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**REPORT ON
REVIEW OF ADMINISTRATION
OF EMPLOYEE AND CONTRACTOR HOUSING
AT PAGE, ARIZONA
GLEN CANYON UNIT
COLORADO RIVER STORAGE PROJECT**

**BUREAU OF RECLAMATION
DEPARTMENT OF THE INTERIOR**



**UNITED STATES
GENERAL ACCOUNTING OFFICE**

APRIL 1966

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL ACCOUNTING AND
AUDITING DIVISION

APR 11 1966

B-146960

Dear Mr. Secretary:

Herewith is the report on our review of the administration of employee and contractor housing provided at Page, Arizona, in connection with the construction of the Glen Canyon Unit, Colorado River Storage Project, by the Bureau of Reclamation, Department of the Interior.

During our review, we found several matters which required attention, including (1) the need for the Bureau to make vacant permanent housing available to other Government agencies to eliminate the necessity for the Government to construct additional homes, (2) the need to require contractors to adequately maintain homes in which the Government has a reversionary interest, and (3) the need to discontinue deductions from rental rates for employee housing, which did not appear to be justified.

The National Park Service has constructed four permanent residences at Page, Arizona, at a cost of about \$73,000, which we believe could have been avoided, because the Bureau should have rented or transferred vacant permanent housing to the Service. The Bureau's houses were constructed to serve the permanent operating personnel after completion of the project. However, the estimated number of operating employees to be assigned to the project was reduced after the houses were constructed, indicating that all the houses would not be needed.

The Bureau's decision not to make the houses available to the National Park Service was based on its belief that it would have a need for the housing during a future period when construction of the Glen Canyon Unit was being completed and housing would temporarily be needed for both construction and operating personnel. We believe, however, that it would have been in the best interests of the Government for the Bureau to utilize temporary housing to satisfy its temporary needs and to release the vacant permanent homes to the National Park Service, thus avoiding the need for the construction of additional permanent housing.

In August 1965, the Bureau advised us that, in view of its expected future need for the houses, it did not agree that the vacant housing should have been released to the National Park Service. The Bureau's views have been recognized in this report.

To aid in avoiding the construction of unnecessary houses by the Government, we are recommending that the Commissioner of Reclamation be requested to establish procedures requiring that, in instances where another Government agency requests permanent housing in an area where the Bureau has permanent housing which it is retaining to meet transitional or other temporary requirements, the Bureau release this housing to the requesting agency.

We also found that the Bureau sold a reversionary interest in the contractor's permanent-type housing, upon completion of construction of the housing, at an amount substantially below cost because, on the basis of its experience at other construction camps, the Bureau believed it likely that the housing would be allowed to deteriorate since the contractor was not required to adequately maintain the property. In April 1965, we proposed that, where facilities constructed for the use of contractors' employees at Bureau of Reclamation project sites are expected to be usable after the projects have been completed, the construction contracts contain appropriate language to require the contractors to adequately maintain the housing and facilities and to return them to the Government in good condition upon completion of the projects.

In August 1965, the Bureau stated that although it believed that there had been a valid exercise of responsible and competent judgment by the contracting officer in disposing of the reversionary interest in this particular instance, it did agree with our proposal. The Bureau stated that future specifications involving contractors' camps would require that all permanent buildings subject to a reversionary interest be painted and maintained in a first-class condition until completion of the work under the contract.

We believe that this action should provide greater protection of the Government's investment in housing and related facilities constructed in the future for the use of contractors' employees.

Our review also disclosed that the revenue from the rental of Government-owned housing at Page, Arizona, had been reduced by about \$156,000 because (1) deductions totaling about \$76,000 to compensate tenants for unusual transportation costs caused by isolated living conditions were granted during the period July 1, 1963, through July 31, 1964, although Page did not qualify as an isolated community and (2) deductions totaling about \$80,000 for extraordinary heating costs were made during the period May 1, 1961, through July 31, 1964, although Bureau of Reclamation instructions do not specifically provide for the granting of heating deductions, and the Bureau did not consider the fact that rates for other utilities were relatively low, which tended to offset the extraordinary heating costs.

As a result of our bringing these deductions to its attention, the Bureau revised the rental rates at Page in August 1964, thereby reducing the isolation and heating deductions and increasing annual rental revenue by about \$50,000. However, because the deductions were not completely eliminated and an additional deduction for extraordinary maintenance was granted, reductions in revenues of about \$55,000 annually, which we believe are unjustified, will continue to be made until further action is taken to revise the rates.

In August 1965, the Bureau advised us that it was making a general revision of rental rates in order to bring the rates into conformance with criteria provided in Bureau of the Budget Circular No. A-45, as revised on October 31, 1964. In view of the action being taken, we are making no recommendation at this time.

We wish to acknowledge the cooperation given to our representatives during the review.

B-146960

Copies of this report are being sent to the Assistant Secretary, Water and Power Development, the Deputy Assistant Secretary for Administration, and the Commissioner of Reclamation.

Sincerely yours,

A. T. Samuelson

Director, Civil Accounting
and Auditing Division

The Honorable
The Secretary of the Interior

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REPORT ON
REVIEW OF ADMINISTRATION
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AT PAGE, ARIZONA
GLEN CANYON UNIT
COLORADO RIVER STORAGE PROJECT
BUREAU OF RECLAMATION
DEPARTMENT OF THE INTERIOR

INTRODUCTION

The General Accounting Office has reviewed the administration of employee housing provided by the Bureau of Reclamation and the contractor at the Glen Canyon Unit of the Colorado River Storage Project. The examination was made as a part of our continuing review of Colorado River Storage Project activities. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We directed our examination to those areas which appeared to warrant particular attention and did not attempt to evaluate the Bureau's overall program for the construction and administration of employee housing. We examined into the Bureau's policies, practices, and procedures for construction and administration of housing at Page, Arizona. We reviewed correspondence and other pertinent records at the Bureau's Regional Office, Region 4, Salt Lake City, Utah; Glen Canyon Unit Office, Page, Arizona; and Office of Chief Engineer, Denver, Colorado.

BACKGROUND

The Colorado River Storage Project, initially consisting of four storage units and eleven participating projects, was authorized by the Colorado River Storage Project Act, approved April 11, 1956 (43 U.S.C. 620). The Glen Canyon Unit--the largest of the storage units--is located on the Colorado River in the north central section of the State of Arizona.

At the time construction of the Glen Canyon Unit began in 1957, housing at the construction site was not available for Bureau or contractor personnel. Because of the need for facilities to house and support the large construction work force and the permanent work force that would be required for operation and maintenance following completion of construction, the Bureau established the town of Page, Arizona.

In December 1957, the Bureau entered into a contract for the construction of 200 three-bedroom residences at Page. This housing, which cost \$3.6 million, was built for the primary purpose of providing accommodations for the Bureau's permanent operating staff at Glen Canyon Dam after construction of the dam was completed. During the construction period, the houses were to be used by the Bureau's construction employees. The Bureau also provided prefabricated, portable houses and house trailers to meet its needs for temporary housing during the construction period.

The prime construction contractor was required to provide all camp facilities necessary for his employees during the construction of Glen Canyon Dam and to include the cost of such facilities in the bid price for certain items of work. The contractor, as a part of his necessary camp facilities, constructed 25 permanent-type, multiunit dwellings, comprising 93 family apartment units.

The contract for construction of the dam has been completed, and other contracts for the power plant, switchyard, and other facilities either have been completed or are nearing completion. Generation of power began in October 1964 but is not expected to be at full capacity until mid-1966.

200 / 3,600,000
20 / 8,000
200
1200

FINDINGS AND RECOMMENDATION

VACANT HOUSES NOT RELEASED TO NATIONAL PARK SERVICE, RESULTING IN CONSTRUCTION OF UNNEEDED HOUSING

The National Park Service (NPS) has constructed four residences at Page, Arizona, at a cost of about \$73,000, which we believe could have been avoided, because the Bureau should have rented or transferred vacant permanent housing to NPS.

In a letter dated September 21, 1962, the Regional Director, Southwest Region, NPS, asked the Bureau's Salt Lake City Regional Office whether any additional housing at Page could be made available for use of NPS personnel on a rental or transfer basis during fiscal years 1963 through 1966. The Director stated that this information was necessary in order to determine whether a contract for construction of housing should be awarded by NPS. At the time of this request, NPS personnel were renting 12 of the Bureau's permanent houses at Page.

The Bureau's Regional Director informed NPS on October 2, 1962, that additional housing units could not be made available to any agencies until after fiscal year 1966. The basis for this decision was the Project Construction Engineer's belief that housing would be critical during fiscal years 1964 through 1966 because the project would be in a period of transition. He stated that it was his desire to keep all remaining housing available for occupancy by Bureau personnel during this period because operating personnel would be arriving before construction personnel left.

On October 29, 1962, NPS awarded a contract for the construction of four residences at Page, Arizona, at a cost of about \$73,000. This construction was justified by NPS on the premise

that the permanent housing was needed and was not available from the Bureau.

In 1957, the Bureau had estimated that 200 permanent employees would be needed for the operation and maintenance of the Glen Canyon Unit. This estimate formed the basis for the Bureau's decision to provide 200 permanent homes at Page, Arizona. On March 25, 1960, however, the Bureau revised its estimated permanent staff requirements to 164 persons. In view of this reduction, it should have been apparent to the Bureau at the time it decided not to furnish additional homes to NPS that a substantial number of the 200 homes would no longer be needed upon the completion of construction.

Bureau records show that, at the time NPS was advised that housing was not available, four of the homes were vacant and unreserved and three were vacant but reserved for Bureau employees. Thus, sufficient housing to meet the immediate needs of NPS was available at the time of the Bureau's decision in October 1962 not to release the houses.

Bureau regional office officials advised us that, at the time they made their decision not to release houses to NPS, they believed that the Bureau would require all available housing during the transition from construction to operation and maintenance and that, since NPS needed housing on a permanent basis, the assignment of residences to them on a temporary basis would not solve their long-range housing problem. We believe, however, that the Bureau should have recognized that, if a housing shortage were to occur during the transition period, the Bureau could arrange to provide its incoming employees with portable houses or trailers such as those being used by many construction employees. In our

opinion, it would have been in the best interests of the Government to make the excess permanent housing available through lease or transfer to NPS which had a permanent need for such housing. If such action had been taken, the expenditure of about \$73,000 by NPS for the construction of additional permanent housing could have been avoided.

The Bureau again revised its estimated permanent staff requirements at Page to 185 persons in September 1963. However, according to Bureau records, as of August 1, 1963, only 23 of 46 city of Page employees who were either wage-board employees or general-schedule employees of grade GS-4 or below were living in the permanent housing provided by the Government. Since all city of Page employees were included in the total of operating personnel for whom the houses were constructed, it still appears probable that the Bureau will need substantially less than 185 homes for its permanent employees and will have excess housing upon completion of construction.

Agency comments and our evaluation thereof

In August 1965, the Bureau advised us that the critical time in providing housing at reclamation projects occurs during the transition period when construction is being completed and operation and maintenance activities have started and that the Bureau estimated that the critical period for housing at this project would occur during the years 1964 through 1966. The Bureau stated that our belief that employees could be housed in portable houses or trailers if a temporary housing shortage were to occur during the transition period was not consistent with the October 2, 1962, Project Housing Report which showed limited vacancies among temporary housing facilities. The Bureau stated further that, with the

exception of short intervals, at no time had utilization of Bureau housing been such as to indicate units in excess of the Bureau's estimated needs during the critical period.

Since the Bureau's housing was designed for permanent rather than temporary use, we believe that the requirements of NPS for permanent housing at Page as of October 2, 1962, should have taken precedence over the Bureau's possible need for temporary housing during a future period of transition from construction activities to operation and maintenance activities. Since there were four unreserved permanent housing vacancies as of October 2, 1962, we believe that the Bureau should have made these vacant units available to NPS and concurrently have planned to make greater use of temporary housing to fill its temporary requirements during the transition period. In this connection, the Bureau would have had about a year to take steps to ensure that there would be a supply of temporary housing available when needed.

Bureau instructions provide that permanent houses may be constructed to the extent required for the employees who will operate and maintain the project after completion. The instructions also state that relocatable housing units or trailers are generally considered the most economical units to meet additional housing needs during construction periods. In accordance with the intent of these instructions, the fact that there was a lack of vacant temporary housing as of October 2, 1962, would not appear to warrant the construction of additional permanent housing when there was substantial doubt as to whether there would be a permanent need for all existing permanent houses.

The Bureau furnished statistics as of April 30, 1965, on vacancies in permanent housing at Page which show that there were

17 vacancies with two units reserved for the Bureau, three for the United States Coast Guard, and four for the Utah Fish and Game Department. The Bureau stated that the NPS had requirements for 11 permanent Bureau homes--three in 1966 and eight in 1967--and that the number of available units would be three short of fulfilling the contemplated NPS needs through fiscal year 1967 if occupancy through the balance of the period of transition from construction activities to operation and maintenance activities remained at the present level.

The Bureau has presented statistics indicating that it may not be able to completely fill NPS permanent housing requirements at the end of the construction period, but these statistics were based on an assumption that occupancy would remain at the same level through the remainder of the transition period. Bureau records show, however, that between April and December 1965 vacancies in permanent housing increased from 17 to 26. It therefore appears that there will be additional homes available for NPS use.

The Bureau has stated also that its primary objective in Page is to encourage its early incorporation as a municipality of the State of Arizona and that upon incorporation the Bureau housing quite likely will be disposed of through sale. According to the Bureau, permanent housing cannot be declared excess and subject to actual transfer until construction is completed subsequent to fiscal year 1966 and personnel requirements for operation and maintenance of the Glen Canyon powerplant and transmission lines, as well as the future administration and operation of the city of Page, become a matter of fact rather than conjecture.

The Bureau has stated that it stands ready, during the period of municipal administration by the Government, to make transfers of

permanent housing to Federal agencies and other agencies having programs in the area when determination of the number of units excess to the Bureau's long-term needs can be made on a firm basis.

We believe that the Bureau, when considering requests for permanent housing by other Federal agencies, should give priority to the actual current needs of those agencies for permanent housing in cases where the Bureau is uncertain as to its future requirements for such housing. In cases where another agency is allowed to utilize existing permanent housing and subsequently it becomes necessary to construct additional houses, the Government will have constructed only the number of houses actually needed. However, if the Bureau reserves permanent houses solely on the basis of possible future needs, causing the requesting agency to construct additional housing, the Government will have constructed unnecessary housing in cases where the Bureau's anticipated future needs for the housing do not materialize.

Bureau of Reclamation instructions do not provide specific guidelines to be used by the regional offices in determining the circumstances under which permanent housing which has not been declared excess should be made available to other agencies. Since the Bureau of Reclamation will continue to exercise control over a number of housing developments, we believe that such guidelines should be established.

Recommendation

To aid in avoiding the construction of unnecessary houses by the Government, we recommend that the Commissioner of Reclamation be requested to establish procedures requiring that, in instances where another Government agency requests permanent housing in an

area where the Bureau has permanent housing which it is retaining to meet transitional or other temporary requirements, the Bureau release this housing to the requesting agency.

SALE OF REVERSIONARY
INTEREST IN CONTRACTOR'S
HOUSING AT AMOUNT SUBSTANTIALLY
BELOW COST

The Bureau sold a reversionary interest in the contractor's permanent-type housing, upon completion of construction of the housing, at an amount substantially below cost because, on the basis of its experience at other construction camps, the Bureau believed it likely that the housing would deteriorate as the project neared completion. If the contract providing for construction of the housing had required the contractor to adequately maintain the property or the Bureau had taken action to amend the contract or to provide in other ways for proper maintenance of the property when it became known that the housing units were to be of a permanent nature, we believe that this situation could have been avoided.

The contract provided that the contractor construct, operate, and maintain all camp facilities necessary for his employees. The contract further provided that, after the completion of the project, the contractor, at the option of the Government, would either remove all structures and improvements or allow all or any part thereof, with the exception of mobile house trailers, to remain in place and become the property of the Government at no additional cost to the Government.

In April 1958, the contractor initiated construction of 93 housing units consisting of 7 triplex and 18 quadruplex permanent-type apartment units on Government-owned land. The Bureau's Project Construction Engineer for the Glen Canyon Unit stated, in a letter dated July 15, 1958, that, if the housing units were properly maintained, they would be livable for an estimated 30 years. The units, which were constructed in accordance with Federal

Housing Administration requirements, were completed in February 1960, and the contractor informed the Bureau that the cost of the units, including utilities, street paving, sidewalks, and curbs exceeded \$1,003,000.

Section 2(a) of the act of September 2, 1958 (72 Stat. 1686), authorizes the Secretary of the Interior to dispose of lots in townsites on lands acquired for the Glen Canyon project, including improvements thereon, at not less than their fair market value. Under the provisions of this act, the contract was amended in February 1960 to provide that the contractor retain ownership of the 93 apartment units after completion of the contract and purchase, within 60 days after the date of the amendment, the land on which the units were constructed. For the apartment units, the contractor paid the Government \$98,500 which, according to the amendment, was the amount determined to be at least equal to the residual value of the units at the completion of the project, about 4 years thereafter. The lots on which the units are situated were subsequently sold to the contractor for \$33,300.

In a letter dated December 9, 1959, to the Commissioner of Reclamation, the Chief Engineer gave the following justification for the sale of the apartment units.

"The price of \$98,500 was determined as the value to the Government of the houses at the end of the contract period. The housing units were constructed for an average cost of approximately \$5,000 per unit. The Regional Director and I, having had considerable experience with construction camps after completion of the work agreed that the residual value of a two-bedroom unit to the Government would not exceed \$1,000. In reaching this figure, we considered probable use, maintenance costs, and administration costs. The value of the other size units was determined on the basis of their size compared to the

size of the two-bedroom units. Considering the fact that the contractor is not required to maintain the housing units to any particular standard, the value at the end of the contract period is, of course, not subject to any precise determination. Furthermore, if the units are sold and are maintained as rental properties by a third party, the value may not depreciate to the extent indicated in my estimate. However, I am strongly of the opinion that the Government cannot realize as much from these housing units at the end of the job as it can at this time. In addition, the Government will have the use of the \$98,500 now rather than some indefinite amount 4 years or more from now." (Underscoring added.)

On the basis of an average cost of \$5,000 a unit, it appears that the Bureau estimated that the total original cost of the units was about \$465,000. Therefore, the selling price of \$98,500 was only about 21 percent of the original cost.

In commenting on the sale of the units, the Chief Engineer stated in December 1963 that there was no requirement in the contract under which the Government could force maintenance beyond the minimum standards for safety and health and that experience at other camps had indicated that housing was allowed to deteriorate as the contracts neared completion. He further stated that the market which would be available for such units in a deteriorated condition after construction had ceased in the area was speculative and that, accordingly, it was considered that the Government would be in a better overall position if the contractor could retain the units on the terms agreed to.

We believe that the above statements by the Chief Engineer indicate that the major factor considered in determining that the units would be worth only about \$1,000 each upon completion of construction, or about 21 percent of their original cost, was the expected deterioration of the units due to the lack of a provision in

the construction contract requiring the contractor to adequately maintain the units. The contract price included the contractor's estimated cost of constructing, operating, and maintaining the units. Since the Government was to retain a reversionary interest in the housing units and in view of the Bureau's experience with other construction-camp housing, we believe that a provision should have been included in the contract requiring the contractor to adequately maintain the property and to return it to the Government in good condition.

Although the contract did not contain a provision that the contractor adequately maintain the property, we believe that the Bureau should have negotiated an amendment to the contract or provided in other ways for adequate maintenance when it became apparent that the contractor was constructing housing units of a permanent nature. In this connection, maintenance of the contractor's housing units could have been coordinated with maintenance of the Bureau's 200 permanent-type houses and other facilities at Page. We believe that a provision for proper maintenance would have obviated the need for the Government to sell its reversionary interest in the houses at an amount substantially below cost.

In the budget justification of the Department of the Interior for fiscal year 1966, the Department stated that there were 196,400 visitors to Glen Canyon Dam in 1964, and estimated that there would be 400,000 in 1965 and 600,000 in 1966. It therefore appears that the dam is a prime tourist attraction with a need for motels and other tourist facilities. Because the 93 apartment units were constructed in accordance with Federal Housing Administration requirements and are located within a block of a main thoroughfare, they appear to be suitable for use as motels.

Since the apartment units were considered to have an estimated useful life of about 30 years if properly maintained, it appears that, on the basis of the Bureau's estimate of their original cost, the units would have a book value (cost less straight-line depreciation) of about \$387,500 upon the completion of the dam and powerplant. We believe that, if the Bureau had required that the units be adequately maintained, their selling price might have been substantially higher than \$98,500, especially in view of the offsite improvements constructed in the area, such as utilities, street paving, sidewalks, and curbs, which have not been considered in arriving at the book value of the units. However, because the Bureau did not require the contractor to adequately maintain the units, the units were sold for \$366,500 less than their estimated cost and \$289,000 less than their estimated book value upon completion of the project.

In April 1965, we proposed that, where facilities constructed for the use of contractors' employees at Bureau of Reclamation project sites are expected to be usable after the projects have been completed, the construction contracts contain appropriate language to require the contractors to adequately maintain the housing and facilities and to return them to the Government in good condition upon completion of the projects. In August 1965, the Bureau stated that although it believed that there had been a valid exercise of responsible and competent judgment by the contracting officer in disposing of the reversionary interest in this particular instance, it did agree with our proposal. The Bureau stated that future specifications involving contractors' camps would require that all permanent buildings subject to a reversionary interest be painted and maintained in a first-class condition until completion of the work under the contract.

We believe that this action should provide greater protection of the Government's investment in housing and related facilities constructed in the future for the use of contractors' employees.

REDUCTIONS IN RENTAL RATES
RESULTING IN LOSS OF REVENUE

The revenue from the rental of Government-owned housing at Page, Arizona, was reduced by about \$156,000 because (1) deductions totaling \$76,000 to compensate tenants for unusual transportation costs caused by isolated living conditions were granted during the period July 1, 1963, through July 31, 1964, although Page did not qualify as an isolated community and (2) deductions totaling \$80,000 for extraordinary heating costs were made during the period May 1, 1961, through July 31, 1964, although Bureau regulations do not specifically provide for the granting of heating deductions and the Bureau did not consider the fact that rates for other utilities were relatively low, which tended to offset the extraordinary heating costs. As a result of our bringing these deductions to its attention, the Bureau revised the rental rates at Page in August 1964, thereby increasing annual rental revenue by about \$50,000. However, deductions which we believe are unjustified are still being made, and these deductions will continue to reduce revenues by about \$55,000 annually.

The principles and procedures by which agencies of the Federal Government prescribe and administer rents for quarters and charges for related facilities supplied to employees and others are set forth in Bureau of the Budget Circular No. A-45. In order to implement these principles and procedures, the Bureau of Reclamation has issued instructions for setting rental rates for houses rented in connection with authorized Bureau programs. These instructions provide that rental rates are to be determined by a survey of the private rental rates for comparable housing in the nearest established community. An established community is defined as a

community where shopping, medical, amusement, religious, educational, and similar facilities are available.

The instructions also provide for the granting of isolation deductions from rental rates to compensate tenants for unusual transportation costs whenever housing is located more than 10 miles from an established community or in situations where the one-way travel time to an established community is more than 20 minutes. There is no specific provision in the instructions authorizing the granting of deductions for extraordinary heating costs.

The isolation and heating deductions granted by the Bureau are described below.

Isolation deductions

For purposes of establishing rental rates for Government-owned housing at Page, Arizona, the Bureau's Salt Lake City Regional Office determined that Page was not an established community because the town did not have certain facilities or services common to most communities, such as furniture and appliance stores, dry cleaners, and parks, and because entertainment facilities were extremely limited. The regional office determined that the nearest established community was Kanab, Utah, which is about 75 miles from Page.

On April 17, 1961, the regional office established rental rate schedules based on a rental survey made at Kanab during March 1961. These schedules provided for isolation deductions to compensate the residents of Page for the unusual transportation costs which they would incur because of the distance to Kanab, the nearest established community.

On April 21, 1962, the Bureau revised its instructions for computing isolation deductions. Effective June 24, 1962, the regional office issued revised rental rate schedules for the houses

at Page, implementing the revised Bureau instructions and providing for isolation deductions of \$28 a month for permanent housing and \$18.75 a month for prefabricated portable housing. Our review of these revised deductions disclosed that the regional office had not made a new survey of comparable facilities or services but had used the information previously obtained during the March 1961 rental survey.

By July 1963, the town of Page, in our opinion, had commercial facilities and services equal or superior to those available at Kanab, Utah, and met the Bureau's requirements for an established community. Some of the facilities which were available at Page in July 1963 are listed below.

<u>Type of facility</u>	<u>Number of establishments</u>
Hospital	1
Clinic	1
Restaurants	3
Grocery stores	2
Amusement or entertainment	4
Religious organizations	All major denominations
School (first to twelfth grades)	1
Transportation facilities (bus, airlines, car rental)	3
Furniture and appliance stores	4
Service stations and garages	16
Motels	3
Clothing stores	2
Laundries	4
Beauty shops	2
Barber shop	1
Variety stores	2
Bank	1

Bureau of Reclamation instructions provide that rental rate schedules should be revised and new schedules prepared whenever any

of the conditions giving rise to charges or deductions change. By July 1963, the isolation deductions granted to residents occupying Government-owned housing at Page in our opinion were no longer justified; however, the Bureau made no adjustment in these deductions until August 1964, after we had questioned the matter. (See p. 21.) As a result, the Government incurred a loss of rental revenue of about \$76,000 during the period July 1963 through July 1964.

Heating deductions

The rental rate schedules established on April 17, 1961, included heating deductions of \$10 and \$4 for permanent and prefabricated portable houses, respectively. The basis for these heating deductions was a study of the heating costs at Kanab, Utah. The regional office found that the average monthly heating cost at Kanab, where coal or fuel oil was used, was \$8, compared with an average monthly heating cost of \$18 at Page, where liquid petroleum gas was used.

The average monthly heating cost of \$18 was determined by averaging the heating costs at Page for the months of November 1958 through July 1960, and it therefore did not include complete calendar cycles or a proportionate number of winter and summer months. By considering the same information used by the regional office but limiting our analysis to calendar year 1959, we determined that the heating cost for Page was \$16 a month, or \$2 less than the average amount computed by the regional office.

We believe that, inasmuch as the regional office considered it equitable to adjust rental rates to allow for differences in heating costs between Page and Kanab, other utility costs also should have been considered in determining the adjustment to be made. For example, we found that electric and water rates were substantially lower at Page than those at Kanab. We found no evidence, however,

that utility costs other than for heating had been considered by the Bureau in establishing the rental rates at Page. Since there were no specific Bureau instructions providing for the granting of deductions for extraordinary heating costs and there was no indication that total utility costs at Page were in excess of those at Kanab, we do not believe that the heating deductions should have been granted.

The Bureau continued to allow heating deductions of \$10 and \$4 for permanent and prefabricated portable housing, respectively, until August 1964, after we had questioned the matter; and, as a result, the Government incurred a loss of rental revenue of about \$80,000 during the period May 1961 through July 1964.

Agency action

As a result of our questioning the isolation and heating deductions in November 1963, the regional office made a study of rental rates at Page to reevaluate the propriety of these deductions. After completion of this study, the Bureau established revised rates for the Government housing at Page in August 1964. A summary showing the deductions from monthly rental rates in effect prior to August 1964 and those established in the revised rate schedule follows.

Deductions from rental rates for permanent housing			
Type of deduction	Prior to revision	As revised in August 1964	Difference
Isolation	\$28.00	\$ 7.50	\$20.50
Heating	10.00	8.50	1.50
Maintenance	-	4.00	-4.00
Total	\$38.00	\$20.00	\$18.00

Deductions from rental rates for prefabricated portable housing			
Type of deduction	Prior to revision	As revised in August 1964	Difference
Isolation	\$18.75	\$ 7.50	\$11.25
Heating	4.00	3.50	.50
Total	\$22.75	\$11.00	\$11.75

A regional office official advised us that the revised isolation deduction was not based on a lack of available facilities at Page but on the fact that Page is further from other metropolitan areas than Kanab and also because there was a possibility that services would be reduced at Page. Bureau instructions limit isolation deductions to situations where Government housing is located more than 10 miles from an established community or where the one-way travel time to an established community is more than 20 minutes. Since, in our opinion, Page meets the prescribed requirements for an established community, we believe that there was no justification for the isolation deduction and that it should have been discontinued.

Regional office officials stated that adjustments had not been made to the rental rates for utilities other than heating because their study showed that, although rates for such utilities as water and electricity were higher at Kanab than at Page, residents of Page used these utilities to a greater extent and thus incurred greater costs than did residents of Kanab.

We found that the regional office had obtained statistics on average utility usage for all residences at Kanab and compared these statistics with those for average utility usage at Government-owned housing at Page. Since all residences at Kanab may not be comparable to the Government-owned housing at Page, we do not believe that the statistics provide an adequate indication of utility usage, for the purpose of determining comparable costs.

For comparative purposes, we applied the rates prevailing in each of the two communities to the average utility usage for Government-owned housing at Page and found that the costs for utilities other than heat were considerably lower in Page than in Kanab

and that these differences in costs approximately offset the current heating deduction of \$8.50. We believe, therefore, that the entire heating deduction should have been discontinued.

A Bureau official stated that the deduction given for maintenance was based on the premise that, because the lawn area for permanent housing at Page was larger than that for comparable housing at Kanab, expenditures for cutting and watering the lawns at Page would be greater. Bureau instructions regarding deductions for maintenance provide only that, if tenants of the Government housing are expected to perform significantly more maintenance than would a private landlord's tenants, this fact must be taken into account when setting rental rates. However, the rental agreement used for Government housing at Page requires only normal maintenance. Therefore we do not believe that a separate deduction for maintenance is warranted.

The revised rate schedules established by the Bureau will produce additional annual rental revenue of about \$50,000. However, the deductions still being granted will continue to reduce revenues by about \$55,000 annually until further action is taken to revise the rates.

On October 31, 1964, the Bureau of the Budget revised Circular No. A-45. The revised circular prescribes more specific principles and procedures for agencies to use in establishing rental rates than those previously in effect. The circular provides for isolation deductions only in cases where Government housing is located at some distance from available minimal community services and for heating deductions only where poor design or lack of all-weather construction of the Government quarters requires an unreasonable additional heating expense. No provision is made for deductions

for extraordinary maintenance costs. In our opinion, the current deductions from rental rates being granted to residents at Page, Arizona, are not authorized under the provisions of the revised circular.

In August 1965, the Bureau advised us that it concurred in the conclusion that it was inequitable to allow a deduction in rental rates because of the higher heating costs at Page, compared with those of the survey community, and not at the same time to recognize such compensating advantages as might exist in the lower electric and water rates at Page, compared with those of the survey community. The Bureau stated that it was making a general revision of rental rates in order to bring the rates into conformance with criteria provided in the revised Bureau of the Budget Circular No. A-45. In view of the action being taken, we are making no recommendation at this time.