are, in addition, other economic, financial, and political reasons for expanding an existing town that we will discuss later.

HURON AS CHOICE FOR EXPANDED RURAL TOWN

If the expanded existing town pattern of development is to be used, it is important to initially focus on only one of the possible sites for development in a region. Pending further study, Huron seems to be the best location. It is the closest town in the district to Interstate 5, and is near the developed Coalinga area. The town is very close to the California Aqueduct, and has the best agricultural soil conditions in the district. One drawback to development in the area is that Fresno lies more than 50 miles to the east, beyond the range

Table A

Regional Access Criteria for Expanded Rural New Town

Town	Railroad	Freeway	Fresno	Other Town	Irrigation Water	Land	Other
Mendota	yes	20 miles	33 miles	Firebaugh 7 miles	1 mile	good to excellent	Recreation River
Huron	yes	7 miles	48 miles	Coalinga 18 miles	3 miles	good to excellent	Coalinga Airport
Kerman	yes	38 miles U.S. 99 @ Fresno & Madera 15 miles	15 miles	Madera 15 miles Mendota 18 miles	ground	fair to good	--
San Joaquin	yes	23 miles U.S. 99 29 miles	27 miles	Kerman 16 miles	3 miles	fair to good	--

of direct economic reinforcement. Another major drawback is the concentration of land ownership in the Huron area. The three biggest owners of the Westlands Water District -- Southern Pacific, Standard Oil of California, and Russell Giffen -- own almost all of the Huron vicinity. Also, while the nearly level terrain is good for urban development, the weak structural quality of the soil may cause foundation problems for building.

NEW AREA DEVELOPMENT AS ALTERNATIVE

The alternative to planned existing town expansion, which we will not discuss in detail, is new area development. Although not connected to existing towns, these projects still would relate to crossroads, water and utility access and freeway proximity. The Three Rocks area might be the best location in the district for new town development outside of existing towns. Certain regions southwest of Mendota would also support new community development. The one problem with new area development in the district is the absence of rail service. There are no existing rail lines in any of the open areas, or the likelihood of new lines being built. The areas that have access to the railroad are either existing towns, or close enough to them that expansion of the existing towns would be the most feasible development plan.

GENERAL DEVELOPMENT PATTERNS FOR THE RURAL NEW TOWN

There are two basic development approaches to the expanded town concept. These can be defined as the decentralized development pattern around the existing town, and the centralized development pattern around the existing town. The same patterns could also be used for total new town development.

(1) Decentralized.

The decentralized development pattern is similar to rural new communities in Israel (see Diagram A). This is basically a star pattern which has groups of cooperative and collective farms spaced in the countryside around a rural-urban center of 20,000 to 30,000 people. The center area supplies the urban and support services for the agricultural lands around it. The farm groups are also patterned on the star concept and have their own local trade centers. The decentralized rural new community groups in turn relate to major regional urban centers.

Within the general framework of decentralized development, a

Diagram A

Decentralized Development Pattern

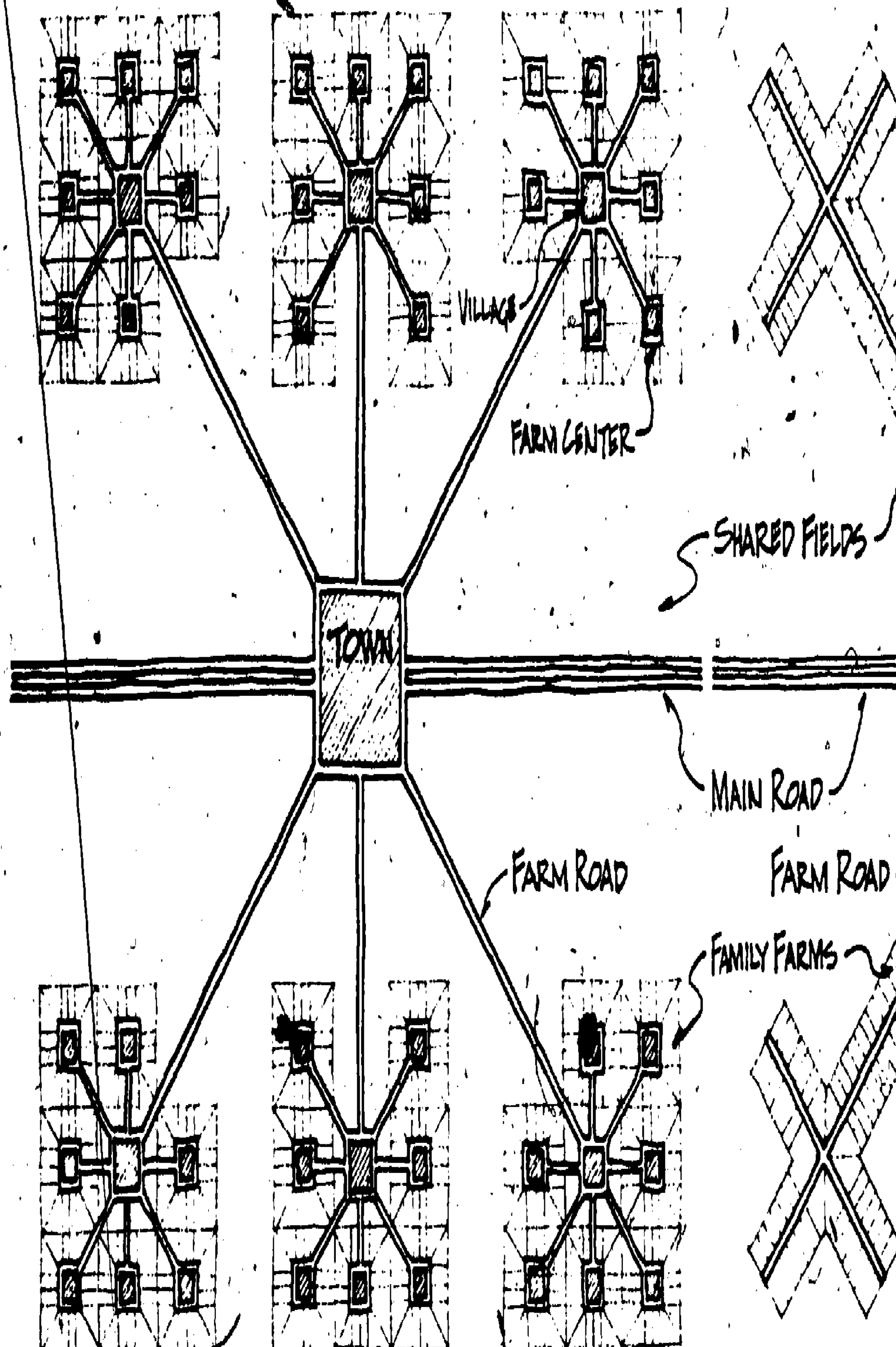
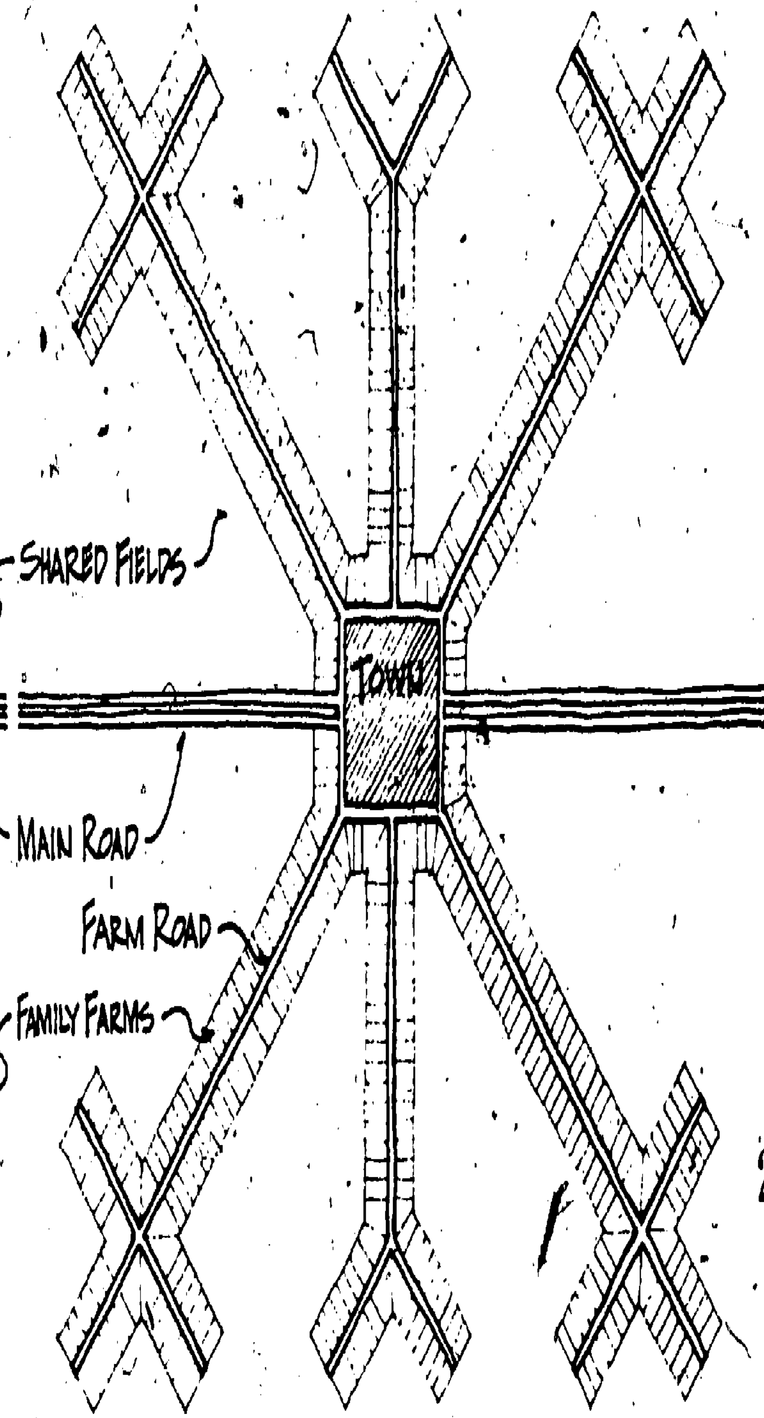


Diagram B

Centralized Development Pattern



number of variations are possible. In terms of the farm-workers of the San Joaquin Valley, the best pattern would not be collective. It might better be based on a system of small family plots, with larger cooperative or shared areas for field crops where cultivation and harvest depend upon group efforts.

Alternatives for housing would include individual homes on the individual family plots, or homes grouped together in the small local villages where farmers would return each day from the fields.

(2) Centralized

A more centralized approach would be similar to the pattern common during the medieval period in southern Europe (see Diagram B). Population would be centered in a fairly dense town, which is surrounded by the agricultural lands. Individual plots of land would be located along the road "spines" leading to cooperative or shared fields: the "commons." All housing would be in the central town. However, an alternative housing plan would locate farm family dwellings on the individual plots along the roadways. This would tend to decentralize the otherwise densely populated urban center.

CONCLUSION

In the next section of this paper we will make an estimate of why one pattern may be preferable to another, based on development costs. However, it is clear from the outset that for the same reason we are looking for an existing rural community to expand from, the pattern that would probably be the most economic in terms of capital costs would be the one that tends to concentrate people the most. Whether or not people are living on individual plots, the pattern that tends to hold people together tends to be cheaper. Even though the decentralized pattern is the one most often chosen for rural development, it has to be realized that extra development costs are involved with this plan. In terms of capital costs for urban services (sewer, water, electricity, housing, roads), there are significant differences between the centralized and decentralized models which tend to favor the centralized option.

ESTIMATE OF EXPANDED TOWN DEVELOPMENT COSTS

GENERAL CHARACTERISTICS

As explained in the preceeding section, the rural town we recommend for expansion is Huron. It is in the highly productive agricultural area 150 miles south of the San Francisco/

Oakland/San Jose metropolitan core, but within 50 miles of the major sub-core city of Fresno. It is also within 20 miles of the town of Coalinga. The employment base of the expanded rural new town will be oriented to agricultural production and processing but will still be fairly diverse. The town itself will have about 2,000 nonagricultural primary jobs, enough to generate, in conjunction with surrounding agricultural employment, jobs equal in number and kind to employed residents of the town.

The existing town of Huron from which the new town will grow has between 400 and 500 households. Since the land to be developed adjoins an existing town, cost of initial connection to regional services is minimized. Land price is also relatively low because of the town's distance from a major urban area and the moderate intensity of present agricultural use.

Housing and all other facilities will be planned to new town standards with a medium quality of construction. These standards are chosen to correspond to the expected income levels of town residents.

Table B summarizes the basic attributes of the expanded rural new town upon completion.

HOUSING AND LAND USE ASSUMPTIONS

The mix and density of housing depends on the particular new community development pattern assumed. In both the centralized and decentralized cases, the in-town housing is chosen to reflect the increasing trend towards townhouses, patio houses and garden apartments.

However, the farm housing in the decentralized case is assumed to be single family detached homes on the individual agricultural plots. Even so, the homes themselves would be located reasonably near each other to save on development costs. Since about half the homes will be in the agricultural areas, the average residential density is assumed as a fairly low 6 dwelling units per net residential acre.*

In the case of the centralized development pattern, no difference is assumed between the farm family housing and other housing in the town. Thus, the average residential density is a moderate 12 dwelling units per net residential acre.

Using data from existing new town plans, from public facility standard guidelines, and from a variety of physical planning

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*Net residential acreage includes local streets and some common open space.

Table B

Characteristics of Expanded Rural New Town
(1975 dollars)

Gross Income per Household	$12,500/yr.
Disposable Income per Household	11,000/yr.
Households	5,000
Population	20,000
Jobs in the Town	6,000
Industrial	1,500
Primary Office	500
Service and Government	4,000
Jobs in Related Surrounding Agriculture (including seasonal)	6,000
Distance from San Francisco Metropolitan Core	150 miles
Distance from Sub-Regional Core City of Fresno	48 miles
Distance from Town of Coalinga	18 miles
Distance from Regional Access	0-7 miles
Market Price for Raw Land	$750/acre
Best Price for Raw Land with Land Reform	$250/acre
Land and Development Rights in Huron	$5,000/acre

and real estate sources, we estimated required or desirable acreage for each of the various land uses for each of the expanded rural new town development patterns. The results are summarized in Table C.

CAPITAL COST ESTIMATES

We next estimated the capital costs in 1975 dollars for land purchase, developing the specified towns, building all structures in them, providing for major public sector equipment, preparing the agricultural areas, and allowing for farm equipment and other agricultural capital items. These costs are basic "hard" costs and do not include cost estimates for property taxes incurred during the development period, nor interest on loans to cover raw land purchases and years of negative cash flow. These tax and interest expenses are variables which depend on sponsorship, financing arrangements and phasing. However, the "hard" cost estimates do include such costs as professional and governmental fees, subcontractor's overhead and profit and prime developer's overhead expenses. Prime developer's profit is specifically excluded, since it is one of the most crucial variables we discuss later.

Table D enumerates the capital "hard" costs involved in developing, building and equipping the centralized and decentralized expanded new towns over a 15 to 20 year development period, classified by type of development investment.

CONCLUSIONS

In terms of physical development costs, Table D suggests the following conclusions:

(a) New town development, regardless of pattern, is a very expensive undertaking. The basic cost would be about $60,000 per household including all sectors -- residential, commercial, industrial, agricultural, and so on. Financing charges and prime developer's profit would add to this cost. Of the total amount, about two-thirds, or over $40,000 per household, would have to be carried directly by the residents in their rents or housing payments.

(b) While strict enforcement of the reclamation law could produce a major savings in the agricultural sector alone, about 40% of required capital investment, it would save only about 6% to 7% of total new community investment. Thus, the cost of land for the entire new town development has a significant but relatively small effect on the overall cost of the project, and the ultimate cost to the households.

Table C

Land Use Factors for the Expanded Rural New Town

	Centralized	Decentralized
Total Housing Units	5,000	5,000
(a) in town	5,000	2,500
(b) in agricultural area	--	2,500
Net Residential Density	12 du/ac	6 du/ac
(a) in town	12 du/ac	10 du/ac
(b) in agricultural area	--	2 du/ac
People per Net Residential Acre	50-60	25-30
(a) in town	50-60	40-50
(b) in agricultural area	--	8-10
Acreage Requirements		
Residential	415	830
Industrial	150	150
Commercial and Office	45	45
Quasi-Public	40	40
Public and Open Space	550	435
Sub-Total (urbanized)	1,200	1,500
Agricultural[1]	38,800	38,500
Total Site Size[2]	40,000	40,000

[1] Includes all the agricultural land needed to support the economy of the expanded rural new town at an average productivity above that at present.

[2] Includes the 62.5 sections of land between the California Aqueduct on the east, Interstate 5 on the west, U.S. 198 on the north, and Jayne Avenue on the south.

Table D

Capital Expenditure Summary for the Towns Through Completion
(in millions of 1975 dollars)

Development Item	Centralized	Decentralized
Land Development and Infrastructure		
(A) Traditionally Private Sector		
(1) Site Purchase		
(a) Huron Section	3.2	3.2
(b) Surrounding Area	29.5	29.5
(With Land Reform)	(9.8)	(9.8)
Sub-Total	32.7	32.7
(With Land Reform)	(13.0)	(13.0)
(2) Urban Land Development (excluding major roads, water, and sewer)	18.4	24.5
(3) Agricultural Land Development (including farm structures and equipment but not homes or major infrastructure)	19.4	19.3
Sub-Total	70.5	76.5
(With Land Reform)	(50.8)	(56.8)
(B) Traditionally Quasi-Public Sector (including buildings)		
(1) Medical	3.6	3.6
(2) Religious and Institutional	4.8	4.8
(3) Utilities	14.4	17.6
Sub-Total	22.8	26.0
(C) Traditionally Public Sector (including buildings)		
(1) Major Roads and Major Water and Sewer Lines	13.7	19.0
(2) Schools	15.6	15.6
(3) Parks and Recreation, plus Community Facilities and Major Equipment	8.4	7.8
Sub-Total	37.7	42.4
Total Land Development and Infrastructure	131.0	144.9
(With Land Reform)	(111.3)	(125.2)
Traditionally Private Structures		
(A) Residential Buildings	142.5	150.0
(B) Industrial Buildings	13.2	13.2
(C) Commercial and Office Buildings	14.0	14.0
Total Traditionally Private Structures	169.7	177.2
TOTAL TOWN COST	300.7	322.1
(With Land Reform)	(281.0)	(302.4)

(c) Also, austerity in land development and community and public facilities has a minimal impact on overall project cost. For example, a 10% cut in those items only reduces final costs to households by about 3%.

(d) Thus, the most direct and significant reduction in physical costs to the household must be achieved by a reduction in housing construction costs. This may be brought on by a reduction in size and quality of the unit, or increased efficiencies of production. A 10% reduction in housing unit costs translates into about a 7.5% reduction in overall household-borne new town development costs.

The significance of these conclusions is that land reform and new town development, with their promise of cheap land and efficiencies in planning layouts, cannot be relied upon as an unsubsidized panacea to provide a decent total community that low and moderate income people can afford. Without the changes in institutional, governmental and financial arrangements we discuss in the following sections, a significant reduction in household costs can only be achieved through a major effort to reduce the hard costs of the housing units themselves, or via substantial subsidy programs from external sources.

THE ECONOMICS OF PROFIT AND NONPROFIT NEW TOWN DEVELOPMENT

INTRODUCTION

Substantial reductions in household-borne costs for the rural new town can be realized by changing the allocation of the community's property revenue flows. The bulk of such revenues normally goes to the non-resident, profit oriented corporations that develop and own urban and agricultural areas. To achieve the major savings which we believe possible involves changing the current pattern of urban and agricultural development and ownership into a form of cooperative nonprofit enterprise which is initiated primarily to benefit the local inhabitants and users of the land.

In the sections immediately below, we distinguish between the two development cases, profit and nonprofit, and point out the impact of these distinctions on costs to residents.

PROFIT CASE

In American new town development, the general practice has been for the site owner and the producer of the new town itself to be the same private, profit oriented corporation. In financial terms, the objective of this corporation has been to convert low valued raw land to high valued urban land, and to capture as much as possible of the resultant profits. The value of the land under urban usage is based not on what it cost to develop but on the value of urban land in analogous suburban or exurban settings. As a consequence, residents and businesses in new towns find themselves paying the same or more rent (or rent equivalents) as they would for similar facilities and properties in other developing areas. This institutional form of development and ownership assures that the private, profit oriented corporation obtains as much as possible of any differential existing between the competitive market value of the developed land and what it cost to develop.

A similar pattern holds in California agriculture. Large corporate land owners convert low valued unirrigated land to higher valued productive agricultural usage by the importation of publicly subsidized water. The increased land value and income is captured by the corporate owner and removed from the local economy.

The profit oriented new town developer usually prorates costs into a residential sector account and a separate industrial and commercial account. Each household is charged its share of residential development costs plus specified profits. Costs to industrial and commercial clients are kept in a separate account, as are profits accruing from industrial and commercial development. These profits along with agricultural profits flow to corporate owners and not to residents.

The new town developer's greatest profit is usually realized from commercial and industrial properties. The rate of return in the residential sector is normally modest in comparison. This explains the tendency of conventional new town developers to sell off the residential sector and concentrate on long term retention of commercial and industrial properties. Similarly, there is no incentive for corporate agricultural owners and operators to provide adequate housing for their farm employees.

NONPROFIT CASE

The original new town or garden city rationale* called for a fundamentally different institutional form and operational motivation than the one outlined above. The original idea was to have mutual ownership by the town's future residents of the initial new town site through the use of a nonprofit or

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*See Ebenezer Howard, Tomorrow: The Path to Real Reform; published in 1898 and reissued in 1902 as Garden Cities of Tomorrow.

limited dividend entity acting in trust for the future residents until development was completed. The underlying principle of this institutional form was to insure community retention of the land value increments brought on by the building of a new town and the opening of agricultural production on the raw land site. Residential properties were to be passed on to the residents at cost. Commercial and industrial sectors were still to pay the same rents as in the private profit case. However, the new town citizenry as a cooperative group were, through their ownership of the commercial and industrial land and buildings, also to receive the net revenues accruing from these properties. Farms were to be in family or cooperative ownership.

The net commercial and industrial revenues, if directly distributed to new town residents as "dividends," have the effect of lowering the resident's housing costs below the true costs incurred in the housing sector alone. In effect, nonprofit development and ownership reduces citizen housing costs in two ways. First, the residents are given the residential sector at cost and second, the housing sector is subsidized to a level below cost through community distribution of commercial and industrial profits. In addition, agricultural profits are retained by the resident farm owners or by the community through the farm cooperative.

RECOMMENDATION

Thus, the heart of the strategy we recommend for the economic and social development of the west side of the San Joaquin Valley is the creation of an agriculturally based rural new town undertaken by a nonprofit CDC, charitable trust, cooperative, or local governmental entity with ownership and control resting ultimately with the local community. In this way the increased land values and profits of agricultural and urban development can be retained for the benefit of the local community.

SIGNIFICANCE OF BENEFITS

However, would the economic benefits indicated above be significant? Studies which we have done of new towns similar to those suggested in this paper verified Ebenezer Howard's hypothesis that the land value increment brought on by urbanization, if kept for community use, would be large enough to pay for the capital costs of all public facilities.* Further-

*These studies are contained in the following joint Master of City Planning theses: New Town Development: Financial Aspects, by Peter L. Bass, and New Town Development: Costs, by Edward M. Kirshner (Berkeley: University of California, 1971).

more, if the agricultural land value increment were added, a significant excess of funds would exist even after all public facilities were provided, in effect, free of charge to the residents. Put another way, if the savings were passed on to the residents as a reduction in the capital costs each houshold must carry, the required $40,000 in capital costs estimated previously in this paper might be lowered by between 25% and 40% to some $25,000 to $30,000 per household.

OTHER AREAS SUITABLE FOR MUTUAL AND RESIDENT OWNERSHIP

Mutual ownership of real estate was not the only way suggested by the original proponents of the new town or garden city concept to reduce costs to residents. Community ownership of electric and other utilities as well as cooperative and resident ownership of selected wholesale, retail, industrial, and agricultural operations was also advocated.

Each of these sectors is more or less suitable for different local ownership forms. A community trust or charitable trust might be most applicable to land ownership. Cooperative ownership might be the best format for the housing sector. Community ownership or town ownership might work best for the commercial buildings, which could then be leased to small local businesses. In the agricultural sector, family farmers could share equipment through the use of community or cooperative ownership arrangements, and so on.

(1) Utilities

The local electric, gas, telephone and cable television utilities, which are usually under private corporate ownership, are probably the most natural operating ventures for community ownership in the rural new town. They must be constructed along with the usual public infrastructure of roads, sewers, water lines, etc. The developer must at least help to plan and coordinate their construction. In some cases, the developer must also finance or front the money for their installation. And most importantly, these utilities are "natural monopolies" with a history of being under cooperative, municipal or other local public ownership arrangements aside from private corporate ownership.

Under profit oriented development net revenues flow either to the developer or outside private utility corporations and not to the residents. Consequently, utility profits are an added cost to the local community. However, in the nonprofit case (since utilities can be under some form of mutual ownership) any net revenues could accrue to the community and thus be used to lower capital costs per household by as much as 10%.

(2) Commercial and Industrial Operations

With very rare exceptions, commercial and industrial enterprises in America are owned and operated by private profit oriented companies or corporations. However, there are precedents for community or cooperative ownership of certain of these enterprises in new towns in this country as well as in England and Europe. Some examples can be found in the retail commercial consumers cooperative of Greenbelt, Maryland, the original community trust owned department store (among other cooperative stores) of Welwyn Garden City in England, and the cooperatively owned construction companies that produce much of the housing for Swedish new towns. Of course, the economic viability of cooperative ownership and operation of commercial and industrial enterprises outside of new towns has been demonstrated in many countries, including the U.S., for many decades.

As with private utilities in the profit case, net revenues from commercial and industrial enterprise ownership are a cost to the resident. In the nonprofit case, however, net revenues realized from those enterprises assumed under cooperative or community ownership can be used to further decrease required capital costs per household.

Those enterprises which could most likely be operated under community or cooperative ownership might include a majority of commercial ventures (retail shops and services, equipment franchises, professional and office services, related wholesale suppliers, and so forth) and a minority of the industrial ventures (food processing, manufacturing and warehousing firms, research and other technical-professional offices, and so on). In addition, a significant number of the remaining enterprises could be owned by individual local residents. The reduction in capital costs per household which might be expected from mutual and local ownership and operation of these enterprises might be as great as that realized from community ownership of the urbanized portion of the new town land, or some 15% to 25%.

(3) Agricultural Operations

Except as an interim land usé prior to development, agricultural operations are ignored in all profit motivated American new towns even in agriculturally productive urban fringe and rural areas. In contrast, many of the publicly sponsored and owned English new towns maintain an agricultural sector as an essential and economically productive part of their "green belt," or open space programs. Furthermore, farms and related agricultural functions in general have a fairly extensive history of cooperative as well as resident family ownership.

It is thus not unreasonable to assume that the rural expanded new town could establish a fairly large agricultural base under cooperative or community ownership along with family farms given our assumed favorable environmental and locational factors and an experienced agricultural work force.

As mentioned before, any net revenues from the agricultural sectors under profit motivated corporate ownership would not remain to benefit the local community. However, these revenues could be retained to help reduce capital costs per household. The extent of these potential savings from various forms of local ownership and operation of the agricultural sector were previously estimated in the agricultural land value increment and profits from commercial and industrial enterprises.

CONCLUSION

In sum, the purpose of extensive local and mutual ownership is to internalize increases in land value for the community's benefit, and to retain as much of the accruing profits as possible that would normally leave the community and go to absentee owners and corporations. The retention of community profits would in effect be the primary form of long term internal financing for the rural new town, and might be great enough to cut the capital costs per household by more than half.

F I N A N C I N G T H E R U R A L N E W T O W N

INTRODUCTION

In this section we outline many different methods for financing the rural new town. Some of them are obviously more beneficial than others, while some are more realistic than others. But they all tend to depend on the specific circumstances of the rural new town, and on what the money is going to be used for. What might work well for a small parcel of agricultural land is not necessarily what works best for a large parcel, or for housing and commercial development. Thus, important initial questions include: Is the money for short or long term loans? Is it for "front-end" money for land and development? Is it for equipment purchases, housing, commercial shops, or utilities? Each one of these items can have a different preferred form of financing.

In addition, each of the sources of borrowed money we discuss should be viewed in relation to their particular financial terms -- the interest rate, length of loan, and payment schedule. Especially at the beginning of development, financial terms can be more important than the ultimate cost. They change the annual loan payments significantly, and thus affect the total money available annually to pay for new town development.

Another critical factor to consider is the use of guarantees or collateral to back up particular loans. These not only affect the loan terms, but can also determine whether or not money can be borrowed at all.

CONVENTIONAL LOANS

The first source of financing is private, conventional loans from banks, savings and loans, and insurance companies. In both the agricultural and urban sectors, commercial credit would be the source for loans needed for land purchase, equipment purchase, or operating expenses.

(1) Land and Real Estate

In the case of land, the loans would be of a mortgage type, usually requiring at least 30% down payment. The interest rate at present would be over 10%, while the length of the loan would be anywhere from 15 to 30 years. These loans are usually only available for proven productive agricultural land, and most often restricted to experienced farm owners and operators. At the beginning, the rural new town might have considerable difficulty obtaining commercial credit. But as the venture grows, commercial credit will become an accessible source of money for expansion.

Banks and savings and loans are the primary sources of capital for real estate, whether for urban housing or shops, or for agricultural land. Even if the venture qualified as a safe investment, commercial creditors would require at least 20% down payment for housing and 30% for commercial development. At present, the venture would be very fortunate to obtain 10% interest rates, and a 30 year mortgage. In addition, because of the present economic situation developers would probably have to give the bank, savings and loan, or insurance company an ownership position in any income-producing property and possibly in the over-all new town venture.

(2) Equipment and Operations

Commercial credit is also a source for equipment and "working capital" or operating loans for both agriculture and business. The terms vary, but tend toward much higher interest rates and much shorter pay back time than for real estate loans.

(3) Guarantees

If project land is to be purchased at market prices, it would be very difficult to arrange commercial credit for any large community venture. Very sound guarantees would have to be provided before any conventional lenders would even consider the application. The types and sources of guarantees are outlined in greater detail later in this section.

(4) Experience of Conventional New Town Developers

Many of the conventional urban new towns started on land already owned by the developer or sponsor. The land did not have to be financed. It was used instead as the collateral for the development loans. Even then, much of the development money was not from loans but came out of the pocket of the developer.

For example, the new town of Reston, Virginia began with virtually no loans. The owner-developer provided most of the initial money for land purchase, and for the front-end development costs. For additional funds, Gulf Oil Company was brought in as a partner -- not simply as a lender.

Columbia, Maryland is probably the best example of a new town where the sponsor and developer provided very little money themselves. The Rouse Company initially put in about $1 million. But the land cost $25 million, and initial development for the 15,000 acres required another $25 million. Rouse had to raise $50 million just to get the project started. Commercial lenders would not just provide loans. However, the needed money was obtained from a bank, an insurance company, and a retirement fund. But in return they secured over 50% ownership of the project, plus guaranteed, or contracted, interest on the money they provided. In effect, the lenders gave a loan but took in return a majority ownership interest in the project.

Columbia, Maryland was ideally located for an urban growth project. When the lenders looked at the venture, they saw it as a highly attractive investment because the market virtually guaranteed growth in the area. It was just a matter of who controlled and who concentrated the growth. The agricultural land in the area was very low valued compared to its potential as suburban developed land. In addition, Rouse was highly experienced and highly trusted by the lenders. He was also a mortgage banker who had worked previously with the three lending institutions on other large projects. Yet these lenders would not extend loans without an ownership position in the project. The financial arrangements secured for Columbia, Maryland are about the best private terms ever made for new town development in the United States. Even so, Rouse had to accept a minority ownership interest in the project to obtain initial and subsequent financing.

(5) Implications for the West Side

There is virtually no comparison between the high growth area of Columbia, Maryland and the west side of the San Joaquin Valley. However, there is one circumstance that could make the West Side very attractive for conventional lenders. That would be enforcement of the 160-acre limitation, forcing land sales at pre-water prices. Since the land then would be under-valued for its productive use, the chances are that 100% financing would be available from conventional sources.

Even at 100% commercial financing, loans would still be at the terms we initially mentioned -- high interest rates and possible demands for an ownership position. Nonetheless, the family and cooperative farm projects aided by the West Side Planning Group and others have shown that high interest rates are not an insurmountable barrier to productive and successful resident farm ownership and operation. However, the effects on urban development would be more adverse.

PENSION FUNDS

Union or public agency pension funds are another source of money for development. These funds can generally be used for land, real estate or housing according to state and federal law. The Carpenter's Union of Northern California, for example, might have an interest in new town development. It has about $150 million in its pension fund, which yields only 5% to 6% annually. The Fresno County Employees' retirement fund has about $[illegible]0 million and receives a similar low average yield. The rural new town might offer higher interest rates but still pay less than on money borrowed from commercial sources.

Pension funds are generally permitted to make long term mortgage loans on real estate. Of course, the new town development would have to be very scarce -- either as an established stable venture, or as one with substantial guarantees. Securing a risk loan from a pension fund would be extremely difficult, if not illegal.

OTHER PRIVATE CAPITAL SOURCES

Taking over or "assuming" the existing mortgage of the present land owner, or having the present owner make the loan or "take back" the mortgage, are two rarer cases of private capital investment. Both of these options are very unlikely for a large scale development. However, they are fairly common for small scale agricultural land transactions. These arrangements will require good relationships between owners. Obviously if the new owner is forcing a corporate landowner to sell at pre-water prices, being able to assume the previous mortgage or having the present owner make a loan to the new owner are not likely. These options may be open, however, for land purchases at market prices.

The terms of the take-back loan from the present owner are usually negotiable, often at lower interest rates than are available from an institutional lender. If the project is fortunate enough to take over an existing mortgage, generally it will be an older one which will have a lower interest rate than the current market. However, this situation would be rare. The bank or insurance company would likely recall the mortgage upon change of ownership. The mortgage would then be reissued at the prevailing interest rate and terms.

Nevertheless, a situation could occur on the West Side that would open the way for a take-back mortgage for the rural new town development. If it begins to appear that the 160-acre limitation will be enforced, and if the trend of corporations moving away from agricultural production continues, there is a chance that one or more of the large corporate owners in the San Joaquin would make a take-back mortgage arrangement with a large community group that would continue farm production. This might be done at a negotiated price that would be higher than the present owners estimate they could get if the acreage limitation were enforced, but lower than market price for the land. Of course, the present corporate owners would maintain an interest in the rural new town project as its mortgagors.

LEASING

The different forms of leasing arrangements are a means of financing the land portion of new town development. Most of these arrangements involve straight leasing of the land for rent. The terms vary, from yearly or five-year leases to escalator or overage leases that tie rent to a percentage of gross revenues to long-term leaseholds of 20 years, 50 years or 99 years. In the early years of the venture when few sources of debt or equity capital are available, leasing arrangements can make a great deal of sense. As the project becomes productive, it gains the ability to borrow money or accumulate funds to buy land. In some cases, leasing can be on an "option-to-buy" or "purchase contract" basis where payments are credited to purchase.

Leasing arrangements, however, are definitely not a good idea for larger developments over the long run. They are especially bad in terms of potential urban development areas.

- Virtually all leasing arrangements allow any increased land value to go to the land owner. The whole idea of cooperative, trust or resident ownership is thereby defeated -- the land value increment leaves the community instead of being retained by it. How much is lost varies according to the lease arrangement; escalator or overage leases are probably the worst arrangement.

If leasing has to be used in the early stages of development, an interesting option is the "subordinated lease." In this case, the renter can use the land as collateral for improvement loans. Surprisingly, this is a fairly common arrangement in the Eastern states, especially in agricultural areas in the path of urban growth. Because of the trend toward suburban development of these lands, the farmers are not adverse to subordinated lease agreements. The practice is still uncommon, however, on the West Coast.

Subordinated lease agreements are more likely for a small development than for a larger one. They are also more likely with additional guarantees to the land owner, essentially providing the lender with dual collateral. The benefits of the agreement are substantial. Subordinated leases enable the renter to obtain up to 100% commercial financing for housing, shops or irrigation on agricultural land.

Today it is possible to make lease arrangements for rents that are lower than would be the loan payments if the land were refinanced at present inflated interest rates. However, on the average, the developer should expect the land rent to be at least equal to the financing cost of land purchases.

While renting may be necessary at the beginning of a project, it should be avoided if at all possible for the reasons we have mentioned. If, however, the land is owned by a nonprofit community land trust* rather than an absentee corporation, lease arrangements are beneficial to both those who live on the land and the longer term community interests. They are a way to assure that increased land value is retained by the community.

STOCKS AND BONDS

Stocks and bonds are often issued by development corporations to raise money. The nonprofit rural new town development corporation might act like a conventional corporation, issuing

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*See International Independence Institute, The Community Land Trust -- A Guide to a New Model for Land Tenure in America, Center for Community Economic Development, Cambridge, Massachusetts, 1972.

stocks for "equity" money and bonds for borrowed money.

(1) Comparison of Stock and Bond Financing

There is a substantial difference between the benefits of stock financing and bond financing. Stocks give the purchaser an ownership interest in the venture to be financed. In addition, a stock issue usually offers dividends. This in effect would be an interest payment on the equity money the investor has in the venture. The major benefit of stock sales is that the issuer does not have to pay back the money raised. All the stockholder receives is an ownership interest and possible dividends on the investment. The stockholder normally has voting rights in the corporation.

Bonds do not provide any direct ownership rights to the purchaser. Bondholders do have call, however, on the assets of the corporation, which could, for example, be the land that the bond proceeds are being used to finance. But the bond itself is not an ownership instrument. Bondholders can only demand interest payments and payback of their investment. Usually the bonds are issued in series form, in effect approximating a conventional mortgage. The bondholder has no voting rights in the corporation.

(2) Applicability to Community Corporation

A community corporation might take the option of selling stock on the open securities market to raise money. However, there are many drawbacks to this method. Unless the community corporation maintained a majority share of the stock, outside stockholders would act as absentee owners. Dividends and profits, which would have to be guaranteed just to sell the stock, would probably be removed from the community and control might pass out of the community's hands. There are also legal restrictions and federal regulations on the sale of stock that would complicate the effort to raise money. In addition, there would be little chance of selling stock in such a speculative venture as a rural new town development in the San Joaquin Valley. Solid private or governmental guarantees could alter this, such as those provided by the U.S. Department of Housing and Urban Development's New Communities Act. Without these guarantees, however, stocks would be difficult to sell and bonds would require a very high interest rate.

(3) Charitable Stocks and Bonds

An alternative to this method is the sale of stocks and bonds to socially motivated institutions and individuals. The Southern Cooperative Development Fund in Louisiana and New Communities, Inc., in Georgia, have successfully raised money by these private sales. In the Louisiana case, almost one million dollars has been raised for rural cooperative organizations through the sale of stocks and bonds. Most of this has involved bonds with interest rates ranging between 5% and 7% and payback periods up to 20 years. They were sold mostly in large blocks to charitable organizatons and have about a one-third cash fund provided by OEO guaranteeing them.

Similarly, the Georgia case entailed the sale of $500,000 of 4.5% to 6% ten year bonds to a few socially oriented groups. The bonds were issued with some amount of underlying guarantees. These methods, however, are really a form of charity unrelated to commercially sold securities.

TAX SHELTERS

Tax shelter financing is another possible way of raising private capital at the initial stage of project development. This method usually takes the form of a limited partnership with investors who are looking for a tax break. The investor's money would then help the project get loans from banks or other institutions.

Under present federal tax law, certain business expenses and losses can be deducted from a taxpayer's overall income, in effect "sheltering" a portion of that income. If the expenses and losses represent cash out of pocket for the taxpayer, they cannot be considered of any benefit. However, several costs incurred during development of a specific project (such as a farm, factory, department store, apartment building, cable television system, etc.) are tax deductible even though they do not represent cash out of pocket. These include interest on development loans, property taxes, certain fees, etc., which are paid out of borrowed money and later carried in longer term financing. After completion of the specific project, additional non-cash losses are allowed on an annual basis for project depreciation (estimated loss of project value not including land portion). This is usually at a rate much greater than real depreciation. Since the above deductions are not real cash losses but only "paper" losses, they shelter and render tax exempt real income from the project or from outside sources of the project owners.

(1) New Town and Agricultural Development

As should be apparent, new town ventures and agricultural development offer a great many opportunities for generating tax shelter for the profit motivated investor in real estate, equipment and other capital investments. In fact, these tax considerations are one of the major financial concerns of conventional new town developers and corporate farmers as well as any subsequent profit oriented owners of the income properties and enterprises.

(2) Nonprofit Development and Ownership

Nonprofit development and ownership would seem at first to lose these indirect federal subsidies which are available in the profit case unless the tax shelter benefits can somehow be transferred to people with taxable income. This can be done through a partnership arrangement between the nonprofit developer and profit oriented investors in need of tax shelter. The investors essentially buy income tax deductions from the developer who does not need these deductions.*

(3) Rural New Town Development

Any equity capital brought into the rural new town from these outside investors would benefit the residents and reduce their costs. For this reason, the nonprofit new town developer should investigate placing as much investment under the tax shelter arrangement as possible. Virtually all capital investment in real estate and agricultural development (with the exception of the original cost of the raw land for the site), in building construction, equipment, fixtures, and so on, whether of a conventionally private, quasi-public or public nature, are capable of producing saleable tax losses. In effect, the entire rural new town venture might be financed as a single real estate project and business enterprise so that streets, sewers, parks, community buildings, police cars, etc., are all owned as part of a private but nonprofit (actually limited dividend) new town partnership. Alternately, the tax shelter benefits might be sold on a project-by-project basis. Streets, parks and community buildings could be prorated into individual housing developments; the sewer and water systems could be set up as separate limited partnership utilities or similarly prorated into individual building projects; police and fire services might be contracted out to a Community Development Corporation which was in partnership with private investors, and so forth.

(4) Magnitude

The amount of front-end money or initial equity which might be

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*For a much more detailed explanation of this arrangement as it relates to subsidized apartment projects, see Housing Development, A Tool for Community Economic Development in Low-Income Areas, by James L. Morey and Mel Epstein, Center for Community Economic Development, Cambridge, Massachusetts, October, 1971.

raised from outside investors in this way can vary greatly with the type of project and risk involved. In past years it was not uncommon for developers to net over 10% of total project costs from tax shelter sales. Today, however, tax shelter financing has become much less attractive both for urban real estate and agriculture. Recent legislation has restricted some tax shelter investment, and further congressional and state action is pending. Investors have become wary, and the arrangement is becoming less frequent.

The current trend in agricultural tax shelter financing is for partners to demand real profits in addition to the tax savings. Once investors begin looking at the arrangement in these terms, the partnership becomes costly to the new community through loss of profits.

(5) Guarantees

Generally the large, secure projects with substantial experience and guarantees are most able to attract limited partners. These financial guarantees are becoming more and more critical to gaining money from investors. They serve to spread the risk of the project, either among investors or among those with some less direct financial stake in the venture.

(6) Usefulness

The main benefit of the tax shelter partnership is to obtain money at a reasonable "interest rate" relative to other sources of funds. Tax regulation requires that a longer term limited partnership pay an annual return on the money brought in -- 6% for housing, and about that for other investments. This means that the money received is in effect a loan at 6% interest. When the conventional rate for borrowed funds is 10%, this is a very lucrative way of raising money.

However, if capital is also available through charitable or public sources at 6% interest, a limited partnership may not be needed. There would be no purpose in sharing ownership of the project unless additional money was required.

Limited partnerships are useful, then, when the venture can't get 100% financing, when the cost of money is more than 6%, or if cash guarantees are required to obtain additional loans. Combinations of these factors would have to be considered for each case. For instance, if the project could get 100% financing at 10% interest, it would be better to take only 90% financing at 10% interest, and raise 10% of the money at the lower 6% interest through a limited partnership arrangement.

CHARITABLE AND FOUNDATION SOURCES

There are three basic forms of assistance available from charitable and foundation sources: grants, loans, and loan guarantees.

(1) Grants

Grants are the best source of money, as there is no need to either repay them or pay interest on them. Free money is the best money. Grants can serve as the needed initial money for the new community. They could then be used to leverage other money into the project. Church, charitable or foundation grants, however, are seldom very large. They are primarily useful to pay for planning, and for some of the front-end money necessary to get the project under way.

Grants could be used by the rural new town developer for planning, start-up costs, and some land options. The project would have to qualify as a receiver of grants for tax purposes, usually by serving a needy constituency. The nonprofit private or public developer of the rural new town should have no problem meeting this requirement.

(2) Charitable Loans

Charitable loans are a second possible funding source. Foundations and charities are now permitted to make risk loans to needy groups at lower than market interest rates. This is a relatively recent development that has allowed foundations to test alternative funding methods.

There are three basic ways that charitable loans could come to the project. The first is the direct promisory loan, where the project guarantees return of the money over a specific term. The second method is the purchase of stocks or bonds in the project as outlined earlier in this section. The third form is the guaranteeing of other loans -- the church or charitable foundation underwrites either a conventional loan or another charitable loan.

(3) An Example

As mentioned earlier, New Communities, Inc., in Georgia is a working example of charitable loan financing for a rural new community and cooperative agriculture development. The project has used many different financing methods through the years, including conventional loans, grants, and charitable financing. It recently issued $500,000 in bonds for sale to charitable foundations and churches. They were sold in large blocks of $50,000 each in order to avoid problems with the Security and Exchange Commission regulations. The bonds were sold as a series and were offered at from 4.5% to 6% interest on ten year level payment terms. Given today's money market, the terms are quite favorable for the project. These bonds also have some guarantees behind them.

(4) Sources

Bob Swan of the International Independence Institute worked with New Communities, Inc. to locate the most favorable churches for the sale of these bonds. We have not acquired his list, but we do know that the best foundations to approach are Ford, the various Rockefeller funds, and the Field Foundation (New York). They have helped community economic development in the past and are now specifically interested in rural development and economic development in Chicano communities throughout the country.

FEDERAL PROGRAMS

Federal programs are one of the largest potential sources of money, but one of the least reliable. There are four broad areas of federal development funds -- federal incomes policy, grants, loans, and guarantees.

(1) Federal Incomes Policy

A federal incomes policy could have a very great effect on money available for community economic development. The possibility of a guaranteed annual income would have direct ramifications for settlement patterns in rural areas, especially in the more attractive regions such as California's Central Valley. An incomes policy by the federal government could shift population toward the countryside and act as a support for any movement back to the land. People with guaranteed incomes would have the economic choice of risking return to the land, with or without an enforced land reform program. A federal incomes policy would obviously be even more effective for the purposes of the project if it were augmented by enforcement of the 160-acre limitation.

There definitely will be a federal incomes policy within the intermediate future. It is hard to estimate its magnitude or whether it will come within the next two years or the next 15 years, but at some time within the planning range of the rural new town project, the U.S. Congress will enact such a policy.

(2) Grants

Federal grants for rural new town development are simply not presently available. There are a number of programs that have worked in the past, and some are planned for the future. But as of right now, there are no significant direct grants available for rural or urban development projects. The federal government is either withholding money from existing programs or the programs have been discontinued.

Any grant money that might be available is now part of the various revenue sharing programs. In special or general revenue sharing, most of the money is being administered through the local government bodies in the counties or towns. None of this money is likely to be available without very good political contacts at the local level. For the West Side, the only significant money would come through Fresno County, and would require solid contacts with the board of supervisors. If the rural new community later becomes a city, it might qualify directly for revenue sharing funds. There might also be minor amounts of experimental grant money available for the West Side project. But these HUD, HEW and USDA programs are very limited.

(2) Loans

The potential for securing government loans is much greater than for grants. The major federal programs are administered through the Federal Farm Credit system. Federal Credit Banks make capital loans of up to 85% of the appraised value of the land, "appraised value" lying somewhere between the "market value" of the land and the "normal agricultural value" of the land. The federal banks use this standard because of common inflated values of agricultural land due to imminent urbanization.

There are three basic credit institutions in the federal system: the Federal Land Bank, the Production Credit Bank, and the Bank for Cooperatives. The Federal Land Bank makes major loans for five to 40 year terms at 9% interest, and 9.5% interest on rural housing loans. The Production Credit Bank, or the Federal Intermediate Credit Bank, makes loans for one to seven year terms at a base discount rate of 9% interest. The Bank for Cooperatives generally makes smaller loans at 9% short term (one year), and 9.5% long term.*

All Farm Credit Banks are cooperatively owned and operated, although the various boards of directors are usually controlled by the country's largest marketing cooperatives. Loans from all farm credit banks require that 5% of the capital be held back as "stock" in the Farm Credit Association. The borrower

*Figures cited are as of February 1, 1975.

then "buys back" this amount when the loan is paid off. Nearly 30% of all farm loans in the West Coast states are made by the Farm Credit Banks.

While FCB credit is better than that offered by commercial banks, the terms are not substantially lower. The farm credit system is also fiscally and politically conservative. The chances that FCB officers would finance a highly innovative venture are not great. Especially in the early stages of development, a rural new town probably will not be able to secure FCB loans. If credit is available at all, it would be extended only after the land, equipment and marketing coops had proven their sound financial condition.

On a larger scale, the Farm Credit System has a low potential for financing an expanded rural new town. FCB institutions do not see their role as funding such large enterprises. This is not to say, however, that the rural new town project should not pursue FCB credit for individual farm and coop financing.

As for the urban sector of the rural new community, there are basically no funds available other than HUD revenue sh[illegible] There is, however, the possibility of using a new progr[illegible] in the housing sector. This is the Section 8 provision of the 1974 Housing Act. It replaces the old Section 23 and Section 236 Programs, providing rent supplements for low to moderate income families and individuals. The formula is basically a very good one. The federal government will pay the difference between whatever the market rent is, either for existing or new construction, and 15% to 25% of the family's income -- provided the family earns below 80% of the median income of the area. The law in effect says that people should have decent housing for no more than a certain percentage of their annual incomes. There is also a chance that Section 8 money can be used indirectly for community services and facilities in conjunction with housing construction. The program will be administered through both local and state agencies.

Another potential source of government loans is the Small Business Administration. These loans are usually provided for small individual business enterprises, and the terms are generally 5.5% for 25 years. There is some possibility of grouping these loans among small enterprises so they can be used in conjunction with a larger program, such as a shopping center or larger cooperative venture.

Other agencies of the federal government that have to do with economic development should be checked further for loan possibilities.

The National Housing and Economic Development Law Project in

Berkeley is putting together an outline index of all available federal programs that can be used for agricultural cooperatives. The work is being done for Mike Smith, Director of the Economic Development section of the Project. The listing should be obtained as soon as it is completed. However, it will probably have more applicability to present farm coop programs than the long term possibilities for federal funding of the rural new town.

Other outlines of available programs should be obtained from HUD for the urban sector. The U.S. Department of Agriculture also publishes a listing of ~~funding~~ programs titled, "Land Use Planning Assistance," February, 1974. This booklet lists available federal loans for the following purposes:

Farm Ownership	Rural Housing
Operations	Individual Home Ownership
Soil and Water Conservation	Rental and Cooperative Housing
Recreation	Homesite Development
Grazing	Conditional Commitments to Builders
Indian Land Acquisition	Community Services
Irrigation and Drainage	Central Water and Waste Disposal
Farm Emergencies	

(4) Guarantees

The final kind of federal assistance for the rural new town is guarantees. A major potential guarantor is the Opportunity Funding Corporation, primarily for individual enterprises. We understand that the OFC has previously arranged guarantees for agricultural-related enterprises on the West Side.

HUD's New Communities Act is probably the most applicable source for financial guarantees for the rural new town. Title VII of the Housing Act of 1970 stipulates that guarantees and other aids may be provided for "free-standing new communities which are economically feasible and will assist in equalizing population growth." The federal guarantees provided by the act can apply to public agencies and cover up to 100% of the value of real property acquired for the new town, plus 100% of the development cost. The percentages for private developers are lower.

(5) Other New Community Assistance

There are many other forms of assistance outlined in the New Communities Act. Among them are interest grants, interest loans, special planning grants and loans, public service grants, technical aid grants, and demonstration project grants.

Supplementary grants are also included under the New Communities Act from other federal agencies. The Departments of Agriculture, Commerce, HEW, HUD, Interior, Transportation, and the Environmental Protection Agency have had programs which can be used in relation to new community development.

Most of these programs, however, either have not been funded or have been absorbed by the revenue sharing program. Any potential rural new town developer intending to pursue a HUD New Communities guarantee should, of course, recheck all of these possible grant sources to see which if any are still available.

The Farmers Home Administration has a related program of guarantees for land purchase and development of new communities similar to those under the HUD New Communities Act. These should also be investigated further.

STATE AND LOCAL GOVERNMENT FUNDS

There are no existing state and local funding programs for new community development. There are no grant programs, loan programs, or guarantee programs for a rural new town. Various state programs exist through the agricultural colleges that could aid in farm coop development, but there are no programs for financing larger ventures.

However, state and local governments do have available financing techniques that might prove very useful.

(1) State

At the state level, a Home Finance Agency has recently been created. The agency will sell lower interest, tax-exempt bonds to finance construction of low and moderate income housing. This construction could be part of a rural new town development. The agency funds may also be available for related community services and facilities. In addition, state financing could be combined with state administered Section 8 Rent Supplement funds.

(2) Local

On the local level, the problem is gaining access to financing techniques that have not been available to community groups in the past. The basic goal is to use tax-exempt bonds and local taxing power, whether at the county, city, or special district level.

(3) Local Tax Exempt Bonds -- General

There are many technical complications with local tax exempt bonds. The processes of bond issuance, and what the money can be used for, vary greatly with the governmental forms. This must be looked into in greater detail on the West Side. In the following section we will discuss some of the ways tax exempt bonds can be used for financing, and some of the ways tax policy itself can be used for rural new town development.

Under present federal and state income tax law, bonds issued by local governmental and quasi-public agencies as well as certain nonprofit corporations for public purposes are "tax exempt." That is, the bondholder does not have to pay federal, nor usually state, tax on interest received. Thus, dollar for dollar interest payments from tax exempt bonds are worth more than interest payments from conventional corporate bonds which are not tax exempt. For this reason, tax exempt bonds sell at a lower interest rate than equivalent risk taxable bonds.

Three forms of tax exempt bonds are common in California: general obligation, revenue, and nonprofit corporation.

(4) General Obligation Bonds

Cities, counties, and many types of special districts have the power to issue general obligation bonds. These bonds usually must be approved by two-thirds of the voters before they are issued. All property owners and taxpayers in the bond issuing entity are liable for payment on the bonds. Because of this relative security and their tax exempt nature, they normally sell at interest rates between one-third and one-half lower than taxable corporate bonds.

General obligation bonds may be issued for any municipal improvement. This would include waterworks, sewers, light and power works or plants, buildings for municipal uses, schoolhouses, fire apparatus, street work, and any other works, property or structures necessary or convenient to carry out the objects, purposes, and powers of the public agency. (See Government Code § 43601.)

(5) Revenue Bonds

Revenue bonds can usually be issued without voter approval for revenue producing improvements including: water supply and treatment, refuse disposal, drainage, parking facilities, public transportation, airports, hospitals, and so on. (See Government Code § 54309 - 54309.1.) In other cases, such as parking garages, utilities, housing, and commercial and industrial facilities, a city charter amendment may be required under state law.* A simple majority vote is sufficient for passage.

Since taxes cannot be used to pay off revenue bonds, they generally sell at interest rates .5% to 1.5% above general obligation bonds. Certain guarantees must also be built into the bond issue. These normally include a cash reserve at least equal to one year's debt payment and projected revenues that will produce an annual cash surplus.

(6) Nonprofit Corporation Bonds

Nonprofit corporation bonds are a form of revenue bond. They can generally be issued without voter approval for any function which a sponsoring public agency may undertake. The nonprofit corporation may be established by a single agency or by two or more agencies through a "joint powers agreement." Any project financed in this way may have to revert to public ownership after the loan has been repaid.

While nonprofit corporation bonds are exempt from federal income taxes, they are usually subject to state taxation. For this and other technical reasons, they generally sell at interest rates .5% to 1.5% above normal revenue bonds. However, they still must have the same kinds of guarantees which are required for revenue bonds.

(7) Other Tax Exempt Bonds

There are other types of tax exempt bonds and bond procedures which may be applicable to the rural new town. The most promising would be tax increment bonds which can be issued by redevelopment agencies without an election. This method will be discussed later in this paper.

(8) Tax Exempt Bond Use With Rural New Town Development

For now, the most important points to note about tax exempt bonds are that they might be used for almost any rural new town investment, they will have a below market interest rate, and they usually represent 100% financing. Thus, they may be a way of obtaining indirect government subsidies for the rural new town project.

*Recently approved state legislation in California now authorizes the issuance of revenue bonds by local redevelopment agencies for the financing of new housing without the need for an election. The financing may also include community and commercial facilities related to the housing.

Table E

Tax Exempt Bonds: A Comparison of Types

Attributes	General Obligation	Revenue	Nonprofit Corporation
Source of Repayment	Taxes or Revenue from the Project	Revenue from the Project	
Loan Security	General Fund, Credit of City Lien on Taxable Property	One-Year Debt Reserve, Lien on Project	
Interest Rates	5% - 6.5%	6% - 7.5%	6.5% - 8%
Included in Total Bonded Indebtedness	Yes	No	No
Vote Needed	Yes (Two-Thirds)	Sometimes (Majority for Charter Authorization)	No

This would not be unusual since tax exempt bonds are already used to varying degrees by profit motivated developers primarily for infrastructure costs. The extent of their use by profit or nonprofit new town developers depends on the relationship of the developer to local governmental agencies and the peculiarities of state and local laws.

However, it is reasonable to assume that a nonprofit rural new town, because of its public nature, may be able to obtain a somewhat greater use of tax exempt bonds than could a profit oriented developer. Thus, if the rural new town could be financially structured to represent a fairly safe investment and could, as or through a public agency, arrange tax exempt bond financing for the bulk of its development debt, then the interest rate might be reduced to an average of between 6% and 7.5%. This would represent a significant savings when compared to commercial interest rates which may run over 10% at present.

(9) Guarantees

However, without substantial guarantees or a very large initial money commitment by the developer, it is unlikely that a rural new town venture would be considered even a moderately safe investment, especially during the early years of development. The guarantees might come from a governmental agency with a broader existing tax base than the rural new town itself, for example, the county in which the town is located. This would be similar to the function served by such existing programs as the guarantees available under the New Communities Act or the state guaranteed tax exempt bonds issued by Michigan and several other states. As mentioned earlier, it may also be possible to arrange guarantees from such private outside sources as larger charitable foundations.

(10) Front-End Money

In addition, the great amount of initial money required to start development might be raised from socially oriented union pension funds, religious endowment funds, charitable foundations, and so on. The limited partnership tax shelter arrangement outlined in a previous section might be another possibility. If, in this way, the front-end money problem can be solved, the nonprofit new town would become a more attractive investment for bond purchasers.

OTHER FINANCIAL CONSIDERATIONS

The general economic and financial strategy of retaining revenue flow, profits, and the land increment within the community is in itself a major financing technique. Other ways that money presently leaves the community should also be examined, such as local taxes to the county and special districts. There are methods to internalize these taxes, such as using a tax increment district as outlined in the next section, to help finance development of the rural new town.

(1) Loan Payment Schedules

A major strategy for development financing would be to change the form of financial payments. In all of the debt forms we have discussed, the terms include a level payment schedule. This in effect overcharges the project at the beginning, and undercharges it at the end relative to inflation or dollar income. Since all payments are the same, it is very difficult to make the early payments when the project is development of agricultural land or building a rural new town. It would be much easier if the loan structure were to follow the income pattern. Payments should be low in the beginning, rising over time as the project grows.

(2) Deferred Interest and Index Loans

One such financial method to achieve the above is the deferred interest loan, which requires no payments in the early years. Another is called the index loan. This method typically ties the payment schedule to an economic indicator, such as the cost-of-living index. When the loan is negotiated, inflation is set at zero and the index number is equal to one. At that time a basic payment is calculated which would repay the loan at the low real mortgage rate in a given number of years. By the end of the first year, the index number is increased to reflect inflation. The index number is then applied to the basic payment, and the product is the payment due. The index number is increased with inflation throughout the term of the loan. The index could as well be tied to the increasing income from the rural new town or that of its residents.

FINANCIAL COMBINATIONS AND LEVERAGING

Any number of the financing methods outlined above might be combined. In terms of the rural new town, a basic approach would be to use various financing combinations for greatest "leveraging." This means borrowing as much money as possible with as little of your own funds as possible. For example, one foundation might guarantee a loan from another foundation to the rural new town project with little or no money provided by the project itself.

A somewhat more complex form of leveraging might be the following. Foundation or government money is put up as a guarantee for a loan from some other charitable source. This loan is then deposited in escrow to act as a guarantee for a commercial loan or bond financing. Thus, for each grant dollar many dollars of borrowed money might be raised. For example, if a guarantee must be 20% of the loan, one dollar could be used to set up a five dollar guarantee for a twenty-five dollar loan. If the leveraging were one-to-ten, then one dollar could generate a one hundred dollar loan.

A similar, but even more sophisticated arrangement has been used with bond financing. This method allows for a 100% loan and a large guarantee reserve fund without any initial money from the borrower. For example, if a 20 year loan is needed for some project, the bond purchasers require a 25% cash reserve, and the project has little or no money itself, then the following arrangment might be used. Borrow the money for the reserve from the bond purchasers or another source. Issue the bond series for 25 years instead of 20 years, but collect payments from the project as if it were a 20 year loan. The extra money collected is deposited in a second reserve fund. As this fund grows, the first fund is paid back to the lenders so that the total reserves remain at 25% of the project cost. Assuming tax exempt bond financing, the initial reserve will be totally paid back within 15 years. After this time, the second reserve will continue to grow until it has enough money to pay off all the remaining debt by the end of 20 years.

COMMUNITY/LOCAL GOVERNMENT PARTNERSHIP FOR THE RURAL NEW TOWN

INTRODUCTION

Our basic approach to the development of the rural new town and its surrounding agricultural areas is to define ways in which revenue flows and increased value from urban and farm land can be kept within the community. These include various cooperative, trust, and other local community and resident ownership forms. In order to coordinate and finance the development, however, we propose that the new town itself be regarded as a public or quasi-public entity. The arrangements we outline in this section work toward that end. The basic concept is to establish a community/local government partnership which can use as much governmental power as possible. This strategy should be followed regardless of the specific financing arrangements made for the rural new town.

Among the local government functions we are most interested in are the power to control land use, eminent domain, developing and owning real estate, and providing community services. The most important power that the local government has for new town development is access to money through tax exempt bond financing, taxation, and funds from the state and federal governments. Thus, in any of the development schemes, the goal is to find ways to maximize local public financing for the community's use.

In California, beneficial community/local government partnership arrangements would include use of county powers, creation or expansion of a city government, or the creation or expansion of special districts. Each of these vehicles can bring some sovereignty to a local community and access to some of the financing needed for the rural new town.

Obviously, any of these forms must be seen as part of real world political processes. They will all involve the county politically in one way or another. This will occur directly through the county board of supervisors, or in other ways through the Local Agency Formation Commission.

LOCAL AGENCY FORMATION COMMISSION

The creation or expansion of cities, special districts, and other governmental entities in California requires the approval of the Local Agency Formation Commission (LAFCO). Therefore, no strategy for the creation of new governmental units or the expansion of existing governmental units can be considered, if it will not be approved by LAFCO. In addition to having a great deal of power, LAFCO's have a great deal of discretion in determining whether they will approve a particular proposal.

(1) Purpose

The original purpose of the state legislature in creating LAFCO's was to prevent uncontrolled and irrational proliferation of governmental entities. Under the law, LAFCO's are directed to consider population, economic feasibility, the need for community services, the effect of the proposed action on neighboring governmental entities, and conformity with county plans, as well as other criteria, in deciding whether to approve a particular proposal. As one can imagine, a LAFCO could justify any of its decisions on the basis of one or more of the above criteria. It would be extremely difficult to prove that a LAFCO was not acting in conformance with the law. Therefore, LAFCO decisions are virtually insulated from judicial review, unless a LAFCO fails to follow the necessary procedural steps.

(2) Governance

LAFCO's are generally governed by a five member board. The County Board of Supervisors appoints two members from its own membership. Two members, who must be city officers, are appointed by a city selection committee, which consists of the mayors of each city in the county. The fifth member, from the general public, is appointed by the other four members. Members serve for four year terms which are staggered.

The current members and alternates of the Fresno County LAFCO are included in the following table.

Table E

Membership of Fresno County Local Agency Formation Commission

NAME	REPRESENTATION	TERM ENDING
John Howard	City (mayor of Selma)	May, 1977
James Barsotti	City (councilman, Sanger)	May, 1978
James Casity	County (supervisor)	May, 1978
Arnie Rodriguez	County (supervisor)	May, 1975
Ruth Albright	Public	May, 1976
Paul Wasemiller	City (alternate)	May, 1975
John Danielson	County (alternate)	May, 1977
Anadell Fint	Public (alternate)	Feb, 1978

(3) Political Considerations

If anything is to be done in terms of using local governmental powers on the West Side, it will be essential to have favorable opinions and decisions from the Fresno County LAFCO. We have not found any way around LAFCO for the governmental forms most beneficial for rural new town development. Good relationships and political clout are very important. A potential rural new town developer must also study the likelihood of what the Fresno County LAFCO may approve, a practical consideration that will have a definite effect on any long term strategy.

Our present estimate is that extensive political groundwork is required, since the current LAFCO board would probably not be favorably inclined towards rural new town development on the West Side. Short of changes in the LAFCO legislation, or suits to change the power of LAFCO, the commission will remain the key to any of the longer term strategies for community/local government partnership that are proposed in this paper.

MUNICIPAL INCORPORATION

Although our preliminary studies emphasized special districts and special service areas in conjunction with rural new town development, further research has shown that the most beneficial device for the use of governmental powers is municipal incorporation.[1] While other measures are possible, this is by far the most powerful and flexible method available.

(1) Role of LAFCO

Municipal incorporations, as previously indicated, must be approved by LAFCO. Cities have substantial advantages over other types of formations. Once a city is formed, LAFCO cannot determine whether the city may perform a particular function.[2] Furthermore, cities are eligible for state and federal funds.

At present, no petition for the incorporation of a new city may be circulated until approved by LAFCO. This is what makes political control of the commission so crucial.

Once a city is incorporated, however, the adoption of a charter adds to its powers. This can be done without LAFCO approval. City territory is not subject to LAFCO. The only function of a city that is subject to the commission is annexation. Incorporation, city expansion, new districting, and changing the powers of a district are all subject to LAFCO review. But a city can function within its boundaries without LAFCO approval or interference.

(2) City Type -- General Law and Charter

If a city does not have a charter, it is a general law city. Most larger cities in California, population of 50,000 or more, have charters, while smaller cities are usually general law cities.[3] General law cities are limited in their power to perform particular types of services or activities to those powers specifically granted by state law. An existing city may become chartered without LAFCO approval.

Proposition 2, which passed November 5, 1974, was a California

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[1]The procedures for incorporating a city, adopting a city charter, and annexing inhabited and uninhabited territory are included in the appendix.

[2]However, LAFCO can determine whether a special district may provide a "new or different function or class of service." Gov. Code 54851(d).

[3]However, any city can have a charter and at least one city with under 4,000 people has one.

state constitutional amendment which eliminates the need for state legislative approval of city charters and charter amendments. These matters are now left entirely to the local population.

(3) Superior Power of Charter Cities

Charter cities have broad powers under the California Constitution. In the area of "municipal affairs" they are supreme over the state.[4] In areas of statewide, as well as local, concern, they "may make and enforce all ordinances in respect to municipal affairs, subject only to restrictions and limitations provided in their several charters and in respect to other matters they shall be subject to the general laws."[5] While the courts and the legislature have not set forth broad criteria for determining in what areas cities are supreme and in what areas they are subject to state regulation, it is clear that charter powers provide real advantages. For example, chartered cities do not have to follow certain state provisions when issuing particular types of bonds, nor are they governed by state pension fund laws, and they have greater powers of taxation and local administration.

Article 11, § 7 of the California Constitution grants cities the power to "make and enforce within its limits all local, police, sanitary, and other ordinances and regulations not in conflict with general laws." This grant of power, when combined with the broad grant of power to charter cities, allows charter cities to undertake health, welfare, and economic functions similar to those performed by the federal and state government, so long as they do not conflict with state and/or federal law. For example, a city could undertake private enterprise functions for the general welfare of its citizens. It can condemn, donate, and acquire land, buildings, and businesses for a public purpose. It can provide whatever services would promote the general welfare.

It is possible that most of the above functions could be provided by a general law city. However, the exercise of such powers would always leave the city open to legal attack on the basis that the state law does not provide general law cities the power to undertake the particular function.

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[4] Cal. Const. Art. 11, § 5.

[5] _Ibid_.

(4) Use of Charter City Powers by the Rural New Town

Acting with a charter, city powers should allow the rural new town to aid agricultural and urban development. A city, for instance, could act as the land trust for both the agricultural and urban land. While it might be very difficult to have a private land trust qualify for tax-exempt status, a city automatically has that status as a public agency.

A city could also act as the purchaser, condemner, and financer of the land. The financing could be done at public interest rates. A city might be able to use its financial power in support of agricultural development. It would also be the funnel for bringing in and distributing federal revenue-sharing funds. Some of these funds could be used for rural as well as urban purposes, as part of an overall community development strategy.

Similarly, a city might act as the owner of farm equipment or other capital investments for the surrounding farms and cooperatives. City powers might be used to finance the equipment at public interest rates. The city in effect could operate as an economic development bank both for rural and urban investment. Further study will be needed to determine how far city powers can be expanded, including the security and guarantees required of municipal bond issues and restrictions in the Internal Revenue Code.

At this stage, however, our legal research indicates that city powers can be broadly applied. If investments can be defined as having a definite public purpose, financing should be available through a city's borrowing and taxing powers.

Cities can construct, own and operate utilities -- electric power, telephone, cable tv, gas, water, transportation systems, and so on. This is true despite the common private ownership and operation of these utilities. A city might operate a radio or television station, financed with public money. Housing is also an area within the powers of charter cities. Real estate development, such as commercial and industrial park development, is also a possibility. These are all areas where the city might use its financial powers to aid community economic development.

The normal control of land use -- through zoning, as well as subdivision, building, and housing codes -- is also very important to new town development. However, the emphasis of our proposal is on the strongest land use control mechanism -- direct community ownership of the land.

(5) City Powers in Agricultural Areas

In general, a city can extend its powers into agricultural areas as long as those areas are included within the city limits. However, in some cases city powers might also be extended to areas outside city boundaries.

Another consideration that should be investigated further is whether a city would be subject to the acreage limitation of the Reclamation Act. Since our proposal looks toward development of larger scale land trusts and cooperatives for the rural new town, city ownership of land might well avoid potential problems that our own development strategies might encounter with the acreage limitation. Complicated leasing arrangements might be worked out to avoid the limitation, but it is possible that public agencies are simply not subject to the Reclamation Act provisions. A city could then function as a large scale land trust for the area.

SPECIAL DISTRICTS

An alternative to the formation of new or expanded cities is the formation of special districts. The advantage of such a formation is that it does not entail the responsibilities that go along with municipal incorporation. Furthermore, LAFCO might be more willing to approve the formation of a special district in cases where it will not approve the formation of a city.

(1) Powers

Special districts have the power to perform special functions set forth under California law. And, they have the power to perform the acts necessary to carry out those functions. For example, a district with the power to provide water has the power to purchase water facilities, condemn facilities and land needed for providing water for public use, issue bonds, and levy taxes. The power of districts to issue tax exempt bonds makes their formation essential for the provision of utilities.

(2) Relation to Future Cities

The formation of special districts may also be critical in determining the boundaries of future cities. It is unlikely that a district which has broad governmental powers will be divided up among several cities.

(3) Types of Districts

Several different types of special districts are outlined in the appendix. Each of the district types has unique prerequisites for its formation, administration, and service area. Some district formations may be blocked by owners of half the assessed land value in an area. Some districts are governed by the county rather than by district residents. Landowners govern certain districts, while others are governed by a majority of the registered voters.

The most useful forms for rural new town development are the public utility district, the community service district, and the county service area. These are described in detail in the appendix.

(4) Recommendation

We are not recommending that a rural new town developer move toward use of special districts, even though the Fresno County LAFCO might approve their formation. Despite the fact that these districts can serve many functions, they are simply too limited in terms of the needs of an expanded rural new town. The best strategies remain charter formation and expansion from an existing town like Huron or a new incorporation and charter formation, followed by annexation.

Districts might be used, however, as an interim strategy that essentially would accomplish rural new town development in phases. In this case, the community services district might prove most beneficial for the new town until incorporation becomes possible.

COMMUNITY REDEVELOPMENT LAW

The California Redevelopment Law[6] provides a procedure which can be useful for rural new town development. Under the law, communities[7] may undertake the redevelopment of designated project areas.

(1) Definition

Redevelopment is broadly defined.

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[6]Health and Safety Code Sections 33000 et seq.

[7]"Public bodies," which include cities, counties, districts, or any other subdivision or public body of the state, come under the state act. Health and Safety Code 33003.

"Redevelopment" means the planning, development, replanning, redesign, clearance, reconstruction, or rehabilitation...of all or part of a survey area, and the provision of such residential, commercial, industrial, public, or other structures or spaces as may be appropriate or necessary in the interest of the general welfare, including recreational...facilities. (H. & S. Code § 33020)

(c) The replanning or redesign or original development of underdeveloped areas to which either of the following conditions exist.
(1) The areas are stagnant or improperly utilized....
(2) The areas require replanning and land assembly for reclamation or development in the interest of the general welfare.... (H. & S. Code 33021)

Redevelopment projects may be undertaken in blighted areas. These include areas in which there are unfit or unsafe buildings, faulty planning, depreciated values (inadequate tax receipts, unproductive condition of land).[8] Other sections of the law specifically allow for new community development (H. & S. 33021).

(2) Eminent Domain

A redevelopment agency, like other government agencies, may use the eminent domain process in order to acquire property for a project.

(3) Process

A possible disadvantage of the redevelopment process is that it must conform with cumbersome planning and administrative efforts in order to comply with the state redevelopment law.

(4) Tax Increment Aspects

There are two very important features of the redevelopment law in California that make it extremely valuable for a rural new town development strategy. Redevelopment districts can use tax increment financing. This means that all property tax revenues generated by increases in area property values after adoption of the plan can be used to pay for redevelopment related projects.

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[8]See H. & S. Code 33030 et seq.

The second important aspect of the law is that redevelopment projects may issue tax exempt bonds which are secured in whole or in part by the tax increment revenues. These bonds can be issued without voter approval. Sale of such bonds would permit the agency, or the city council, to borrow against the enhanced value of the district land and new or rehabilitated structures to meet program expenses.

(5) Implications of Tax Increment Powers for the Rural New Town

A new community, built new or from an expanded town, can be defined as a redevelopment project which then would have all redevelopment powers. If an existing city defined itself in this manner, the procedure would not be subject to LAFCO approval. The local city council would have control of the redevelopment process.

The major benefit of this device is the internalization of revenue flows, specifically taxation. Since tax increment financing would retain the taxes from increased property values within the rural new town, property taxes which would go normally to Fresno County and to the Westlands Water District would be retained for local use.

Thus, making the rural new town a tax increment redevelopment district is critically important to our overall proposal for the West Side. Not only could the project internalize increased land values and development profits, but it could also retain all property taxes on the increased land values and new development.

OUTLINING THE ECONOMICS OF THE RURAL NEW TOWN

INTRODUCTION

Where do all these financing and partnership arrangements lead us? Assuming good political relations with the county board of supervisors and LAFCO, and a generally stable economic condition in the San Joaquin Valley, we will project in this section the economics of the rural new town on the West Side. This projection will not include either the early agricultural efforts of such organizations as the West Side Planning Group or the later regional development of the entire area. We will focus our outline on some of the main economic features of a mature rural new town on the West Side some 15 to 20 years hence.

BASIC ATTRIBUTES

As described earlier, the rural new town will develop through expansion from Huron, the most likely base for growth. Development will include the agricultural areas surrounding the town. The basic attributes of the town are summarized in Tables B and C (pages 21 and 22).

BASIC ASSUMPTIONS

Our assumption is that very early, Huron will become a charter city to maximize the local powers essential for new town development. We also assume that there will be good political relations with LAFCO and the county so that Huron will be able to annex surrounding territory. In addition, we assume that financing for land purchase and development will be obtained using tax exempt bonds. Most critical of all, we assume that political control will be gained through the Huron city council, since secure and long term political control of the city government is absolutely essential for the rural new town development process to work.

OWNERSHIP AND CONTROL

We anticipate the maximum of community, cooperative, and resident ownership forms throughout the rural new town. This includes the land, improvements on the land, and real estate including cooperative housing, and commercial and industrial buildings. It also includes equipment cooperatives, marketing cooperatives, and other agricultural related operations. We expect that a fair percentage of the productive and service enterprises will be mutually and locally owned such as retail and wholesale trade, light industry, construction, and group professional services including medical and legal. Maximum control of utilities and public services will include community owned electric power, cable television, telephone, gas, water, and transportation, as well as cooperative radio, television, and newspaper ventures. These ownership forms are intended to retain the increased land values and profits that would otherwise leave the community and to maintain community control of essential resources and services.

LOCAL ECONOMY

Basically, the rural new town will have "mirrors" placed around its local economy. These economic mirrors will allow capital from outside to reach the town, but will reflect profits and land value increments back into the community. In this way, the economic and social well-being of the residents will be increased.

LAND AND LAND REFORM ASSUMPTIONS

We also assume that some limited land reform will occur in conjunction with the rural new town development. This will not apply to the entire West Side. However, some of the land for the town will be secured at pre-water prices. This will have to be achieved either through partial enforcement of the 160-acre limitation, or through negotiation with the present land owners. We assume, then, that part of the land will be bought at between one-third and one-half of current market value, some at market value, and that essential property and development rights in the present town of Huron will be purchased.

FINANCIAL ASSUMPTIONS

We assume sound and beneficial financing arrangements will be obtained but with few federal, state or charitable grants. Instead, outside guarantees will permit primarily local financing. These will include new communities guarantees either from HUD or the Farmers Home Administration, or other guarantees from church and charitable sources. With secure financing, relatively lower interest rate bonds will be used for development. As much of the project as possible will be financed by local government bonds. This will permit financing at 6% to 7.5%, instead of conventional interest rates of 10% and above. Virtually the entire project -- land, real estate, equipment, utilities, and housing -- will be financed at public interest rates.

GOVERNMENTAL FORM

We assume the most beneficial government form -- a combined charter city and tax increment district -- for the entire expanded new town specifically including the agricultural areas. The complete rural new town will be a community redevelopment project. Since the district will have the same boundaries as the city, the local community through its city council will have complete control of planning and development.

PROPERTY TAX CONSIDERATIONS

The assumed use of redevelopment law will create another set of economic mirrors; in this case, around the rural new town's incremental property taxes. The residents of the town will pay almost no property tax that will go outside of the local economy; little will go to the county, to the Westlands Water District, or to the school district. The retained tax money will be used for land purchases and land development. It will also be used for the town's utilities and infrastructure of roads, pipelines, sewers, power lines, and communications as well as parks, town hall, and other public and community buildings and facilities.

The county will probably not be happy with this arrangement. However, it will have to continue to provide the rural new town the same range of services that it provides to other cities in the county. Similarly, the Water District will continue to serve the town. But the town, of course, will not receive any special favors from these agencies.

SCHOOL DISTRICT FINANCING

At first the school district will seem to present a problem since this is where 50% of property tax money traditionally goes. Bringing new families to the land will put an added burden on the school system while denying it tax revenue from the new population. However, a unique situation will exist on the West Side, since the school district includes a much broader tax base than the rural new town. The school system includes most of the Westlands Water District -- well beyond the projected expansion of the rural new town based in Huron. Since there will be only partial land reform, most of the land not purchased for the rural new town will stay with corporations and large farm owners. The cost of the new town schools, then, will be exported to these absentee owners in the surrounding area. They will remain in the school district, and support the school system. However, they will not control the local schools since the school district will be based on one-person, one-vote, enabling the rural new town residents to maintain control.

There will, however, be a limit to how much income the school district can raise in this manner, but within several years the state will carry the major burden for school financing in any case. Even with a new state property tax to support the schools, the rural new town under redevelopment law will still avoid these tax payments while receiving state school aid. Thus, whichever the case, the cost of the school system will be largely exported.

POTENTIAL PROPERTY TAX SAVINGS

It is difficult to estimate the tax savings these measures will accumulate, but a rough estimate is $10 for $100 increased assessed valuation, or about 2% of the total costs of the rural new town per year. In terms of dollars, this will be a very significant amount considering that the town will be financed at a relatively low 6% to 7.5% interest rate using guaranteed local government bonds. The resulting effective financing rate for the rural new town will thus be between 4% and 5.5% without any direct outside subsidies.

ADDITIONAL TAX BENEFITS

Since all of the residents of the rural new town will be cooperative or individual home owners, there will be additional benefits for the community. In this case, they will take the form of state tax subventions that go to home owners but not to renters (cooperative housing is considered a form of home ownership). These savings will equal about $200 per household per year, based on current state law. Ultimately, a total state subvention of about one million dollars per year will go to the tax increment district for financing the rural new town.

In addition, under present law elderly home owners will receive tax rebates from the state for any property taxes they pay. Depending on their incomes, up to 96% of their property taxes will be returned. Under pending legislation, from $7,500 income per year on down, 100% of the property tax will be rebated. Since the elderly in the rural new town will be cooperative or individual home owners, this will provide additional savings.

Furthermore, cooperative and individual home ownership will enable the rural new town residents to take federal and state income tax deductions. However, because most of the property taxes will be rebated and the mortgages cut, these savings will not be as significant as they would be for the normal middle income home owner. But they will still represent some additional savings for residents.

SUMMARY AND CONCLUSION

In summary, the rural new town expanded from Huron will realize very significant reductions or savings in capital costs and tax costs which will be made available by internalizing and mirroring the local economy, and maximizing existing local governmental authority for the good of the community. This, combined with land reform forms the basis for the economic development strategy we envision for the west side of the San Joaquin Valley.

In fact, the savings from these methods are potentially so significant that families living in the rural new town will have middle class incomes and also in effect receive their housing free. The benefits of land reform, labor-intensive farming, increased land productivity and development of a rural new town will convert farmworkers to farm owners and greatly increase their incomes. But in addition, because of the other financial, ownership, and governmental arrangements outlined, about 25% of residents' annual income will also be retained. This will be enough to provide free housing. In effect, the economy of the tax increment rural new town at Huron will raise the new middle income family to an even higher standard of living. The residents then will have the option of selecting how the benefits of cooperative development return to the community -- whether in the form of low cost or free housing, lower food costs, no taxes, or free medical care and community services.

TRANSITION PHASES -- FROM HURON TO THE RURAL NEW TOWN

COURSE OF ACTION

Transition development phases for the Huron area should include the implementation of the agri-park strategy described earlier. Assuming political control in the area, several other preliminary steps should also be taken. The first would be adoption of a city charter in Huron. The city could then purchase the agricultural land presently within its city limits, and start to annex surrounding land.

Huron should then establish itself as a tax increment district through the community redevelopment law. Using the added powers of the district, Huron could purchase land, make capital improvements using city financing, and serve as a community development trust. The town could also use its redevelopment agency and tax increment fund in conjunction with housing and commercial rehabilitation and new development. Huron would become an agri-village, testing the early parts of the rural new town strategy.

PROVISOS

However, heavy costs for legal services, bonds, and complications accompanying the various public-private agencies could result. At present, Huron may be too small to support such planned growth. The community/local government partnership may have to wait for a large enough economic and administrative unit to support it. The annexing process, for instance, would have to take place before even considering the complex community/local government arrangements we have discussed.

ALTERNATIVES

One alternative would be to finance the agri-village through conventional methods, if feasible. A second might be to use the tax increment district benefits through a county as opposed to a city redevelopment agency.

APPLICABILITY TO PRESENT PROGRAMS

Regardless of the problems that may be anticipated in coordinating the transition phases, each of the specific proposals for the rural new town should be studied for its applicability to present programs. For example, tax exempt bond financing and tax increment revenues could be used to improve existing housing conditions in various communities in the Central Valley, not just Huron. Rental housing could be rehabilitated and turned over to its residents as cooperative housing (see ABAG proposal in the Appendix). Here and now benefits may be realized from the transition steps and specific aspects of the overall economic development strategy short of the ultimate creation of the rural new town.

FURTHER STUDIES -- COSTS AND TIMING

The cost and duration of further rural new town development studies vary with the amount of detail required and with their intended use. There are four levels of community planning that can be pursued.

MORE DETAILED STRATEGIES FOR THE RURAL NEW TOWN

This would include more detailed legal, economic and financial analysis of the rural new town than provided in this study and would also relate to cooperative agricultural development and land reform on the West Side. The project would take three to six months, and cost from $5,000 to $10,000.

PROTOTYPICAL NEW COMMUNITY PLANNING FOR THE WEST SIDE

This would include the first option, plus an economic and financial model of the rural new town to test various financing schemes, ownership arrangements, population densities, physical development patterns, and various assumptions about the local and regional economy. The project would take six to nine months, and cost from $15,000 to $20,000.

DEVELOPMENT PLANNING OF POTENTIAL SITES ON THE WEST SIDE

This study would include the first and second options, plus provide general physical planning for site locations. The project would take nine months to one year, and cost $25,000 to $50,000.

RURAL NEW TOWN DEVELOPMENT PLAN

This study goes beyond previous strategies and prototypes to select a specific site and development plan. It includes all of the above options, then plans land use, roads, utilities, and the overall economics of the area. This option is similar to what would be required if an application were made for a HUD Title VII New Communities guarantee. The project would take a year to a year and a half, and cost $100,000 to $150,000.

INCORPORATING A CITY

No petition for the incorporation of a new city[1] may be circulated until approved by LAFCO.[2] A proposed city must have at least 500 inhabitants.

Once a petition is approved by LAFCO it must be signed by at least 25% of the registered voters in the proposed area. Then hearings must be held on the proposed incorporation. The Board of Supervisors has the power to decrease the area included in the proposed city. Furthermore, the incorporation proceedings may be halted by owners of 51% of the total assessed valuation in the proposed area for incorporation.

PROCEDURE FOR ADOPTING A CHARTER

Any city may adopt a charter. (Government Code 34450)

(1) Adoption of a charter (Government Code 34450 et seq.)

(a) Upon petition by 15% of the registered electors of a city or a majority vote of the governing body of the city, an election shall be called in which electors shall vote on the questions "Shall a charter commission be elected to propose a new charter or to revise the charter?" and who shall serve on such a charter commission. (Government Code 34452 and 34453)

(b) A vote on the proposed charter shall be held on the next established election date not less than 74 days from the publication of the proposed charter. (Government Code 34457)

(2) Alternative Procedure (this is the easiest and preferred method)

(a) A proposed charter may be submitted by the governing body of the city to the voters. (Government Code 34458)

(b) An election on such a proposed charter shall be held within not less than 40 days nor more than 60 days after the completion of advertising in the official paper. (Government Code 34458)

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[1] See Government Code § 34300-34333. These sections contain rules governing the "shape" and types of land which may be included in proposed cities.

[2] Government Code 34302.1.

The only possible disadvantage to adopting a charter is the cost to a city of holding a charter election.

ANNEXATIONS

No annexation proceeding shall be initiated without the consent of LAFCO. (Gov. 35002)

(1) Annexation of <u>uninhabited territory</u>. (Gov. 35300 et seq.)

(a) uninhabited territory defined:

Less than 12 persons have been registered to vote within the territory at the time of filing of the petition or the institution of proceedings on motion of the city legislative body. (Gov. 35303)

(b) initiation of annexation:

Upon receiving a written petition requesting annexation signed by the owners of not less than one-fourth of the land in the territory by area, and by assessed values...the legislative body shall without delay pass a resolution giving notice of the proposed annexation. (Gov. 35305)

A hearing on protests to the proposed annexation shall be set between 40 to 60 days after the passage of the proposed resolution. (Gov. 35307)

The legislative body of a city may initiate annexation proceedings on its own without requiring a petition. (Gov. 35310)

(c) protest by property owners:

No further proceedings (for annexation) shall be taken if protests are made by owners of one-half of the value of the territory to be annexed. (Gov. 35313)

(d) adoption of annexation ordinance:

If a majority protest has not been made, the city shall approve or disapprove the annexation within 60 days after the hearing on protests. (Gov. 35314)

(e) taxation of property in annexed city to pay indebtedness of annexing city:

Written consent of owners of two-thirds of the value of the territory must be obtained before property in the annexed territory may be taxed to pay any indebtedness contracted prior to the time of annexation. (Gov. 35319)

(f) annexation is prohibited if it leaves unincorporated territory completely surrounded by the city. (Gov. 35326)

(2) Annexation of <u>inhabited territory</u> (Gov. 35100 et seq.)

(a) Consent of the city legislative body must be obtained before proceedings are commenced. (Gov. 35106)

(b) Petition by residents of proposed annexation area and Protest: Upon the submission of a petition by one-fourth of the qualified electors of the proposed area, the city shall submit the proposal to the voters residing in the territory (Gov. 35116) unless a majority protest is made to the annexation. (Gov. 35122)

(c) Annexation proceedings shall be halted if protest is made by owners of one-half of the value of the territory to be annexed. (Gov. 35131)

(d) Adoption of annexation ordinance: If a majority of the voters approve the annexation, the legislative body may approve the annexation. (Gov. 35135)

(e) If the legislative body fails to approve the annexation it shall submit the proposed annexation to the voters of the city. (Gov. 35136)

(f) If the value of territory proposed to be annexed is equal to one-half or more of the value of the land in the city or the number of qualified electors in the city is equal to one-half or more of the number of electors in the city: The proposed annexation shall be submitted to the electors of the city or in the alternative the legislative body of the city may terminate the annexation proceeding. (Gov. 35133)

PUBLIC UTILITIES DISTRICT*

(1) Formation

(a) May be formed in unincorporated territory. (PUC Sec. 15701)

(b) Petition for formation may be presented by number equal to 15% of votes cast for governor in previous election.

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*Public Utilities Code, 15501 et seq.

(c) Board of supervisors may dismiss petition if it finds district uneconomic or unfeasible (PUC 15738), or it may alter boundaries. (PUC 15736 and 15737)

(d) District shall be formed if approved by a majority of the voters. (PUC 15791)

(2) Powers

(a) A district has the same powers with reference to improvement districts as are conferred upon irrigation districts by the Water Code Sec. 23600 et seq. (PUC 16407)

(b) A district may acquire, construct, own, operate, control, or use within or without or partly within and partly without the district, works for supplying its inhabitants with light, water, power, heat, transportation, telephone service, or other means of communication, or means for disposition of garbage, sewage, or refuse matter. (PUC 16461)

(c) A district may acquire, construct, own, operate (etc.), a fire department, street lighting system, parks, playgrounds, ...buildings to be used for public purposes.... (Gov. 16463)

(d) Powers of fire protection district. (Sec. 13801 H. & S. Code) (PUC 16463.5)

(e) May issue bonds.

(f) Funded indebtedness may not exceed 20% of assessed valuation of property. (PUC 16573)

(g) Maximum interest on bonds is 6%. (PUC 17003)

(h) Only revenue producing facilities shall be acquired. So far as possible governing board will fix charges to pay for expenses. (PUC 16467)

(i) Exceptions which do not have to be revenue producing are: fire departments, street lighting, parks, public buildings, road works. (PUC 16467.1)

(3) Who Governs: elected Board of Directors. (PUC 15951 et seq.)

MUNICIPAL UTILITY DISTRICT*

(1) Formation

(a) Any public agency together with unincorporated territory, or two or more public agencies, with or without unincorporated territory, may organize and incorporate as a municipal utility district. Public agencies and unincorporated territory included within a district may be in the same or separate counties and need not be contiguous. No public agency shall be divided in the formation of a district. (PUC 11561)

(b) Request for Formation by Legislative bodies of public agencies: must be made by legislative bodies of half or more of public agencies to be included in the proposed district. (PUC 11581)

(c) Request for formation by petition of electors: may be presented to the board of supervisors of the county containing the largest number of voters in the proposed district. Must be signed by ten percent of voters. (PUC 11611)

(d) Upon receipt of request for formation by legislative bodies or by petition of electors, the board of supervisors shall call an election. (PUC 11641)

(2) Powers

(a) The District Board shall supervise and regulate every utility owned by the District. (PUC 11885)

(b) Power to acquire utilities for supplying inhabitants with light, water, power, heat, transportation, telephone service, or other means of communication, garbage, sewage, refuse. (PUC 12801)

(c) Power to incur indebtedness: a district may borrow money and incur indebtedness.

(d) No indebtedness shall be incurred exceeding the ordinary annual income and revenue of the district without approval of two-thirds of the voters, voting on the proposal. (PUC 12841)

(e) Debt limit: No district shall incur indebtedness which in the aggregate exceeds 20 percent of assessed value within the district. (PUC 12842) However, indebtedness which has been supported by the revenue of a utility for over three

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*Public Utilities Code 11501 et seq.

years shall not be included in the above figure. (PUC 12843).

(f) The district may issue revenue bonds. (PUC 12895)

(g) Taxation: There are broad taxing powers for district purposes. (PUC 12891-12893)

(h) Bonds: Maximum interest rate is 7% (PUC 13207, this may have been amended recently), two-thirds vote required. (PUC 13211)

(3) How governed

(a) The district shall be governed by a board of five directors.

(b) District shall be divided into five wards, drawn by board of supervisors. (PUC 11641 et seq.)

COMMUNITY SERVICES DISTRICT*

(1) Formation

(a) May be formed by the people of any unincorporated territory within one or more counties. (Gov. 61100)

(b) A petition for formation must be signed by at least 10 percent of the registered voters of the proposed district. (Gov. 61103)

(c) The County Board of Supervisors may terminate the district formation proceeding if it finds that the formation of the district is not in the public interest or not feasible. (Gov. 61114) Or it may alter the boundaries of the proposed district.

(d) The election shall be conducted in the manner provided for general district elections. (Gov. 61124)

(e) If majority of votes is cast in favor of the district formation, the district shall be formed by the board of supervisors. (Gov. 61127)

(f) Zones also may be established in a district with the same powers as the district. (Gov. 61770)

(2) Powers**

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*Government Code 61000 et seq.

**Government Code 61600.

(a) supply water for domestic use, irrigation, sanitation, industrial use, fire protection, and recreation.

(b) sewage, waste, and storm water.

(c) garbage.

(d) fire protection.

(e) recreation.

(f) street lighting.

(g) mosquito abatement.

(h) equipment and maintenance of a police department.

(i) libraries.

(j) streets (subject to county approval).

(k) others

(3) Taxation and Bonds

(a) Indebtedness paid for by ad valorem tax on real property shall not exceed 20 percent of assessed valuation.

(b) A majority vote shall be sufficient to authorize the issuance of revenue bonds and two-thirds vote shall be required for general obligation bonds.

(c) Short term borrowing is allowed without holding an election upon two-thirds vote of the governing body. Maximum period of five years and maximum interest rate of 6%. (Gov. 61742 et seq.)

(4) How governed

Elected board of directors, unless district formation petition provides that board of supervisors shall constitute board of directors. (Gov. 61102.5)

COUNTY SERVICE AREA*

(1) Formation

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*Government Code 25210 et seq.

(a) May be formed in unincorporated areas of counties.

(b) May include incorporated areas if city legislative body consents. (Gov. 25210.10a)

(c) Formation proceedings may be commenced by board of supervisors or voters petition.

(d) County board of supervisors may (i) abandon formation proceedings, (ii) form district without the consent of the voters, (iii) form district subject to consent of the voters, (iv) decrease area included in the proposed district. (Gov. 25210.18)

(e) Fifty percent of voters or owners of 50% or more of land value may block formation. (Gov. 25210.17a)

(2) Powers

(a) Police protection, structural fire protection, local park, recreation or parkway facilities, library, television translator facilities (specified circumstances).

(b) The service area also has the following powers subject to consent of board of supervisors or if included in formation proposal (miscellaneous extended services): water service, sewer service, pest control, street sweeping and lighting, refuse collection, garbage collection, ambulance, soil conservation and drainage control, animal control. (Gov. 25210.4a)

(3) Taxation

(a) County Board of Supervisors may levy taxes. (Gov. 25210.7)

(b) Zones with varying rates may be established. (Gov. 25210.8)

(4) Bonds

(a) All electors may vote. (Gov. 25211.13)

(b) Two-thirds vote required for general obligation bonds. (Gov. 25211.14)

(5) How governed

County Board of Supervisors acts as governing body.

COMMUNITY OWNERSHIP ORGANIZING PROJECT (COOP)

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THE POTENTIAL OF COOPERATIVE HOUSING By Edward Kirshner and Eve Bach*

Non-profit cooperative ownership of housing can be the beginning of a solution to the chronic housing problems of low-to-moderate income people. Housing prices can be lowered because of (1) savings inherent in the cooperative structure, and (2) savings derived from a program built around a partnership between non-profit cooperative housing corporations and local governments—both cities and counties.

Such a comprehensive program, formulated by the authors, is designed to assist low-to-moderate income people who are overwhelmingly renters. Housing provided by this program would remain perpetually available to the low-to-moderate income population.

In most areas, the program would have greatest applicability to the rehabilitation of housing converted from rental to cooperative ownership. It can also be used with equally favorable results in new construction.

Cooperative Ownership

People can own their housing cooperatively by means of a non-profit cooperative corporation, which would hold one mortgage and retain equity for all the included housing. Cooperative members would own and control their corporation by purchasing shares—one share per unit, one vote per share.

Because cooperative housing can be 100% financed (a prerequisite of the program), the corporation does not need to raise significant capital from its members. Thus, the cost of a share can be nominal—little more than first and last months' payment. Monthly payments would be set to cover the members' share of the common mortgage plus expenses.

Tax Advantages

By transforming people who would otherwise be tenants into owners, the cooperative makes them eligible for homeowners' tax advantages. Cooperative owners can deduct property tax and mortgage interest payments for California and federal income tax purposes. More impor-

* The views expressed are those of the authors and not of the Association of Bay Area Governments. Both authors have planning and research backgrounds, and are presently consultants in the Bay Area on the use of cooperative arrangements to lower housing costs.

ABAG ASSOCIATION OF BAY AREA GOVERNMENTS

tantly, each cooperative member is eligible for the homeowner's property tax exemption on the first $1,750 assessed value per unit.

For low-income elderly, cooperative ownership offers even greater tax advantages: up to 96% rebate of property tax payments or 100% property tax exemption. Elderly renters in market housing are ineligible for this relief.

Refinancing and Real Estate Transfer Costs
Because mortgage and equity are retained by the corporation rather than by members individually, no refinancing occurs. To transfer ownership, the member who is moving out would sell his or her share back to the coopera- tive for cost (possibly adjusted for inflation). The cooperative corporation would then resell the share for the same price to a new member. The 6% real estate fee and other transfer charges would play no part in this transaction.

Cooperatives as Prerequisite for a Comprehensive Program
By acting as mortgage lender to housing cooperatives, local governments, at no cost to themselves, can allow additional price reductions. From savings (such as pension funds) or their borrowing powers (tax exempt bonds, for instance) loans can be issued to the housing cooperatives at below market rates. The loans can be structured as index loans; payments are initially very low and increase only with the cost-of-living or some other price index.

Further, local government can establish ownership to the land where the housing cooperatives are located, and then defer land rent until after the mortgage on the housing is paid off.

The above methods to reduce housing prices do not contain local subsidies. Yet they allow housing that at market rents would require a minimum annual household income of $14,000 to be provided to households with incomes of $7,000. Poorer households can be reached with limited subsidies, such as property tax exemption on land. More expensive subsidies, such as rent supplements and rehabilitation grants can be applied. Sources for the subsidies might be special revenue sharing funds, housing allowances, or the money raised by a capital gains tax on real estate transfer.

TAX INCREMENT FINANCING OF COOPERATIVE HOUSING

By E. Kirshner and E. Bach*

The preceding proposal for a partnership between local government and a non-profit cooperative housing corporation can be successfully combined with tax increment financing. As described in the Winter, 1973 issue of this newsletter, the tax increment district allows for property taxes on the additional value generated by redevelopment to be returned to the redevelopment district for debt service on land write-down, public improvements and relocation housing.

No election is needed to issue tax-exempt bonds in connection with a tax increment district. The usual penalty, in the form of increased property taxes on rehabilitation, is removed.

However, retaining the tax increment within the district may represent a local subsidy. If the housing generates additional local costs, these are paid by the rest of the community. Often the tax increment district does not involve local subsidy. For example, rehabilitation housing does not entail increased costs for other jurisdictions. New housing for the elderly does not increase school district costs.

In cases where tax increment district financing would involve subsidy, public policy determines whether the rest of the community is willing to absorb any added costs. In any case, since the tax increment district dissolves when debt service is complete, the redeveloped property is eventually fully returned to the tax rolls.

The Case of the Elderly
Consider a case that illustrates the potential benefits of using the tax increment district in conjunction with the preceding proposal on housing for the elderly poor. As cooperative members, they would pay their property taxes on their rehabilitated housing, and receive most of it back from the state in rebates. Yet the taxes they paid the district would also come back to help finance the cooperative.

Thus, housing that would require a minimum annual income of over $12,000 at market rents would be affordable by elderly people with incomes under $4,000 if they live in cooperative housing within the redevelopment district.

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Center for Community Economic Development Newsletter

Tax-Exempt Industrial Development Bonds

As all the CDCs know, borrowing capital is an expensive proposition in today's money market. Interest rates are soaring and the percentage of the total cost of a project that may be borrowed from traditional sources has been falling. Government subsidy and guarantee programs, such as FHA 236 below-market interest rate for housing and EDA's public works grants, have also been reduced. Thus, it is important to be aware of all potential sources of "cheap" (or at least less expensive) money. One source that has generally been overlooked by community groups is tax-exempt industrial development bonds. (A tax exemption means that the interest the investors receive on the bonds will not be subject to federal income taxes.)

Industrial development bonds are bonds that are issued by or on behalf of a state or local government unit and that meet one or both of the following criteria: (1) the proceeds of the bonds are to be used in the trade or business of a private company, and (2) the payment of principal or interest on the bonds is either secured by an interest in the property used in the trade or business of the private company or secured by receipts from the use of the company's assets. In a simple situation this might mean that a city or county borrows money from the general investing public in exchange for bonds and uses this money to build and equip a factory that is then leased to a private company, which could be a CDC. The bonds will be considered tax-exempt if the deal is properly structured.

In general, bonds issued by state or local governments are tax-exempt. But industrial development bonds are not tax-exempt unless they fall within certain categories. These categories cover a range of projects that may be of great interest to CDCs. For example, all bonds (regardless of amount) issued to finance the following activities will be tax-exempt: (1) residential property for family units; (2) sports facilities; (3) convention or trade show facilities; (4) airports, docks, wharves, parking facilities; (5) sewage disposal facilities; (6) solid waste disposal facilities; (7) facilities for the local furnishing of electric energy or gas; (8) air or water pollution facilities; and (9) facilities for furnishing water (if the public has reasonable access).

There is also an exemption for bonds issued in relatively small amounts of face value. If the project can be built for $5 million or less the bond will be tax-exempt.

However, there is a complicated way of determining whether the $5 million limit is exceeded. All prior issues of bonds for facilities to be used by the CDC or its affiliates in the same incorporated municipality or located in the same county (outside the municipality) must be counted when determining whether the last issue exceeds $5 million. For example, if four years earlier the CDC had used $3 million worth of tax-exempt bonds to build a factory in a given city, the same CDC cannot now raise more than $2 million by means of tax-exempt bonds for a second factory in the same city. In addition, if the project exceeds $1 million, the law requires that all capital expenditures made on or for the CDC facilities by anyone within three years prior to or three years after the bond issue in question must be added in determining whether the $5 million limit is exceeded. A case of exceeding the limit is one in which the CDC sought a bond issue of $4.5 million for an industrial facility to be placed in an industrial park developed by the town on which the allocable portion of the town's previous investment exceeds $500,000. A second example would be one in which a CDC purchases a 2-year-old plant for $1 million built by another company at a cost of $1.2 million and wishes to get a bond issue to make $3.9 million worth of alterations and additions.

Despite these examples of restrictions there is a substantial area within which a CDC could make use of industrial bonds. The real question is what benefits the CDC can expect.

When such a deal is properly structured, the advantages to the CDC of this kind of financing are twofold. The cost of borrowing the money will be less, and 100 percent financing will be available. The cost of borrowing the money will be less because lenders will accept a lower rate of interest when the interest will not be subject to federal and state income taxes. In addition, there may be additional tax benefits (for example, local property tax exemptions). Finally the bonds will often be sold in a different market (local or regional) than non-tax-exempt bonds and such a market may accept a lower interest rate.

On the other hand, the costs of selling the bonds are usually higher, and some municipalities charge a fee when they are the issuers. (Selling the bonds may turn out to be a problem because of the difficulties that are often involved in finding a broker.) There may also be additional construction costs as the proceeds of such bonds are often seen as public funds, and restrictions such as public bidding on construction contracts may be required. The costs will probably be prohibitive for issues of less than $1 million. Also, the minimum feasible bond issue will be higher if the manner of selling the bonds requires that they be registered with the Securities and Exchange Commission. One point to note is that the bonds will not be sold using the credit rating of the issuer but rather the credit rating of the CDC. This is because the bondholders are dependent on the CDC project revenues for repayment and not on funds of the issuer.

In some cases the CDC may be able to obtain 100 percent financing of the project with industrial development bonds and thus eliminate the need for any front-end capital. For issues of $1 million (or less, when sales costs permit), it is possible to obtain 100 percent financing for the cost of land and all property subject to depreciation, but there can be no financing of working capital. For issues of 1 million to 5 million the financing can cover all equity capital expenditures (depreciable or not), but again none of the issue may be used for working capital. If the project is for pollution control, there are slightly more lenient rules.

This article is not written to encourage CDCs to think that $5 million, for instance, is there for the asking. The issuance of bonds presents substantial problems that in many cases will keep a CDC from using this form of financing.

However, if a CDC makes a decision to try industrial development bonds, it should be careful to get an agreement with the government issuer before the project is started. A public purpose must be shown for bonds to be tax-exempt; and the public purpose for industrial development bonds is that the issuer is increasing employment by inducing the CDC to construct a facility that the CDC would not otherwise build. CDCs interested in this kind of financing should contact the local government entities and agencies that have the power to issue industrial development bonds, a local attorney who specializes in bonds, and a bond underwriter to determine the financial feasibility of the project.

Susan Horn-Moo