REPORT TO
THE CONGRESS OF THE UNITED STATES

REVIEW OF SELECTED ACTIVITIES OF THE LOW-RENT HOUSING PROGRAM IN THE NINE-STATE AREA ADMINISTERED BY THE SAN FRANCISCO REGIONAL OFFICE PUBLIC HOUSING ADMINISTRATION HOUSING AND HOME FINANCE AGENCY

U. S. General Accounting Office.

BY

THE COMPTROLLER GENERAL OF THE UNITED STATES

MARCH 1962

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GAO Wash., D. C.

operated housing projects. Responsibility for the operating acti ities in the seven regions has been delegated by the PHA Commissioner to the regional office directors. The Central Office esta lishes the administrative policies and operating procedures, main tains the accounting records, and reviews the operating activitie of the regional offices.

At June 30, 1961, there were 1,194 local housing authorities (LHAs) located in 45 States, the District of Columbia, Puerto Ric and the Virgin Islands. The 84 LHAs in the nine States under the administration of the Regional Director in San Francisco had 37,993 dwelling units in operation, 1,926 under construction, and 4,431 under contracts providing for future construction. A summary of the number of LHAs, projects, and dwelling units in the area administered by the PHA San Francisco regional office follow

State	Authorities	Projects	Dwelling units: Total	Under contract for future construction	Under construction	In operatio
Alaska	1	4	325	-	-	325
Arizona	8	25	2,627	202	144	2,281
California	44	187	27,966	2,290	1,307	24,369
Hawaii	1	13	2,739	854	14	1,871
Idaho	2	4	189	30	-	159
Montana	6	10	957	60	200	697
Nevada	2	7	715	225	125	365
Oregon	6	18	1,692	498	106	1,088
Washington	14	35	7,140	272	30	6,838
Total	84	303	44,350	4,431	1,926	37,993

PHA provides financial and technical assistance to the LHAs in the development of low-rent housing projects and reviews the a ministration of the projects after construction is completed to determine that the projects are operated and maintained in a manner to promote serviceability, efficiency, economy, and stability and that their low-rent character is maintained. Financial assistance is provided in the form of loans for development and in the form of annual contributions (subsidies) made pursuant to annual contributions contracts with the LHAs. The contracts provide for annual contributions by PHA which, if made in the maximum amount, will be sufficient to pay the principal and interest on bonds and notes sold by the LHAs to the public or, in some cases, to PHA to obtain funds to pay the costs of constructing the projects. The contracts provide also for reducing the maximum contributions by the residual receipts, if any, from project operations.

While our review disclosed that generally those activities which we examined were being conducted by the San Francisco Regional Office in accordance with applicable laws and PHA policies, we believe that project construction costs at one low-rent housing project may have been unduly increased because of uneconomical design features and use of expensive materials. In addition, several federally aided or owned projects in Bremerton, Washington, have had vacancy problems for some time. Unnecessary or wasteful expenditures in connection with the planning and construction of new projects result in increasing the total development cost of the projects and ultimately in increasing the maximum Federal subsidy payable by PHA. Since the annual contributions contracts with LHAs provide for reducing the Federal annual contributions by the residual receipts from project operations, the Federal contributions are increased to the extent that LHAs fail to realize all possible revenues.

In addition to the findings contained in this report, our review disclosed several other matters which were discussed with the regional office officials who, in most cases, promised to take corrective action.

SUMMARY OF FINDINGS

Our findings are summarized below and are discussed in detail in later sections of this report.

PROJECT CONSTRUCTION COSTS MAY HAVE BEEN UNDULY INCREASED BECAUSE OF UNECONOMICAL DESIGN FEATURES AND USE OF EXPENSIVE MATERIALS

Construction costs at project CAL-52-1 may have been unduly increased because of uneconomical design features and use of expensive materials. A portion of this project cost considerably more per room to build than any other low-rent housing project completed during fiscal year 1961 in the area administered by the PHA San Francisco Regional Office; the project also cost more per room than the two management-type cooperative housing projects in the San Francisco Bay area that were completed during 1961 and insured by the Federal Housing Administration pursuant to section 213 of the National Housing Act (12 U.S.C. 1715e). On the basis of our reviews of PHA's files, we doubt that the designs for project CAL-52-1 conformed completely with the intent of section 15(5) of the United States Housing Act of 1937.

Project CAL-52-1 of the Housing Authority of the county of Marin, Marin City, California, contains buildings of two basically different types: (1) twenty 1- and 2-story block and frame buildings containing 132 dwelling units averaging 5.26 rooms per unit and (2) eight high-rise (5-story) reinforced concrete buildings containing 168 dwelling units averaging 4.5 rooms per unit.

A postreview of the construction contract award of project CAL-52-1 was made by the PHA Central Office Development

Division to determine the reasons why the contracted construction costs were so high. The memorandum relating to this review contained an analysis of development costs showing a distribution of the costs between the eight high-rise buildings and the twenty 1- and 2-story buildings. The analysis showed that, while the es timated cost per room of constructing and equipping the entire project was less than the maximum cost limitation permitted by se tion 15(5) of the United States Housing Act of 1937 at the time the development program was approved, the estimated average cost per room for the 755 rooms in the high-rise buildings was about $225 more than the maximum cost limitation; the estimated average cost per room for the 695 rooms in the 1- and 2-story buildings was about $840 less than the maximum cost limitation.

Section 15(5) of the United States Housing Act of 1937 provides for a limitation on the average cost per room for an entire project, and the PHA Commissioner advised us that she believes that PHA would not be authorized to apply the cost limitation on narrower basis without congressional approval. Accordingly, we are recommending that the Congress consider amending the United States Housing Act of 1937 to require that, in cases where there are significant differences in the design or materials for differ ent sections of a low-rent housing project, compliance with the room cost limitation prescribed in section 15(5) of the act shall be determined separately for the different sections of the projec (See p. 14.)

CHRONIC VACANCIES AT FEDERALLY AIDED OR OWNED HOUSING PROJECTS AT BREMERTON, WASHINGTON

The Bremerton, Washington, Westpark low-rent housing project, WASH-3-1 (586 dwelling units), a Navy housing project (558 dwelling units), and three rental defense housing projects (502 dwelling units) owned or insured by the Federal Housing Administration (FHA) have had vacancy problems for some time as a result of a gradual decline in the need for housing in the Bremerton area. One of the principal reasons for the decline in the need for housing was the decline in civilian employment at the Puget Sound Naval Shipyard after the end of World War II.

We suggested that a study of the vacancy problem in Bremerton be undertaken jointly by the interested Federal agencies, probably under the sponsorship of the Bureau of the Budget, with a view toward determining the actual local need for housing under the various Federal programs and, if practicable, reducing the number of dwelling units in excess of need through placing certain facilities in stand-by condition or making other disposition of them. The HHFA Deputy Administrator informed us on January 31, 1962, that our suggestion had been adopted. (See p. 29.)

CONSTRUCTION COSTS INCREASED BECAUSE PHA REQUIRES EARTHQUAKE INSURANCE COVERAGE DURING CONSTRUCTION

Construction costs of certain low-rent housing projects in the area administered by the PHA San Francisco Regional Office were increased because PHA required construction contractors to carry earthquake coverage insurance. Generally, private lending institutions in the area do not require earthquake coverage insurance during construction of non-high-rise structures. In addition, we were informed that FHA does not require contractors in the area to carry earthquake coverage insurance on projects committed for mortgage insurance under any FHA program.

We proposed that PHA reexamine its policy of requiring contractors to carry earthquake coverage insurance during construction of low-rent housing projects. The PHA Commissioner informed us on October 18, 1961, that PHA was reexamining its policy on earthquake insurance. (See p. 32.)

DESCRIPTION OF FUNCTIONS AND OPERATIONS

MANAGEMENT AND ORGANIZATION

PHA is headed by a Commissioner who is under the general supervision of the Housing and Home Finance Agency (HHFA) Administrator. Both the PHA Commissioner and the HHFA Administrator are appointed for indefinite terms by the President of the United States, subject to Senate confirmation. The HHFA Administrators and PHA Commissioners during the period covered by our review were as shown below.

Incumbent	Term of office
HHFA Administrator:	
Albert M. Cole	Mar. 11, 1953, to Jan. 20, 1959
Norman P. Mason	Jan. 21, 1959, to Jan. 20, 1961
Lewis E. Williams (Acting)	Jan. 21 to Feb. 10, 1961
Robert C. Weaver	Appointed effective Feb. 11, 1961
PHA Commissioner:	
Charles E. Slusser	July 7, 1953, to Jan. 1, 1960
Lawrence Davern (Acting)	Jan. 2 to May 23, 1960
Bruce Savage	May 24, 1960, to Apr. 24, 1961
Marie C. McGuire	Appointed effective Apr. 25, 1961

During our review, Mr. John G. Melville held the position of Director of the PHA San Francisco Regional Office (appointed October 31, 1949). Mr. Melville resigned on June 13, 1961, to accept an appointment as a Regional Administrator of the Housing and Home Finance Agency. Mr. Louis B. Ambler, Jr., was appointed Director of the PHA San Francisco Regional Office on July 17, 1961.

As of June 30, 1961, there were 838 employees in the seven PHA regional offices, of whom 91 were in the San Francisco Regional Office. An organization chart of a typical regional office as of June 1960 is included as appendix I.

DEVELOPMENT ACTIVITIES

The development of low-rent public housing projects is prima-rily the responsibility of the LHAs. To obtain Federal financial assistance for its low-rent housing program, an LHA must (1) enter into a cooperation agreement with the local governing body provid-ing for (a) exemption from all local real and personal property taxes--however, the LHA is required to pay to the local governing body an amount in lieu of taxes--and (b) subsequent elimination of slum dwellings substantially equal in number to the number of low-rent housing units to be constructed in urban areas on nonslum sites and (2) submit an application to PHA demonstrating the need for low-rent public housing. After review and approval of the ap-plication, PHA issues a program reservation and authorizes prelimi-nary loans to be made to the LHA to finance the cost of early plan-ning and surveys.

The LHA is responsible for preparing a development program showing, among other things, (1) the boundaries of the proposed site, (2) data to support the site selection, (3) the proposed num-ber and type of structures, and (4) the estimated development cost After reviewing and approving the development program, PHA enters into an annual contributions contract with the LHA.

The LHA's plans, specifications, and development cost budgets for a new project are required to be submitted to PHA for review and approval before the LHA advertises for competitive bids for construction. Upon PHA's approval of the lowest bidder and of the amount of the proposed award, the LHA awards the construction contract and issues a notice to proceed to the contractor. PHA supervision continues during construction through inspections and through approval of major change orders. The cost of construction is part of the total development cost used for determining the maximum annual contributions payable by PHA to the LHA.

The United States Housing Act of 1937 (42 U.S.C. 1415) provides limitations on the cost per room of constructing and equipping low-rent housing projects (excluding land, demolition, and nondwelling facilities). Recent changes in the statutory limitation on room costs are summarized below.

Type and location of project	Statutory limitation on room costs effective June 30, 1961	July 12, 1957	August 7, 1956
Accommodations for elderly families:			
Alaska	$3,500	$2,500	$2,500
All other	3,000	2,500	2,250
Accommodations for other families:			
Alaska	3,000	2,500	2,500
All other	2,000	2,000	1,750

Note: The room limitations provided by the Housing Act of 1956 (70 Stat. 1104) were increased by the Housing Act of 1957 (71 Stat. 302) and again by the Housing Act of 1961 (75 Stat. 164).

The PHA Commissioner may authorize an additional cost limitation not exceeding $750 a room if he finds that in the geographical area of any project it is not feasible to construct an adequate project within the prescribed cost limitations and that there is an acute need for low-rent housing. The PHA Commissioner has delegated to the PHA regional directors the authority to establish dwelling construction and equipment cost limits in excess of the amounts stated in the act.

At June 30, 1961, the maximum development costs approved by PHA under annual contributions contracts for the construction of low-rent housing projects totaled about $5.9 billion. Based on the approved development costs, PHA's maximum yearly commitment for the payment of contributions is about $279.4 million.

PHA was authorized by the Housing Act of 1961 to enter into annual contributions contracts aggregating not more than $336 million a year. PHA estimates that about 100,000 additional dwelling units could be constructed under this authorization.

MANAGEMENT ACTIVITIES

Although the LHAs have the primary responsibility for the operation and management of federally subsidized low-rent public housing projects, PHA makes various periodic reviews and inspections of LHAs. These reviews and inspections include (1) management reviews of operations to determine the effectiveness of local administration, (2) reviews of occupancy activities to verify compliance with statutory and contractual requirements, (3) engineering surveys to determine whether project maintenance is in accordance with established standards, (4) reviews of operating budgets submitted by local authorities to determine whether the proposed expenditures are reasonable and whether the solvency of the project will be endangered, and (5) audits of financial records of housing projects in which PHA has a financial interest to determine the accuracy of financial statements submitted by LHAs. In addition, PHA advises and assists the LHAs in promoting efficiency and economy in the operations of the low-rent housing projects.

FINDINGS

PROJECT CONSTRUCTION COSTS MAY HAVE BEEN UNDULY INCREASED BECAUSE OF UNECONOMICAL DESIGN FEATURES AND USE OF EXPENSIVE MATERIALS

Construction costs at project CAL-52-1 may have been unduly increased because of uneconomical design features and use of expensive materials. A portion of this project cost considerably more per room to build than any other low-rent housing project completed during fiscal year 1961 in the area administered by the PHA San Francisco Regional Office; the project also cost more per room than the two management-type cooperative housing projects in the San Francisco Bay area that were completed during 1961 and insured by the Federal Housing Administration pursuant to section 213 of the National Housing Act (12 U.S.C. 1715e). On the basis of our reviews of PHA's files, we doubt that the designs for project CAL-52-1 conformed completely with the intent of section 15(5) of the United States Housing Act of 1937.

Section 15(5) of the United States Housing Act of 1937 establishes certain limitations on the costs per room of constructing and equipping low-rent housing projects and provides that:

> "*** Every contract made pursuant to this Act *** with respect to any low-rent housing project *** shall provide that such project shall be undertaken in such a manner that it will not be of elaborate or extravagant design or materials, and economy will be promoted both in construction and administration. ***"

The PHA regional offices review and approve the LHAs' plans, budgets, and other documents pertaining to the development of new projects in order to ensure that the projects will conform to the requirements of the law.

Representatives of the PHA Central Office examine selected regional office files from time to time to verify that the regional offices' reviews are effective in carrying out the statutory requirements and the agency's policies. The importance of these reviews to ensure compliance with the act was emphasized by a circular to the PHA regional directors, dated February 6, 1958, when the then PHA Commissioner called attention to the need for increased effort to achieve economy in the design of low-rent housing and by a subsequent circular to them dated April 25, 1958, which stated in part:

> "Our current reviews of development program submissions and post reviews of past submissions indicate a serious problem with respect to overdesign of structures in many cases. ***
>
> "It is our considered judgment that the economy requirements of the Housing Act of 1937, as amended, can best be carried out when development programs are based upon the most economical type of construction permitted under the local code for the type of unit and building being proposed. ***"

Project CAL-52-1 of the Housing Authority of the county of Marin, Marin City, California, contains buildings of two basically different types: (1) twenty 1- and 2-story block and frame buildings containing 132 dwelling units averaging 5.26 rooms per unit and (2) eight high-rise (5-story) reinforced-concrete buildings containing 168 dwelling units averaging 4.5 rooms per unit.

The twenty 1- and 2-story buildings are row type. The eight high-rise buildings are narrow, gallery-access (outside corridor) type built on steep grades at right angles to contours, resulting in buildings five stories high at one end and two stories high at the other. In addition to the access gallery, each dwelling unit (all two bedrooms) has a private balcony indented into the building wall. Each balcony has two glass doors, one from the living room and one from a bedroom.

The low-rent housing project is a part of the master plan for rebuilding all of Marin City. This master plan also includes (1) the redevelopment of land acquired under an Urban Renewal Administration Program to provide housing for middle-income families and community facilities and (2) the private development of housing for higher income families.

Marin City is located on a 365-acre site 10 miles from downtown San Francisco across the Golden Gate Bridge. The Federal Government originally developed the site as a temporary war-housing community for workers at a nearby shipyard. The temporary housing project was relinquished to the Housing Authority of the county of Marin in 1955. The master plan provided for rebuilding the city in sections to avoid the hardship of interim relocation outside Marin City during the reconstruction period. The low-rent housing project was the first section built.

PHA entered into an annual contributions contract with the LHA in June 1957. The LHA advertised for bids for construction of the project in November 1958 and awarded the construction contract in January 1959. Some of the dwelling units were ready for occupancy in April 1960, and all of them were available for occupancy by November 1960. The project reached the end of the initial operating period provided for in the annual contributions contract on March 31, 1961. A final development cost certificate for the project had not been issued at December 15, 1961.

<u>Files did not show reasons why the local housing authority did not adopt recommendations for economies in design</u>

The PHA San Francisco Regional Office (SFRO) technical reviewers found a number of objectionable features in the basic designs for the project. Although the LHA was permitted to retain most of the disputed features, the SFRO files did not show why the SFRO Director had not required the LHA to adopt the technical reviewers' recommendations for economies in design.

The LHA submitted its development program for project CAL-52-1 to PHA for review and approval on June 7, 1957. In a memorandum on review of the development program dated June 13, 1957, the Chief of the SFRO Technical Section stated:

> "*** we believe there are certain fundamental features of the proposed designs which might well be open to serious question as to acceptability for actual development. Such features as multistory reinforced concrete structures on steep grades across contours and the mass grouping of wood frame buildings in a semi-crowded arrangement with several relatively wide open undeveloped areas should be given further very careful consideration before a final site plan is crystallized. In other words, we do not believe the best possible use of the site area is reflected in either site plan. We see no reason why such objectionable features could not be overcome by further appropriate studies by the Local Authority and its Architect in cooperation with PHA in the subsequent preparation of Preliminary Documents."

However, he recommended that the site be considered acceptable for development from an economic viewpoint with the understanding that the LHA would prepare such further studies of site plans and dwelling unit designs as necessary to demonstrate to PHA that the best use of the site would be made and that the building designs would be consistent with PHA standards for public housing developments. He recommended also that PHA estimates of construction and equipment costs be used as a basis for loan contract purposes instead of the LHA's estimate.

The SFRO Director approved the development program on June 14, 1957, and on June 28, 1957, PHA entered into an annual contributions contract with the LHA providing for development of the project with a maximum development cost of $4,345,724 and a maximum room cost of constructing and equipping the dwelling structures of $2,115. Pursuant to authority contained in the United States Housing Act of 1937, as amended, the PHA Regional Director found that it was not feasible to construct an adequate project within the then-prescribed cost limitation of $1,750 per room and that there was an acute need for low-rent housing in the area; consequently, the limitation on room costs for this project was increased from $1,750 to $2,115. Although the actual development cost of this project has not been determined, the latest estimates show that the actual costs will be reasonably close to the maximum development cost stated in the annual contributions contract; however, the summary analysis of estimated costs presented on page 23 shows that the units in the 1- and 2-story buildings, which contain a larger average number of rooms than the units in the high-rise buildings, were constructed at a cost below the basic limitation of $1,750 a room.

economies in design. The recommended typical design changes included using asbestos shingles or composition roofing in lieu of clay tile roofing in the 5-story buildings, reducing certain square-foot areas, and substituting a less expensive type of yard fencing for concrete block drying-yard enclosures.

The LHA reduced its cost estimates by about $100,000 but rejected a substantial portion of the recommendations for changes in design on the basis that the items were approvable if the aggregate cost of the project was within the limits of the approved development cost budget. However, when construction bids were opened in December 1958, the lowest bid of $3,813,470 exceeded the LHA's pre-bid estimate by about $63,000. Consequently, the LHA negotiated with the low bidder for changes in certain specifications in order to reduce the amount of the main construction contract award to $3,746,670. The negotiated changes in specifications eliminated certain features in yard work and substituted less costly materials and fixtures in the dwelling structures but did not include many of the recommended design changes. The construction contract award resulted in a room cost of $2,214 or $99 in excess of the estimated room cost included in the approved development program; however, the total estimated development cost remained unchanged because of reductions in the estimated cost of items not included in the computation of the statutory room cost.

Since the SFRO files did not show why the LHA had not been required to adopt the SFRO technical review recommendations for economies in design, we were unable to determine whether adequate consideration had been given to the various technical reviews of the development program and subsequent preliminary project plans and specifications that were made to ensure conformance with provision of the United States Housing Act of 1937, as amended, before approving the LHA's project plans and specifications.

We questioned (1) whether the design features of project CAL-52-1, particularly with respect to the 5-story buildings, conformed to the provision of the United States Housing Act of 1937 requiring that projects "will not be of elaborate or extravagant design or materials, and economy will be promoted both in construction and administration," and (2) whether the SFRO Director had given adequate consideration to the SFRO technical review comments.

We proposed to the PHA Commissioner that the regional offices be required to document the reasons why recommendations made by the technical reviewers were not accepted. The PHA Commissioner agreed that the files should show the reasons for not accepting the recommendations of the technical review staff.

Costs appear excessive

Although the United States Housing Act of 1937 provides that projects shall not be of elaborate or extravagant design or materials, no definitions of these terms are included in the act, and PHA has not established adequate criteria for measuring whether a project's design is elaborate or extravagant. Nevertheless, the cost of a project frequently gives an indication whether the designs were elaborate or extravagant.

A postreview of the construction contract award of project CAL-52-1 was made by the PHA Central Office Development Division to determine the reasons why the contracted construction costs were so high. A memorandum on the review, dated June 11, 1959, attributed the high costs to certain uneconomical design features of the eight high-rise buildings including (1) buildings designed at right angles to contours, resulting in buildings five stories high at one end and two stories at the other, (2) a private balcony with two glass doors for each dwelling unit, and (3) gallery-access-type design with front-to-back dimensions of walls ranging from 19 feet to 24 feet, notwithstanding a PHA determination that buildings of this type must have a front-to-back wall exterior dimension of at least 34 feet in order to comply with the statutory requirements for serviceability, efficiency, and economy of low-rent housing. PHA's determination with respect to gallery-access-type design was forwarded to the regional directors by Book Memorandum dated April 23, 1958, and subsequently incorporated into PHA's Low-Rent Housing Manual.

The memorandum also included an analysis showing a distribution of the development costs between the eight high-rise buildings and the twenty 1- and 2-story buildings constituting the project. This analysis showed that, while the estimated cost per room of constructing and equipping the entire project was less than the maximum cost limitation permitted by section 15(5) of the United States Housing Act of 1937 at the time the development program was approved, the estimated average cost per room for the 755 rooms in the high-rise buildings was about $225 more than the maximum cost limitation; the estimated average cost per room for the 695 rooms in the 1- and 2-story buildings was about $840 less than the maximum cost limitation. A summary of the analysis and a comparison with the maximum room limitation in effect at June 14, 1957, follows:

	High-rise buildings	1- and 2-story buildings	Combined
Number of dwelling units	168	132	300
Number of rooms	755	695	1,450
Average number of rooms per unit	4.5	5.26	4.83
Average total development cost per dwelling unit	$16,039	$12,510	$14,486
Average costs per room (based on costs classified by PHA as costs of dwelling structures and equipment)	$ 2,724	$ 1,659	$ 2,214
Maximum room cost limitation in effect at June 14, 1957	2,500[a]	2,500[a]	2,500[a]
Excess of PHA classified costs over limitations	$ 224	$ -841	$ -286

[a]The maximum room cost limitation in effect at June 14, 1957, represents the limitation of $1,750 provided in section 15(5) of the United States Housing Act of 1937 plus the maximum-permitted increase of $750 authorized by the act. The basic room cost limitation was increased to $2,000 effective July 12, 1957. The increase of $750 per room is authorized in section 15(5) of the United States Housing Act of 1937, as amended, which states:

> "*** if the Administrator finds that in the geographical area of any project (i) it is not feasible under the *** cost limitations to construct the project without sacrifice of sound standards of construction, design, and livability, and (ii) there is an acute need for such housing, he may prescribe *** cost limitations which may exceed by not more than $750 per room the limitations that would otherwise be applicable to such project ***."

Subsequent to the award of the main construction contract, the LHA had issued 55 change orders as of January 9, 1961. These change orders resulted in a net increase of $63,020 (from $3,746,670 to $3,809,690) in the price of the main construction contract. Although the PHA Central Office records do not show the changes in the room costs of the eight high-rise buildings and the twenty 1- and 2-story buildings resulting from the change orders, we do not believe that these changes substantially affected the statutory room cost computations shown in the cited Development Division's memorandum.

The cost per room of constructing the eight high-rise buildings at project CAL-52-1 was considerably higher than the cost per room of constructing the nine other low-rent housing projects that were completed during fiscal year 1961 in the area administered by the PHA San Francisco Regional Office. The cost of construction and equipment (as defined by PHA) of the dwelling structures at these other projects ranged from about $1,420 a room at the 30-dwelling-unit (155 rooms) project CAL-11-8, Oakley, to about $2,210 a room at the 156-dwelling-unit (606 rooms) project HA-1-11, Honolulu, compared with the room cost of $2,724 for the eight high-rise buildings at project CAL-52-1. In addition, the costs of constructing the two management-type cooperative housing projects in the San Francisco Bay area that were completed during 1961 and insured by FHA under section 213 of the National Housing Act were considerably less per room than the cost of the eight high-rise buildings at project CAL-52-1. A comparison of the costs of the above-mentioned projects appears in appendix II.

Our review also disclosed that the estimated average cost of constructing and equipping the 2-bedroom units in the high-rise structures at the Marin City low-rent housing project was considerably in excess of the maximum estimated construction costs (provided in the urban renewal plan) at which 2-bedroom, single-family dwellings will be built in the locality by private industry for families who are above the income limits for admission to public low-rent housing.

The PHA Development Division's analysis of the construction costs of the low-rent housing project showed that the estimated average cost of constructing and equipping the 168 2-bedroom units in the high-rise structures was $11,928 a unit, exclusive of allowances for contingencies. The architect's drawings for these 2-bedroom units show that each unit contained less than 800 square feet.

The redevelopment plan (urban renewal plan) of the Redevelopment Agency of the county of Marin dated June 2, 1958, provides that the construction costs of the approximately 170 single-family dwellings to be built to house families whose incomes exceed the income limits for admission to the low-rent housing project and who will be displaced through the redevelopment undertaking shall be between $8,500 and $10,000 for 2-bedroom dwellings containing between 900 and 1,050 square feet. These costs exclude land cost, sales expense, and miscellaneous allowable expense but include contractor's profit. The redevelopment plan provides also for adjustment of the construction cost limitations on the basis of a recognized cost-price index to reflect approximate changes in construction costs occurring after adoption of the redevelopment plan.

The Housing Authority of the county of Marin was aware of the redevelopment plan because the Executive Director of the Authority is the Secretary of the Redevelopment Agency of the county of Marin. Also, it appears that the SFRO should have been aware of the different types of housing provided for in the redevelopment plan. If so, it is difficult to understand why it acquiesced in the LHA's retaining the basic high-cost design for the high-rise dwelling units for families of low income when the redevelopment plan provided for less expensive housing for families of moderate income.

In a letter to the PHA Commissioner, dated October 4, 1961, we commented that it seemed to us that in cases where there were significant differences in the design and materials for different sections of a project, it would be in keeping with the intent of the Congress to require that the rooms in each section of the project be constructed within the statutory limitations on room costs. We proposed that, in cases where there are significant differences in the design or materials for different sections of a project, the determination of compliance with the statutory limitation on room costs should be made separately for the different sections of the project.

In a letter to us dated December 15, 1961, the Commissioner stated that she did not believe that PHA would be authorized to apply the cost limit on a narrower basis than an entire project without congressional approval and that, with the exercise of good judgment on the part of the officials charged with responsibility for exercising discretion, she would not expect to encounter abuses. The Commissioner also stated:

> "*** The very fact that Congress placed the cost limit on a project basis shows that it intended to permit variations in cost as between different portions of a project. Whether the particular restriction you suggest, that of narrowing the base only where there are 'significant differences in design or materials', would be in keeping with the intent of Congress, is also open to question. The criterion is vague and fraught with potential controversy. Disputes would inevitably arise as to whether differences in design or materials are or are not 'significant', and there would be many cases on which reasonable minds could differ. Moreover, controls based on such a criterion would lead to an unwholesome tendency to minimize differences in style and design, or to obscure differences which are actually necessary or desirable, at the expense of much needed efforts to achieve sound planning and design with such variations as may be desirable from the standpoint of relevant considerations such as location, aesthetic quality, size and types of families to be housed, etc.
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> *   *   *   *   *
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> "Finally, the present practice is in keeping with the broad policy of this Administration to encourage the exercise of increasing discretion by local authorities in their low-rent housing activities. Considerable progress has already been made in this direction in the management of projects, and we are convinced that a similar policy in development will be equally advantageous to the program. An administratively imposed requirement that the room cost limitation be applied to a narrower base than the one required by the Congress would be contrary to this objective and would, in our opinion, do more harm than good to the program."

We do not share the Commissioner's view that narrowing the base for determining compliance with the statutory limitations on room costs would be contrary to the intent of the Congress. We believe that all portions of a project should be constructed in an economical manner because the act provides that projects are to be constructed in such a manner that economy will be promoted both in construction and administration. Since the Commissioner's interpretation of the statute would not preclude the construction of a portion of a project in an uneconomical manner and the remaining portion at a much lower cost, we believe that in certain cases there is a need for narrowing the base for determining compliance with the statutory limitation on room cost.

Recommendation to the Congress

We recommend that the Congress consider amending the United States Housing Act of 1937 to require that, in cases where there are significant differences in the design or materials for different sections of a low-rent housing project, compliance with the room cost limitation prescribed in section 15(5) of the act shall be determined separately for the different sections of the project.

CHRONIC VANCANCIES AT FEDERALLY AIDED OR OWNED HOUSING PROJECTS AT BREMERTON, WASHINGTON

The Bremerton, Washington, Westpark low-rent housing project WASH-3-1 (586 dwelling units), a Navy project (558 dwelling units), and three rental defense housing projects (502 dwelling units) owned or insured by the Federal Housing Administration (FHA) have had vacancy problems for some time as a result of a gradual decline in the need for housing in the Bremerton area. One of the principal reasons for the decline in the need for housing was the decline in civilian employment at the Puget Sound Naval Shipyard after the end of World War II.

Bremerton's economy is dependent primarily upon activities of the Puget Sound Naval Shipyard and of satellite installations. During World War II there was a considerable need for housing in this community and the Westpark low-rent housing project and several war housing projects were built to help satisfy this need. One of the war housing projects was released to the Navy Department in May 1948 for use as military housing. After the Korean War ceased, the activities at the shipyard were curtailed. Some of the federally sponsored housing units were removed from the local housing market or sold for private ownership. Currently, the rental housing projects in Bremerton, including the Westpark low-rent housing project, depend largely on military and civilian employees of the Navy for tenants.

The Westpark housing project has had substantial vacancies for the past 5 years. During the fiscal year ended September 30, 1960, vacancies at the project averaged about 20 percent of the total available units. As a result, the Bremerton Housing Authority lost potential rental revenue of about $76,300 during the year. This loss decreased the amount of residual receipts available to reduce the Federal annual contributions to the Authority.

The other housing projects in Bremerton also have had substantial vacancies. As of June 1, 1960, vacancies at the Navy project and the three rental defense projects ranged from 28 to 75 percent (averaging 53 percent) of the total available dwelling units. At that time, 33 percent of the dwelling units also were vacant at the Westpark low-rent housing project. Through default one of the rental defense housing units is now owned and operated by FHA. The other two are privately owned but insured by FHA; however, one of them is in receivership.

Navy officials have recognized the vacancy problem existing at the Navy project. In June 1960, the Commandant, Thirteenth Naval District, recommended to the Chief, Bureau of Ships, that about 200 of the 558 dwelling units be declared excess and disposed of. Before action was taken on this recommendation, the Navy on October 1, 1961, moved the home port of an aircraft carrier to Puget Sound for the purpose of undergoing overhaul and thereby created a need for approximately 500 additional family quarters for a period of about 18 months.

We believe that the Westpark low-rent housing project in Bremerton is considerably larger than needed. About 300 units are needed to serve the normal needs of low-income families in Bremerton, exclusive of the temporary housing requirements of transient Navy personnel and their families. We were informed by the LHA's Executive Director that the State of Washington has under consideration the construction of a highway that would pass through the Westpark project. It was anticipated that this would result in the removal of 83 units thereby reducing the size of the project to about 500 dwelling units.

We suggested that a study of the vacancy problem in Bremerton be undertaken jointly by the interested Federal agencies, probably under the sponsorship of the Bureau of the Budget, with a view toward determining the actual local need for housing under the various Federal programs and, if practicable, reducing the number of dwelling units in excess of need through placing certain facilities in stand-by condition or making other disposition of them.

In a letter to us dated October 18, 1961, the PHA Commissioner stated:

> "We concur in your suggestion that a joint study of the vacancy problem at Bremerton be undertaken by the interested Federal agencies. We understand that the Office of the Administrator will undertake to arrange for such a study."

On January 31, 1962, the HHFA Deputy Administrator advised us that the study had been made in coordination with the Bureau of the Budget. The study disclosed that vacancies had been reduced substantially at the Westpark low-rent housing project as a result of the increased activity at the Navy Yard and that the Navy Department already has removed from the housing market 208 of the

558 units at the East Park project and plans to dispose of the entire project by June 30, 1965.

CONSTRUCTION COSTS INCREASED BECAUSE PHA REQUIRES EARTHQUAKE COVERAGE INSURANCE DURING CONSTRUCTION

Construction costs of certain low-rent housing projects in the area administered by the PHA San Francisco Regional Office were increased because PHA required construction contractors to carry earthquake coverage insurance. Generally, private lending institutions in the area do not require earthquake coverage insurance on construction of non-high-rise structures.

Section 214.53 of the Low-Rent Housing Manual, dated December 1958, provides, in part, that: "In localities particularly susceptible to earthquake disturbances additional builder's risk insurance shall be carried against loss by earthquake." PHA does not require LHAs to carry earthquake coverage insurance on low-rent housing projects in management operations. Our review disclosed that, in the area administered by the PHA San Francisco Regional Office, only the Housing Authority of the city and county of San Francisco, California, carried earthquake coverage insurance on low-rent projects in management operations. The annual premium cost paid by the San Francisco Housing Authority was not available in the regional office, and we did not visit the Authority to obtain this information.

Of 11 main construction contracts awarded in the San Francisco Region during the period from December 1958 to January 1960, 7 contracts included the requirement that the construction contractor carry earthquake coverage insurance. Three of these contracts were for high-rise projects and four of them were for non-high-rise projects. The estimated cost of the earthquake coverage insurance included in the construction contract for these projects follows.

Project No.	Location	Dwelling units	Estimated cost of earthquake insurance (note a)
Non-high-rise projects:			
CAL-11-9(A)	North Richmond, Calif.	90	$ 1,101
CAL-24-3(B)	Thornton, Calif.	10	184
NEV-2-3	Las Vegas, Nev.	75	5,800
WASH-11-1	Renton, Wash.	100	1,268
High-rise projects:			
CAL-1-18(E)	San Francisco, Calif.	211	3,802
CAL-1-18(F)	San Francisco, Calif.	194	3,171
CAL-52-1	Marin City, Calif.	300	6,159
Total estimated cost			$21,485

[a]Does not include premium for "first loss" coverage, generally ranging from 5 to 15 percent of the earthquake loss.

A survey of the practices of private lending institutions and surety underwriters made by the PHA San Francisco Regional Office during our review disclosed that private lending institutions usually do not require earthquake coverage insurance for non-high-rise construction. Also, we were informed that FHA does not require contractors in the area to carry earthquake coverage insurance on projects committed for mortgage insurance under any FHA program.

In view of the fact that FHA and private lending institutions do not consider it necessary to require earthquake insurance during construction, we proposed that PHA reexamine its policy of requiring contractors to carry earthquake coverage insurance during construction of low-rent housing projects.

In a letter to us dated October 18, 1961, the PHA Commissioner stated that PHA was reexamining its policy on earthquake insurance.

SCOPE OF REVIEW

Our examination of selected low-rent housing program activities in the area administered by the San Francisco Regional Office of the Public Housing Administration, which was completed during calendar year 1960 at the regional office and during 1961 at the PHA Central Office, included a review of:

1. Basic laws authorizing the activities, and the pertinent legislative history.

2. PHA regulations, administrative policies, and instructions for conformance with the basic legislation.

3. Various records at the PHA San Francisco Regional Office, including reports on (a) technical reviews and inspections made by the regional office staff, (b) internal audits, and (c) fiscal, management, and occupancy audits of selected local housing authorities.

In addition, we examinated into certain activities that, on the basis of our preliminary review, warranted further investigation.

APPENDIXES