

POSTWAR PROSPECTS FOR INCOME AND EXPENSE

OR

LOW-RENT HOUSING PROJECTS

presented to the

NAHO FEDERAL-LOCAL RELATIONS COMMITTEE

and

FPHA REGIONAL DIRECTORS

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PART I

PROBLEM

A recent analysis of income and expense on the low-rent housing program has disclosed that we shall shortly be faced with a serious situation in regard to the financial stability of the low-rent projects. At the present time increased rental income on these projects has more than offset increases in expenses, but when the program returns to complete low-income tenancy, it is imperative that operating expenses be cut down because of the limitation on the amount of annual contributions permitted.

The problem is immediate, for cutbacks in war production are already being effected and the local authorities must turn their attention to restoring the public housing program to low-income tenancy. Such tenancy will probably be achieved through the following occurrences:

1. Tenant incomes will fall as tenants lose war jobs.
2. Tenant incomes will fall as overtime is eliminated.
3. As housing becomes available in the community, high income tenants will be required to move and will be replaced with low-income tenants.
4. As vacancies occur only low-income tenants will be admitted.

DECLINE OF RENTAL INCOME

What will be the extent of the fall in rental income? In the presentation of estimates of annual contribution requirements to the Bureau of the Budget, the FPHA has assumed that when the entire program returns to low-income tenancy, the tenant incomes will be at about the level of the tenant incomes in 1941. A return to this level would produce an estimated decline in rental income of 24.4%. This estimate is based on the experience of the first 34 FPHA-aided projects which would suffer this percentage decline if they returned to their 1941 level of operation.

The total income on these 34 P-412 projects for the project fiscal years on which an annual contribution will be payable in the Federal fiscal year 1945 is calculated at \$25.25 per unit month. A return to the 1941 level would result in a project income of \$19.09 PUM, a decrease of \$6.16 or 24.4%.

NEED FOR REDUCING EXPENSES

With this expected decrease in income, it is apparent that operating expenses cannot remain at present levels. If payments in lieu of taxes (authorized at 10% of rents) are reduced in accordance with the estimated reduction in operating income and if vacancy and collection loss reserves (at 3%) are reduced in accordance with the estimated reduction in dwelling rent schedule, but the balance of the expenses remains at present levels, the actual deficits on these 34 projects would be 11% in excess of the fixed contributions - an impossible situation. Actually, it should be noted that contributions payable should not, on the average, exceed 80% of the fixed contributions in order to allow for the additional cost of RM&R after the first ten years.

MINIMUM REDUCTION NECESSARY IN EXPENSES

The maximum allowable expenses on a project are the difference between the total anticipated income and 80% of the Fixed Contribution. The average Fixed Contribution is now \$14.05 per unit month on these 34 projects, and 80% of this is \$11.24. The sum of \$11.24 and the estimated net income of \$19.09 is \$30.33, the maximum amount of expenses, on an average, under which these projects can operate safely. Since total expenses for these 34 P-412 projects in the project fiscal years on which contributions will be paid in the Federal fiscal year 1945 are estimated at \$36.54, the minimum reduction necessary is \$6.21.

NET REDUCTION IN EXPENSES

Of the minimum necessary reduction of \$6.21, it is estimated that an automatic reduction of \$1.86 (Pilot \$.41 plus V&C Loss Reserve \$1.45) will be obtained in payments in lieu of taxes and reserve for vacancy and collection losses. Therefore, a net reduction of \$4.35 will be required.

Payments in lieu of taxes will be reduced as shelter rents collected decrease. The 34 projects in 1941 had a net dwelling rent income of \$18.74. Deducting 1941 utility costs of \$4.55 would produce estimated shelter rents collected of \$14.19. Ten percent of this would indicate payments in lieu of taxes of \$1.42 instead of the present Pilot of \$1.83, or reduction of \$.41.

In estimating the amount reserved for vacancy and collection losses, it is assumed for present purposes that all 34 projects have reached the maximum reserve, but will be allowed to meet vacancy and collection losses out of current income up to 3% of the total dwelling rent schedule. The use of the 1941 total dwelling rent schedule of \$19.31, and an estimated vacancy and collection loss of at least 3% of this schedule, would produce an estimated amount reserved for V&C losses of \$.58, as against the present amount reserved of \$2.03, or a reduction of \$1.45.

This analysis illustrates the prospects for these 34 projects. Each project will be differently affected and its prospects must be analyzed individually. Such analysis will point out the minimum amount of operating expense reduction that must be achieved to keep the project safely within 80% of its fixed annual contribution. The next question concerns the methods by which such needed reduction can be achieved.

PART II

MEASURES BY WHICH PRACTICAL OPERATING ECONOMIES CAN BE ACHIEVED

The basic principle used here is to seek means of achieving more efficient operation, better use of labor, and utilization of mechanical devices and scientific methods.

The following items are offered as specific suggestions and are not considered to be all-inclusive. Experience, the availability of critical materials, the refinements of design of types of equipment and new technological developments may add to this list. However, many of the suggested measures can be taken now.

A. Management Expense

1. Number and salaries of project management employees should be adjusted to meet changing economic conditions, for example, replacements of less qualified personnel by more efficient and fewer personnel, elimination of overtime and bonus payments.
2. Staff reorganization to do away with possible duplication of functions; combine responsibilities to require fewer positions.
3. Spread re-examination and income verification over the year on large projects; hold group meetings to explain purpose and procedure. This may eliminate the need to employ additional temporary personnel.
4. Travel, long distance telephone, etc., should be kept to minimum for essential purposes.
5. Adoption of strict procedures to reduce rental delinquencies and collection losses to a minimum.

B. Utility Consumption

1. Install check meters as soon as they are available.
2. Limit all project furnished utilities to conservative allowances and charge tenants for all overages.
3. Institute vigorous fuel conservation program.
4. Provide heating plant with adequate mechanical controls to assure maximum utilization of fuel.
5. Balance heating system and check all valves and traps to ensure proper distribution of heat and use of fuel.

C. Maintenance And Operation

Standards of project maintenance, operation, and services to tenants should be based on the minimum necessary to provide decent, safe and sanitary homes for families of low income. While our DMR is an overall fixed item of expense as determined by the ten-year average annual estimate of income and expense, every possible saving should be accomplished in order to build up adequate DMR reserves.

1. Increase use of labor-saving machinery such as power saws, cutters, roof blowers, floor machines. For example, the work of several men using hand lawn mowers can be done by one man with a power mower.
2. Where safe economical, use conventional labor methods on a distributed or group basis, for such work as painting, electrical work, etc.
3. Increase frequency of maintenance inspections to prevent minor defects such as cracked parts, leaks, chipping of surfaces, etc., from becoming aggravated.

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4. Increase intervals between routine or periodic services, such as painting and wall washing, with emphasis on protection of property.
 5. Where lawn areas require constant replanting because of constant use of the area consider permanent surfacing of the area.
 6. Check recurring maintenance problems with a view to making major improvements that would eliminate this cause of continuing expenditures. For example, embankment which is being repeatedly washed out may be replaced by a retaining wall.
 7. Check the care and use of all automotive equipment for essential purposes.

D. Equipment, Materials, and Supplies

1. Installation of equipment requiring lower operating and maintenance cost as soon as available. For example, business machines, etc.
2. Periodic inventories and control over materials and limiting them to minimum requirements.

E. Public Services

Obtain all public services in accordance with existing agreements with the local government. Where this is not obtainable, renegotiate to reduce payments in lieu of taxes.

F. Insurance

Renegotiate contracts to achieve lower premiums, re-examine liability limits to reflect operating experience.

G. Tenant Participation

1. Increase tenant maintenance in connection with cleaning of halls and stairwells, indoor painting, care of grounds, garbage disposal, proper use of household equipment, and appliances, and prompt reporting of minor deficiencies.
2. In order to achieve greater tenant participation in maintenance and operating problems at the project, it is necessary that management encourage tenant activities and cooperate on a reciprocal basis with tenant organizations and tenant representatives. For example, some managers have found management tenant meetings to be helpful in revealing measures for operating economies and in enlisting tenants for the carrying out of project policies aimed at more efficient administration.

H. Training

Outline a program of training in more efficient work methods, protection of property, fuel conservation, accident prevention, conservation of materials and supplies and housekeeping habits among the following groups:

1. Office and maintenance staffs - cashiers, accountants, stenographers, firemen, maintenance mechanics, etc.
2. Tenants-homemaking and responsibility for cleaning community facilities after use, care of stoves, refrigerators, screens, other household appliances and fixtures.

Calculations for the Case Study of 34 Statutory Projects

| | |
|---|---------|
| 1944 Total Operating Income | \$25.00 |
| 1941 " " " | 19.09 |
| Estimated decrease in income..... | \$ 6.25 |
| % of decrease from 1944 level to 1941 level | 24.7% |

Calculation of estimated required contribution in excess of maximum.

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|--|---------|
| Operating Expense 1944 | \$36.54 |
| Non-recurring Expenses | .29 |
| Total Operating Expense | 36.54 |
| Deduction for reduced Pilot | \$.41 |
| " " " V&C Loss Reserve | 1.45 |
| Total Operating Exp. less automatic reductions | 34.68 |
| Total Operating Income 1941 level | 19.09 |
| Required Contribution estimated | 15.59 |
| Fixed Annual Contribution | 14.05 |
| Excess of Required over Fixed Contribution | \$ 1.54 |
| Percent of excess over Fixed Contribution | 11% |

Calculation of minimum reduction necessary in Operating Expenses.

| | |
|---|---------|
| Fixed Annual Contribution | \$14.05 |
| 80% of " " | 11.24 |
| Total Operating Income 1941 level | 19.09 |
| Income available for operation within 80% of contrib. | 30.33 |
| | |
| Total Operating Expense 1944 level | 36.54 |
| Income available 1941 level | 30.33 |
| Necessary reduction in Operating Expense | \$ 6.21 |

Calculation of automatic reduction in Pilot.

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|--|---------|
| Actual 1941 Dwelling Rent Schedule | \$19.31 |
| " " Vacancy loss | .57 |
| " " Dwelling rent income | 18.74 |
| " " Utility costs | 4.55 |
| " " Shelter Rent | 14.19 |
| Estimated 10% of " " | 1.42 |
| | |
| Actual 1944 Pilot | 1.83 |
| Estimated Pilot on 1941 level | 1.42 |
| Automatic reduction in Pilot | \$.41 |

Calculation of automatic reduction in V&C Loss Reserves.

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|---|---------|
| Actual 1941 Dwelling Rent Schedule | \$19.31 |
| Estimated V&C Loss Reserve at 3% | .58 |
| | |
| V&C Loss Reserve 1944 level | \$ 2.03 |
| Estimated " 1941 level | .58 |
| Automatic reduction in V&C Loss Reserve | \$ 1.45 |