

## QUARTERS MANAGEMENT

**1. PURPOSE:** This Department of Veterans Affairs (VA) Handbook establishes policy for continued operation of quarters, and setting and adjusting rental rates for Veterans Health Administration (VHA) quarters.

**2. SUMMARY OF CONTENTS:** This revision to the handbook reflects organizational changes which removed the Office of Construction & Facilities Management (CFM) from VHA. It extends to all VHA quarters units nationwide the policy adopted by the Under Secretary for Health in 2003, which eliminated the use of positive location adjustments for quarters in high-cost areas of the country. It also changes the due date for annual submission of local quarters data to the VA Housing Officer.

**3. RELATED ISSUES:** VA Directive 7631, "Quarters Management."

**4. RESPONSIBLE OFFICE:** The Director, CFM, (00CFM) is responsible for the contents of this handbook. *NOTE: Questions may be referred to the VA Housing Officer, CFM, Real Property Service (00CFM3C), at (202) 461-8234.*

**5. RESCISSIONS:** VHA Handbook 7631.2, "Requirements for the Continued Operation of Quarters and Establishing Quarters Rental Rates," October 1, 2003.

**CERTIFIED BY:**

**BY DIRECTION OF THE SECRETARY OF  
VETERANS AFFAIRS**

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## QUARTERS MANAGEMENT

### 1. PURPOSE

This Department of Veterans Affairs (VA) Handbook contains procedures for determining quarters rental rates, evaluating the continued operation of quarters units which are not in support of the mission of the facility, and discontinuing quarters units which are not economically profitable or self-sustaining.

### 2. BACKGROUND

a. In the past, VA policy (contained in Department of Medicine and Surgery (DM&S) Supplement to MP-3, Chapter 3, Section I, Quarters: Rental Rates) required the procurement of individual appraisals for each of the quarters every 5 years. During the interim years, rates were manually adjusted according to the Consumer Price Index (CPI). The appraisal method involved a costly and administratively burdensome process. In its 1985 audit of Veterans Health Administration (VHA) quarters, the Office of Inspector General (OIG) found many appraisals were questionable or outdated.

b. Office of Management and Budget (OMB) Circular A-45, Rental and Construction of Government Quarters, encourages agencies to use the regional survey for establishing charges for quarters. The regional survey creates a series of economic models based upon a survey of comparable private rental housing throughout the region. The Quarters Management Information System (QMIS) is the automated system that employs the regional survey methodology and is used to calculate rent and other charges for more than 20,000 quarters units throughout the federal government.

c. In 1997, the Under Secretary for Health approved the use of QMIS for establishing and adjusting rental rates. Most VHA facilities adopted QMIS to charge for rent and other services. Following its evaluation of VHA's management of quarters, the OIG recommended that all rental rates be adjusted to reflect market value and agreed that use of QMIS, including any applicable location charge or deduction, would enable VHA to appropriately adjust the rental rates to reflect fair market value.

d. On October 28, 1999, VHA Directive 7631.1, "Elimination of Federal Tax Exemption for Key Employees Occupying Quarters," was issued. This Directive, implemented during pay period 26 of 1999, stated that in compliance with federal policy, occupancy of quarters is voluntary and that VHA will eliminate the practice of designating key employees to live in quarters (except under certain conditions where the agency requires it to provide for needed services or protect VA property).

e. Due to large increases in rental rates with the implementation of QMIS, especially in areas where the cost of living is high, the Under Secretary for Health issued a policy decision on April 24, 2003, eliminating the use of positive location adjustments in the 31 locality pay areas defined separately from the "Rest of U.S." by the Office of Personnel Management (OPM).

### 3. SCOPE

It is desirable that all quarters that remain in operation remain economically profitable or self-sustaining and that all quarters units support the mission of the facility.

a. In all locations where VHA rents quarters to its employees, the rent must be established and annually adjusted by use of the regional survey methodology, using QMIS.

b. Buildings in use as quarters will be discontinued for such use whenever the building has reached a state of disrepair or obsolescence which requires a capital improvement project, the estimated cost of which, when added to the future estimated cost of management, maintenance and operation over a 10-year period, will not be offset by reasonably expected rental receipts over the same 10-year period using net present value calculations.

c. Upon vacancy of the quarters unit prior to renting to another VA tenant, quarters units showing a projected loss over the future 10-year period will not be rented and, if no alternative use can be economically justified, must either be considered candidates for demolition or transferred to the medical center inventory of buildings.

d. Quarters failing to operate at a profit will be considered candidates for demolition or Enhanced Use Lease upon the vacancy of the unit. Continued expenditures for maintenance, repair, modernization and renovation of quarters that are unprofitable are generally not justified.

e. Waiver of the requirements in paragraphs 3.b., 3.c., and 3.d. may be granted by the Deputy Under Secretary for Health for Operations and Management (DUSH/OM) upon receipt of a written justification from the facility director with the concurrence of the Veterans Integrated Service Network (VISN) director.

f. In considering whether to request waiver of the above requirements regarding profitability, managers should take into account existing VA and VHA policies on cultural resource management (historic preservation) and environmental issues such as (but not limited to) lead-based paint, carbon monoxide, and asbestos. See section 10, References, for applicable policies.

### 4. QMIS

a. QMIS must be used for establishing and adjusting rental rates.

b. The QMIS rent calculation consists of the:

(1) Monthly base rental rate;

(2) Value of government-provided related facilities;

(3) Value of applicable administrative adjustments;

- (4) Value of annual adjustments based on CPI increases or decreases; and
- (5) Value of applicable negative location adjustments where the rent is lower than the regional average.

## **5. DESIGNATION OF ESSENTIAL QUARTERS**

There is no longer a designation of essential quarters units for key personnel at VA medical facilities (see VHA Directive 7631.1).

## **6. INCOME AND EXPENSE ANALYSIS**

An income and expense analysis must be prepared by the VHA medical facility and submitted to Engineering/Construction Support (10NB), and the VA Housing Officer (00CFM3C), for approval prior to proceeding with a capital improvement project or renting a vacant quarters unit to a new tenant. This form must be utilized for all income and expense present value analyses submitted for approval (see Appendix E).

## **7. QUARTERS CAPITAL IMPROVEMENT PROJECT**

A quarters capital improvement project is a project which effects a change to a quarters unit (to include additions, alterations, betterments, modifications, rehabilitations, renovations and/or replacements) and has a life expectancy of 5 years or more and a cost of \$10,000 or more.

## **8. ACTION**

Annual rent adjustments will be effective the first day of the first pay period beginning in March of each year. Tenants will be given at least 30 days notice of a change in the amount of their rent. Following the annual adjustment, but no later than April 1 of each year, facilities will submit a dump of the information in their QMIS database to the VHA Housing Officer.

a. VHA facilities must annually adjust rental rates using the QMIS system, which will be updated to reflect changes in the CPI adjustment, as well as changes in base rents and negative location adjustments based on updated regional surveys. The following appendices provide necessary details for completing this action:

(1) Appendix A, Sample Format for the Report of Rental Rates for Quarters (Report Control Number (RCN) 10-0128), is a report showing current rental rates for all quarters units. This report must be updated annually and forwarded to the VA Housing Officer (00CFM3C) by April 15 of each year.

(2) Appendix B, Reconsideration and Appeal of Rental Rates, contains instructions for requesting reconsideration and appeal of rental rates.

(3) Appendix C, Guidelines for Conducting Appraisals, contains guidelines for conducting appraisals to be submitted in support of a request for reconsideration of an appeal.

(4) Appendix D, Quarters Capital Investment Cost Effectiveness Analysis Worksheet, contains an Excel worksheet to be utilized in determining whether a capital improvement is economically feasible or to determine whether continued occupancy of a vacated unit is warranted (see <http://vaww.cfm.va.gov/cfm/real/qVHAdir7631-2-attf.xls>).

b. Instructions for completing the Quarters Inventory Form and a sample of the format that is used to input data for QMIS rent calculations are available at the QMIS Program Office website, <http://www.nbc.gov/supportservices/quarter.html>).

## 9. RESPONSIBILITIES

a. Department of Interior (DOI). DOI, QMIS Program Office, is responsible for administering the interagency regional rental program for the federal government. This office is responsible for:

(1) Conducting regional rental surveys using certified appraisers on a contract basis;

(2) Preparing regional survey reports;

(3) Developing software and instructions for annual rental adjustments;

(4) Conducting QMIS database training;

(5) Maintaining an interagency quarters database;

(6) Conducting special analyses for user agencies; and

(7) Working with the VA Housing Officer and the VISN and local Housing Officer Representatives on matters relating to QMIS.

*NOTE: VA is contracting with the Department of the Interior (DOI) for the use of QMIS. The office mailing address is: QMIS Program Office (Code D-2910), National Business Center, 7301 West Mansfield Avenue, Denver, CO 80235-2230.*

b. VA Housing Officer. The VA Housing Officer, (00CFM3C), is responsible for:

(1) Administering VA's Quarters Management Program;

(2) Providing guidance on program matters;

(3) Maintaining VA's nationwide QMIS database;

- (4) Preparing special analyses and reports;
- (5) Providing expert review of appeals and requests for certification of required occupancy;
- (6) Developing Departmental policy for managing rental quarters; and
- (7) Reviewing income and expense analyses submitted by the VISN Housing Officer Representatives through the VISN directors.

c. VISN Directors. VISN directors are responsible for compliance with federal and VA quarters management policies for the programs under their jurisdiction. VISN directors are also responsible for:

- (1) Ensuring that appropriate charges are established and collected through payroll deduction from employees living in quarters;
- (2) Establishing a mechanism to account for all income derived from the rental of quarters so that it can be used for the maintenance and repair of units;
- (3) Implementing VA Housing Officer recommendations regarding appeals of rental rates; and
- (4) Reviewing income and expense analyses for the continued operation of quarters units and forwarding concurrence to the VA Housing Officer.

d. Housing Officer Representatives. Each VISN may appoint as many Housing Officer Representatives (HOR) as necessary for effective operation of the VISN quarters management program. HORs are responsible for running QMIS software and communicating the adjustment of rental rates to affected occupants. For each unit under their purview, HORs are responsible for:

- (1) Ensuring the accuracy of the data input to QMIS;
- (2) Overseeing the implementation of the annual adjustment to rental rates;
- (3) Providing updated database information annually to the VA Housing Officer;
- (4) Preparing income and/or expense analyses for the continuation of operating quarters units and forwarding this documentation to the appropriate VISN Director for review and concurrence; and
- (5) Preparing requests to discontinue quarters units that are no longer profitable or that are designated for other uses and forwarding this documentation to the appropriate VISN director for review and concurrence.

## 10. REFERENCES

- a. Title 5, U.S.C., Chapter 59, Section 5911, "Quarters and Facilities; Employees in the United States."
- b. OMB Circular No. A-45 (Revised), "Rental and Construction of Government Quarters."
- c. VA Directive 7631, "Quarters Management."
- d. VA Directive 7545, "Cultural Resource Management."
- e. VHA Directive 7631.1, "Elimination of Federal Tax Exemption for Key Employees Occupying Quarters."
- f. VHA Directive 2002-010, "Lead-Based Paint Assessment and Abatement in Childcare Centers and Staff Quarters Owned by VA."
- g. VHA Directive 2002-052, "Carbon Monoxide Detectors in Quarters."
- h. VHA Handbook 7700.1, "Occupational Safety and Health."
- i. Under Secretary for Health Decision Document, "Quarters Rent," signed April 24, 2003.
- j. Deputy Under Secretary for Health for Operations and Management Memorandum, "Excluding the Cost of Lead-Based Paint Abatement from the Cost Effectiveness Analysis for Recovery of Quarters Improvement Project Costs," dated April 14, 2003.

**SAMPLE FORMAT FOR THE  
REPORT OF RENTAL RATES FOR QUARTERS (RCN 10-0128)**

1. Name of medical facility.
2. Name, title, and phone number of person preparing the report.
3. Name of Veterans Integrated Service Network (VISN) Housing Officer Representative.
4. Date new rental rates are effective.

Unit number	Monthly Base Rental Rate (MBRR)	Utilities and other charges for related services	Applicable administrative adjustments	Consumer Price Index adjustment	Location adjustment	Total monthly rental rate







## RECONSIDERATION AND APPEAL OF RENTAL RATES

### 1. RIGHT OF THE EMPLOYEE-TENANTS

Employee-tenants have the right to contest any aspect of the management and rental rate establishment processes. The two steps in the process are: (1) request for reconsideration, and (2) request for appeals. VA facilities must inform employee-tenants of their rights and the procedures for exercising these rights.

a. Requests for Reconsideration. A request for reconsideration is a written request by the employee-tenant for reconsideration of any aspect of the quarters management or the rate establishment processes. Only employee-tenants may request reconsideration of quarters management and rental rate determinations. Non-federal tenants may not seek reconsideration or subsequent appeal.

(1) Employee-tenants may request reconsideration of rental rates, adjustments, or other charges whenever they believe they have been improperly classified by erroneous factual determinations or rates have not been established within these guidelines or those of Office of Management and Budget (OMB) Circular A-45 (Revised). The request for reconsideration must be made in writing, outlining in detail the basis for the request and the names of all employee-tenants participating in the request for reconsideration. The request must be filed with the responsible HOR, and a copy provided to the VISN HOR (if there is one), within 30 days following receipt of the notice of the change in rent or implementation of other contested charges.

(2) The filing of a request for reconsideration cannot serve to delay implementation of the revised rental rates and related facilities charges. Where reconsideration results in a revision of the rental rate, the employee must be credited with whatever overpayment resulted during the period from the date the rental increase became effective to the date the rate is modified. Conversely, the employee must pay the government whatever underpayment resulted during this period.

(3) The reviewing official identified in the VA facility's quarters management plan must issue a decision on a request for reconsideration within 30 days of receipt. The failure of the reviewing official to issue a decision within 30 days of receipt of a request for reconsideration is to be deemed a decision of denial and, thus, grounds for appeal. While VA facilities may have additional review steps, these do not extend the 30-day response time.

(4) The employee-tenant has the burden of proof on a request for reconsideration and the subsequent appeal as to questions of fact.

b. Appeals. The filing of a request for reconsideration and the decision made on that request are prerequisites to filing an appeal. An appeal is a written request by the employee-tenant to the responsible HOR for re-examination of the issues raised in a request for reconsideration. The appeal must be filed within 30 days of the employee-tenant's receipt of a decision on the request for reconsideration. The Veterans Health Administration (VHA) facility must refer the appeal to the VA Housing Officer, Office of Construction & Facilities Management, Real Property Service (00CFM3C), VA Central Office, through the VISN, for resolution. Appeals are subject to the following conditions:

(1) Issues not raised in the initial request for reconsideration cannot be considered on appeal.

(2) Appeals undertaken as to either existing rates or proposed rates must be adjudicated as of the date the rate increases were implemented.

(3) The filing of an appeal cannot delay implementation of the revised rental rates and related facilities charges. However, the employee must be credited with whatever overpayment resulted during the period from the date the rental increase became effective to the date the rate is modified on appeal. Conversely, the employee must pay the Government whatever underpayment, if any, resulted during this period.

(4) An appeal must specify the errors alleged, and must list the names of all employee-tenants participating in the appeal. Any errors or occupants that have not been so specified and listed cannot be considered as part of the appeal. *NOTE: A failure to specify the errors alleged is cause for summary dismissal of the appeal.*

## **2. SETTLING APPEALS OF QMIS RENTAL RATES**

a. At the facility level, the first step of the reviewing official will be to verify that the QMIS rental calculation is correct. This should be done following receipt of a request for reconsideration. If the QMIS rent is found to be correct, the request for reconsideration must be denied. An appeal of the rental rate can then be forwarded directly to VACO.

b. In cases where it can be demonstrated that the rental rates being appealed are not in line with market value rents prevailing in the nearest established community, the VA Housing Officer may request reconsideration by the QMIS Program Office. The affected facility must obtain an appraisal, following the guidelines contained in Appendix D, that demonstrates the availability of private residential rental property that is similar to the unit, located in the same area, and rented for at least five percent less than the rates being appealed. The appraiser must submit the appraisal directly to the VA Housing Officer, Office of Construction & Facilities Management, Real Property Service (00CFM3C) for review and acceptance.

c. The VA Housing Officer reviews the appraisal and, with concurrence from the Director, Office of Construction & Facilities Management, requests reconsideration from the QMIS Program Office.

d. The Director, Office of Construction & Facilities Management (00CFM), must provide a determination on the appeal to the DUSH/OM (10N). The DUSH/OM is responsible for implementing the rates established by the 00CFM decision.







## GUIDELINES FOR CONDUCTING APPRAISALS

## 1. GENERAL

a. Appraisals will not be conducted in areas covered by a regional survey without the approval of VA Central Office, Office of Construction & Facilities Management (OOCFM). However, it is acceptable to use the appraisal method when the tenant has filed an appeal of rental rates following the guidelines contained in Appendix C.

b. When appraisals are acceptable, the following guidelines are to be used:

(1) VA facilities must contract for one appraisal for each quarters unit and detached garage. Appraisals of non-housekeeping quarters must be made for both single and double occupancy, so that quarters may be rented on either basis without the necessity for re-appraisal.

(2) VA facilities must follow established federal and VA procurement procedures to secure appraisal services. A VA employee working in a procurement activity who rents quarters must not select the appraiser or participate in any discretionary act involving the selection of an appraiser in a non-competitive process.

## 2. APPRAISAL PROCESS

a. Prior to conducting the appraisal, the VA facility will provide the appraiser with copies of Office of Management and Budget (OMB) Circular A-45 (Revised), VA Directive 7631, Appendix B of this handbook, and any other supplemental guidelines. The VA facility must explain the process involved with possible reconsideration of appraisals.

b. The appraisal process must incorporate the following features and procedures:

(1) Selection of Comparable Units. To ensure a uniform approach to valuation, the appraiser is limited to comparing the quarters with current comparable market rentals in the nearest established community. However, if there is no rental market in the nearest established community for one or more classes of housing, the appraiser must collect comparable rental data for those rental classes from the next closest community meeting the established community criteria. Two or more private rental units must be used for comparative purposes in establishing the base rental rate for each quarters unit.

(2) Rental Adjustments. The contract rent of each comparable is to be adjusted to exclude the value of appliances, services, utilities and furnishings, which may be provided by the landlord. Since most private housing units (and quarters units) rent with a landlord-provided range and refrigerator, the value of these appliances are not excluded. If a range or refrigerator is not supplied by the landlord, their value will be added to the contract rents. Central air conditioning and fireplaces are to be treated as real property and analyzed as to their contributory market value. Adjustments for the

value of utilities, appliances, services, and furnishings must be based on the retail costs of these items in the established community in which the comparable units are located.

(3) Adjustments of Comparable Units to the Quarters. The appraiser must apply recognized real estate valuation principles and adjust only for differences in physical characteristics. Each adjustment must be shown in either dollar or percentage terms, and the source of each adjustment must be fully explained and documented. No adjustments can be made as part of the appraisal process for excessive heating and/or cooling costs, isolation, site amenities, or other administrative adjustments.

(4) Forms. To ensure uniformity, the Department of Interior Form 1875, Government Quarters Inventory, must be used for all appraisals. Prior to the appraisal, either the VA facility will furnish the appraiser the appropriate quarters inventory form for the quarters to be appraised, or the appraiser will complete the appropriate quarters inventory form for the quarters being appraised (see Appendix B). If the completed inventory form has been furnished, it must be re-verified by the appraiser. The appraiser must resolve any conflicts in the data provided and the observations made.

(5) Documenting Photographs. The appraisal report must include color photographs of the front and rear of each VA quarters unit and color photographs of the front of each comparable rental property listed on the appraisal grid.

(6) Community Map. The report must include a map of the established community used in developing the value estimate. The map must clearly define community boundaries and identify the VA facility and location of comparable properties. Map scale must be indicated.

(7) Certification. The appraiser must certify in writing that factors including, but not limited to, those contained in the Government Quarters Inventory form, have been considered and appropriate adjustments made in developing the rental estimates.

### 3. EXTENSION OF COMPARABILITY

Private rental comparable units may not be available for certain classes of government housing, including dormitories, bachelor quarters, and transient quarters. In such circumstances, OMB Circular A-45 (Revised) provides that the rental charges for such quarters may be established by extending the principle of comparability.

a. Guidelines for housing classes most typically not available as comparables in the private sector are as follows.

(1) Dormitories. Where private comparable rental data is not obtainable for dormitories, rental charges are to be established at a rate equivalent to one-half of the base rental rate charged for the next most comparable rental housing. A separate charge for Government-provided related facilities must be established at rates equivalent to those prevailing in the appraisal area.

(2) Transient Quarters. Transient quarters are hotel-type accommodations, usually offered with government-provided furnishings, linens, housekeeping items, supplies, and special services. Transient quarters are typically occupied on a transient basis, normally for 90 days or less. The charges for transient quarters must be established as follows:

(a) Charges for transient quarters must be established at rates equivalent to private transient housing of comparable type and quality.

(b) If comparable private housing does not exist in the appraisal area, the rental charge may be established as one-half of the monthly rental charge for the next most comparable rental housing. The value of government-provided related facilities is to be added to this amount. That total will be increased by 20 percent, as required by OMB Circular A-45 (Revised), to produce the final charge.

b. The specific means by which rental and related charges for these and other housing classes are established must be fully explained in each appraisal report. When base rental charges are established by extension of comparability, none of the administrative adjustments shall be applied.







SAMPLE OF THE QUARTERS CAPITAL INVESTMENT COST-EFFECTIVENESS  
ANALYSIS WORKSHEET

Quarters Capital Investment Cost-Effectiveness Analysis Worksheet

1. Are the quarters and the proposed capital investment in support of the mission of this VA facility? [Enter Yes or No. If Yes, continue to Question 2.]
2. Compared to other alternatives, is this investment the best use of available funding? [If Yes, continue to Step 3.]
3. Continue to Cost-Effectiveness Analysis steps 4-15 only if answer is Yes for both Questions 1 and 2.
4. **Base Rent:** [Enter current annual base rent excluding utilities.] \$9,000
5. **Occupancy Rate:** [Enter estimated occupancy rate as percent.] 95%
6. **Estimated Annual Rental Income:** [Calculated field] \$8,550
7. **Management Expenses:** [Enter current year management costs.] \$630
8. **Maintenance, Repair, and Operations:**
  - a. Enter current fiscal year's annualized MR&O costs. \$2,400
  - b. Enter total MR&O expenditures for past 4 fiscal years. \$11,000
  - c. Total MR&O expenditures [Sum of 8a + 8b] \$13,400
  - d. Average Annual Maintenance, Repair, and Operations [8c / 5 years] \$2,680
9. **Annual Management, Maintenance, Repair, and Operations Costs:** [Sum of 7+ 8d] \$3,310
10. **Proposed Capital Project:** [Enter total estimated cost of proposed project.] \$24,920
11. **Depreciation from Previous Projects:** [For previously completed projects, enter unapplied annual depreciation expense by year in column H of table below.]
12. **Inflation Factor:** [Enter OMB-suggested inflation factor.] 2.1%
13. **Discount Rate:** [Enter OMB-suggested investment discount rate.] 2.2%

14.	Period	Rental Income	MMR&O	Income Less MMR&O	Proposed Project	Net Cash Flow	Deprec. fm Prev. Projects	Net Income	Cum NPV by Year
	Project Year				-\$24,920	-\$24,920		-\$24,920	
	2002	\$8,550	-\$3,310	\$5,240		\$5,240	-\$2,960	\$2,280	-\$22,702
	2003	\$8,730	-\$3,380	\$5,350		\$5,350	-\$2,960	\$2,390	-\$20,440
	2004	\$8,913	-\$3,450	\$5,462		\$5,462	-\$2,960	\$2,502	-\$18,137
	2005	\$9,100	-\$3,523	\$5,577		\$5,577	\$0	\$5,577	-\$13,143
	2006	\$9,291	-\$3,597	\$5,694		\$5,694	\$0	\$5,694	-\$8,183
	2007	\$9,486	-\$3,672	\$5,814		\$5,814	\$0	\$5,814	-\$3,257
	2008	\$9,685	-\$3,750	\$5,936		\$5,936	\$0	\$5,936	\$1,635
	2009	\$9,889	-\$3,828	\$6,061		\$6,061	\$0	\$6,061	\$6,494
	2010	\$10,097	-\$3,909	\$6,188		\$6,188	\$0	\$6,188	\$11,321
	2011	\$10,309	-\$3,991	\$6,318		\$6,318	\$0	\$6,318	\$16,114
	Totals	\$94,049	-\$36,410	\$57,640	-\$24,920	\$32,720	-\$8,880	\$23,840	
15.	<b>Net Present Value @</b>		2.8%	\$49,439		\$24,519		\$16,114	

16. Based on mission determination, consideration of alternatives, and cost-effectiveness analysis, should project be approved? [Enter Yes or No.]