

local authority may proceed with preliminary planning of its project, including site selection and market surveys. If an authority wishes, it can, pursuant to procedures set forth in the Housing and Urban Development Act of 1965, plan to acquire existing housing either for use as is or after rehabilitation.

As planning advances, a development program is produced by the local authority. This program is a detailed account of the authority's plans and schedule for the development of the dwellings and is a prerequisite to the annual contributions contract.

*Construction.*—After the Public Housing Administration executes an annual contributions contract with the local housing authority, a construction contract is awarded to the lowest responsible bidder, subject to approval by the Public Housing Administration. The local authority then issues orders to proceed to the contractor and construction is started.

*Management.*—When the project is completed, the local housing authority, having established income limits and rents, will accept tenants and the management phase of the program will begin. Except in the case of the elderly (including the disabled and the handicapped) and those displaced by governmental action, there must be a gap of at least 20 percent between the upper rental limits for admission and the lowest rents at which private enterprise unaided by subsidy is providing a substantial supply of standard housing. Rents are set for each family in relation to its income. From the rents collected, the local authority pays all operating expenses, including a payment in lieu of taxes to the local taxing body.

Consistent with the principle of local autonomy, maximum income limits and rents are set by the local housing authority and are not disapproved by the Public Housing Administration unless they threaten the financial solvency or the low-rent character of the project. Similarly, the adoption of reasonable regulations establishing admission policies, including preferences, is a function of the local housing authority.

*Financing and Federal annual contributions.*—Local housing authority obligations are not a debt or liability of the State or of the municipality which they serve. The financing plan, therefore, relies upon the use of Federal funds and credit. The Public Housing Administration is authorized to lend the local housing authority up to 90 percent of the total development cost of its project. Planning funds as discussed under "Planning the Project," are provided by direct Public Housing Administration advances to the local housing authority. As construction proceeds, it becomes financially advantageous for a housing authority to market its short term notes (called temporary notes) to private investors. The security for these notes is a commitment by the Public Housing Administration to advance the amount needed to cover the principal and interest on the notes when they mature.

When the project approaches completion, the local housing authority, with the cooperation of the Public Housing Administration, will sell its long-term housing bonds on the private market. From the proceeds of the sale of these bonds the local housing authority retires all its temporary notes and repays all Federal loans, plus interest.