crease in this contribution depending on which alternative method is selected to pay such contribution—an amount chargeable to the annual contributions contract or a direct grant.

An example will illustrate the working of the formula for writedown under section 107(b) of the Housing Act. Assume that a particular site were acquired for public housing outside an urban renewal area and the per dwelling unit cost of acquisition, relocation, demolition, etc., were $5,000 per dwelling unit. The resale price is estimated at a market value of $2,500. Under the formula established in section 107(b) of the Housing Act (for public housing and moderate-income housing sites in urban renewal areas) a Federal contribution of one-half of the difference between acquisition cost and resale cost is available. Thus, in the example cited, a Federal contribution of $1,250 per unit would be available at the construction stage of the housing development.

If it were determined that the method by which the Federal Government would make this writedown contribution available was by charging it to the annual contributions contract, there would be no increase in the Federal contribution. It would simply mean that annual contributions would be staged to make more of the contribution available at an early stage to cover the costs of writedown.

If it were determined that the method by which the Federal Government would make this writedown available, was by a direct grant (as is the case for both public housing and moderate-income housing inside renewal areas), there would be a small increase in the contribution equal to the difference in interest rates by which the Federal Government could borrow the grant money at the going Federal rate (currently about 4.0 percent) or finance long-term public housing by the issuance of bonds (currently about 3.5 percent). This method would have the benefit of being uniform for all housing assistance programs—public housing and moderate income—both inside and outside urban renewal areas.

Under either alternative way of disbursing grant money, there would be benefits, other than financial. Slum sites would be more readily available for public housing construction and a more accurate measure of the true construction cost of public housing, without supplementary costs of slum clearance and relocation, would be provided.

Mr. HARVEY. I have no further questions, Mr. Chairman.

Mr. BARRETT. Mr. Moorhead?

Mr. MOORHEAD. Thank you, Mr. Chairman.

Mr. FAY. I share your concern that the $2.3 billion is not enough to do the job for 60 or 70 cities. If we are faced with a very rigid budgetary limitation of $2.3 billion, what would you think of reducing the 80-percent figure to say 50 percent maybe with an escape clause of up to 80 percent in the case of extraordinary need? That would tend to spread the $2.3 billion.

Mr. FAY. This would be the grant formula that you would propose to reduce.

I think that would probably still be attractive to the communities. It undoubtedly would not be as attractive as the larger amounts. But here again I would hope that we would have enough cities interested so as to make the demonstration a valid one.

Mr. MOORHEAD. Thank you, Mr. Chairman.

I have no further questions.

Mr. BARRETT. Mr. St Germain?

Mr. ST GERMAIN. Getting back to one aspect that Mrs. Sullivan covered, I ask you this question. Supposing that once the criteria of need and necessity and eligibility were arrived at by the Secretary of the Department, then the Secretary would balance the applicants against these criteria as to eligibility, and determine which cities have the greatest need or are best qualified, and then so to speak put the names of these cities into a fish bowl. Once they determined which cities were going to be chosen, suppose they then form teams, one, two, or three teams of expert planners. It is my understanding of this act, the Demonstration Cities Act, that the purpose behind it is to