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BULLETIN NO. 30 ON POLICY AND PROCEDURE

"ESTIMATES OF AVERAGE ANNUAL INCOME AND EXPENSE  
AND DETERMINATION OF USHA ANNUAL CONTRIBUTIONS  
FOR USHA-AIDED PROJECTS"

This Bulletin is designed to set forth the purpose and use of average annual estimates of income and expense and the method of determining the amount of USHA Annual Contributions, and to guide local authorities in preparing such estimates. A more detailed statement of the "Scope and Content" of the Bulletin is contained on page 1 of the Bulletin itself. A Table of Contents is also included on the following page. This Table of Contents should be detached from the Bulletin and added as page 22 to the "List and Table of Contents of Bulletins on Policy and Procedure" which was previously issued. This "Covering Page" should also be detached when the Bulletin is placed in your binder with the other Bulletins on Policy and Procedure.



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Supplement No. 5

Bulletin No. 30

Estimates of Average Annual Income and Expense  
and Determination of USHA Annual Contributions  
for USHA-Aided Projects  
(Dated December 19, 1939)

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NOTE: Please detach this page and add as page 22 to the "List and Table of Contents of Bulletins on Policy and Procedure" previously issued.



UNITED STATES HOUSING AUTHORITY  
BULLETIN NO. 30 ON POLICY AND PROCEDURE  
ESTIMATES OF AVERAGE ANNUAL INCOME AND EXPENSE  
AND DETERMINATION OF USHA ANNUAL CONTRIBUTIONS  
FOR USHA-AIDED PROJECTS

SCOPE AND CONTENT

This Bulletin sets forth (I) the purpose and use of average annual estimates of income and expense (II) the period which such estimates should include and the major consideration involved in preparing estimates of (III) income and (IV) expense. It also sets forth the method for determining the amount of USHA Annual Contributions. For the most part technical details are not discussed in this Bulletin but reference is made to other bulletins already issued or to be issued for such information.

The established classification of accounts for USHA projects has been followed in this Bulletin. These accounts are fully described in the "Manual of Instructions of Accounting Procedure for Local Housing Authorities - Part IV".

I. THE PURPOSE AND USE OF THE ESTIMATES.

Average annual estimates of income and expense are necessary to insure that the rents and USHA annual contributions will be sufficient but no more than sufficient, to meet the expense which appears necessary to manage and maintain the project (including necessary reserves) and to pay interest and principal on the bonds.

It is necessary to make such estimates on an average basis since it is anticipated that certain items of expense will vary from year to year. By using an estimate for average income and expense over a period of years, it will not be necessary to raise and lower rents to meet anticipated fluctuations in expense.

During the formulation and planning of the project such estimates serve

(a) To determine that rents can be achieved within the financial reach of the group to be rehoused within the project.

(b) To determine the amount of USHA annual contributions which will be required to maintain the low rent character of the project.

(c) To insure that the project is being so designed that it can be operated at minimum cost.



During the management of the project such estimates also serve as a basis for establishing operating budgets for each annual budget period. While budgets for particular periods will differ in some items from the average estimates due to variations referred to above, it is essential that the budget for each period be consistent with the long range plan reflected in the average annual estimates.

## II. THE PERIOD TO BE COVERED BY THE ESTIMATES.

For the reasons set forth in paragraph III - (c) below, average annual estimates made for the first 10 years of administration of the project should be based on the estimated average income and expense for the first 10 years of administration of the project.

## III. INCOME.

(a) Dwelling Rent Income. Dwelling rents must be determined in accordance with the rent paying ability of prospective tenants. Schedules of shelter rent plus utilities shall be prepared for each type and size of dwelling unit included within the project. The shelter rent schedule, Account No. 3110, and the utility charge schedule, Account No. 3120, called for in the Accounting Manual, will, however, be prepared as a lump sum figure for the entire project; that is, shelter rents and utility charges will not be separately determined for the various types and sizes of dwelling units.

The scheduled shelter rents plus utilities will be set at amounts low enough but no lower than necessary to be within the financial reach of the low income group to be rehoused in the particular project involved. To determine the schedule a careful analysis must be made of data regarding rents, incomes and housing conditions in the locality. (See USHA Bulletin No. 24 Revised "Rent Schedules and Income Limits" and USHA "Manual of Market Analysis".)

(b) Vacancy Losses. Dwelling vacancy losses should be estimated at  $\frac{2}{8}$  of the shelter rent plus utilities schedule. This allowance seems reasonable since average vacancies in PWA Housing Division Projects have been about 1% and since a reserve for vacancies and collection losses is to be established. (See Page 30 "Manual of Instructions of Accounting Procedure - Part IV.")

(c) USHA Annual Contributions. USHA Annual Contributions must be strictly limited to the amounts and periods necessary, in the determination of the USHA, to assure the low rent character of the project. (Section 10.(b) of the Act.) These contributions represent the sole cost to the Federal Government since the loan for the development of the project is to be repaid in full with interest. It is of the utmost importance that these contributions be held to an absolute minimum to insure that the largest possible number of families may be rehoused at the least possible cost.



The Act specifies that the USHA shall reserve the right to reexamine the status of each project at the end of 10 years and at such time may make such modifications in the annual contributions as are warranted by changed conditions. Prior to such time, the income and expense estimates (which determine the amount of USHA annual contributions) are, therefore, to be prepared for the initial 10 year period. The amount to be included for each item of expense at this time is the expected average annual cost of such items for the initial 10-year period. It is probable, however, that expense for Repairs, Maintenance and Replacements will be greater thereafter because of the aging of the project. It is, of course, possible that the rent-paying ability of low-income classes will increase during the next 10 years and that rents could be increased to compensate for the increased cost of Repairs, Maintenance and Replacements. It is, moreover, possible that with increased economy and experience savings in other items of expense may be discovered during the 10-year period in an amount sufficient to compensate for the increased Repairs, Maintenance and Replacements in later years. If, however, rents can not be sufficiently increased or if other economies have not been made in sufficient amounts, it will be necessary to increase the USHA Annual Contributions to be paid at the end of the initial 10-year period to compensate for the increased cost of Repairs, Maintenance and Replacements. In order that such increase may be available, the USHA Annual Contributions to be paid for the initial 10 years must be less than the maximum amount that could be paid on the development cost of the project by an amount at least equal to the estimated additional cost of Repairs, Maintenance and Replacements after the initial 10 years (see Bulletin No. , Budgeting Repair, Maintenance and Replacement Costs). The reductions in the amount paid as USHA annual contributions would be affected in such a manner as not to jeopardize the marketability of bonds of local authorities or the payment of principal and interest as it becomes due on such bonds.

#### IV. Expenses.

Under the terms of the Act, low rent housing projects must be administered to promote serviceability, efficiency, economy and stability. (Section 2 (1) of the Act.) Economy is especially stressed in Section 15 (5) of the Act which requires that the USHA shall make loans or contributions only for projects in which economy is promoted in constructions and administration.

It is of the utmost importance that expense be held to the absolute minimum consistent with fulfilling the objectives of the Act, since any saving which can be made in expense makes possible an equal saving in USHA Annual Contributions.



(a) Management Expense, Operating Services, Dwelling Utilities, Repairs, Maintenance and Replacements, and Community Activities. Separate bulletins will be issued by the USHA on Budgeting Management Expense, Operating Services, Dwelling Utilities and Community Activities. Bulletin No. "Budgeting Repair, Maintenance and Replacement Costs" has already been issued.

Expense for these items has been reduced in some cases beyond anything that was thought possible several years ago. This has been accomplished by taking advantage in the design of projects of actual operating experiences and by developing new operating techniques such as tenant maintenance. The success of the housing program depends to a large degree on whether further progress can be made in reducing operating costs.

(b) Vacations and Sick Leaves. The expense for this item should be calculated in accordance with the locally established vacation and leave policy.

(c) Collection Losses. Collection losses should be estimated at 1% of the shelter rent plus utilities schedule. This allowance seems reasonable since average collection losses in PWA Housing Division Projects have been less than one half of 1%, and since as stated above, a reserve for vacancies and collection losses is to be established.

(d) Insurance. Bulletin No. 26 entitled "Insurance on USHA-Aided Projects" and addenda thereto will be of assistance in estimating costs of insurance.

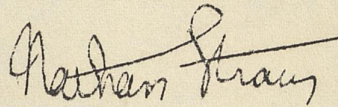
(e) Payments in Lieu of Taxes. The amount of payments in lieu of taxes, if any, is generally specified in the Cooperation Agreement as a percentage of shelter rent. The estimate of the amount of such payments should be computed on the total shelter rent schedule at the stipulated percentage. (See Bulletin No. 6 "Annual Contributions by Local Agencies".)

(f) Interest and Depreciation. Interest and depreciation are shown as separate items in the Accounting Manual and depreciation is defined as being equal to amortization. In order that rents may be kept at a level basis, the financing scheme adopted by the USHA provides for level charges to pay and provide for payment of interest plus amortization. In making estimates of average expense, the total amount of such level charges for interest plus amortization should be used without attempting to separate the two items.

If bonds covering local participation have been sold and definitive USHA bonds issued, interest and depreciation should be estimated on the basis of the average annual total payments for interest and principal specified in such bonds.



If such bonds have not been issued the estimate should be made by using the annuity factor for 58 years at the interest rate specified in the loan contract. This assumes the local participation loan will be at an interest rate no greater than the interest rate of the USHA loan. It is, however, not safe to assume that the rate of interest for the local loan will be less than 3% per annum. Therefore, where the USHA loan is less than 3% or where the rate of interest for the local loan has been determined, appropriate adjustments must be made.



NATHAN STRAUS,  
Administrator.

December 19, 1939.