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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-6099-N-01]

Section 8 Housing Assistance Payments Program- Fiscal Year 2018 Inflation Factors for Public Housing Agency Renewal Funding

AGENCY: Office of the Assistant Secretary for Policy Development and Research, HUD.

ACTION: Notice.

SUMMARY: This notice establishes Renewal Funding Inflation Factors (RFIFs) to adjust Fiscal Year (FY) 2018 renewal funding for the Housing Choice Voucher (HCV) program of each public housing agency (PHA), as required by the Consolidated Appropriations Act, 2018. HUD produces the FY 2018 RFIFs by apportioning the expected percent change in national per unit cost (PUC) for the HCV program, 3.47 percent, to each PHA based on the change in Fair Market Rents (FMRs) for their operating area. HUD's FY 2018 methodology is the same as that which was used in FY 2017. However, HUD is seeking comment on potential RFIF methodology changes related to the use of ad hoc surveys conducted for purposes of reevaluating FMRs and their effect on the calculation of RFIFs.

DATES: Comment Due Date: **[INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].**

Applicability Date: **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER**].

FOR FURTHER INFORMATION: For technical information regarding the development of the schedules for specific areas or the methods used for calculating the inflation factors, contact: Miguel A. Fontanez, Director, Housing Voucher Financial Division, Office of Public Housing and Voucher Programs, Office of Public and Indian Housing, telephone number 202-402-4212;

Peter B. Kahn, Director, Economic and Market Analysis Division, Office of Policy Development and Research, telephone number 202-402-2409, or Adam Bibler, Economist, Economic and Market Analysis Division, Office of Policy Development and Research, telephone number 202-402-6057. Mail for these individuals should be addressed to the Department of Housing and Urban Development, 451 7th Street, SW, Washington, DC 20410. Hearing- or speech-impaired persons may contact the Federal Relay Service at 800-877-8339 (TTY). (Other than the "800" TTY number, the above-listed telephone numbers are not toll free.)

SUPPLEMENTARY INFORMATION:

I. Background

Division L, Title II of the Consolidated Appropriations Act, 2018 requires that the HUD Secretary, for the calendar year 2018 funding cycle, provide renewal funding for each PHA based on validated voucher management system (VMS) leasing and cost data for the prior calendar year and by applying an inflation factor as established by the Secretary, published in the Federal Register. This notice announces the availability of the FY 2018 inflation factors and describes the methodology for calculating them. Tables in PDF and Microsoft Excel formats showing RFIFs will be available electronically from the HUD data information page at: https://www.huduser.gov/portal/datasets/rfif/rfif.html.

II. Methodology

RFIFs are used to adjust the allocation of HCV program funds to PHAs for local changes in rents, utility costs, and tenant incomes. To calculate the RFIFs, HUD first forecasts a national inflation factor, which is the annual change in the national average PUC. HUD then calculates individual area inflation factors, which are based on the annual changes in the two-bedroom

FMR for each area. Finally, HUD adjusts the individual area inflation factors to be consistent with the national inflation factor.

HUD's forecast of the national average PUC is based on forecasts of gross rent and tenant income. Each forecast is produced using historical and forecasted macroeconomic data as independent variables, where the forecasts are consistent with the economic assumptions of the Administration's FY 2018 Budget. The forecast of gross rent is itself based on forecasts of the Consumer Price Index (CPI) Rent of Primary Residence Index and the CPI Fuels and Utilities Index. Forecasted values of these series are applied to the FY 2018 national average two-bedroom FMR to produce a projected calendar year (CY) 2018 gross rent value. A "notional" PUC is calculated as the difference between gross rent value and 30 percent of average tenant income (the standard percentage for tenant rent contributions in the voucher program). The change between the CY 2017 notional PUC and the forecasted CY 2018 notional PUC is the expected national change in PUC, or 3.47 percent. HUD uses a notional PUC as opposed to the actual PUC to project costs that are consistent with PHAs leasing the same number and quality of units. For several years, growth in observed PUC was lower than this notional PUC as PHAs reacted to reduced overall program funding by reducing payment standards relative to the FMR. For more information on HUD's forecast methodology, see 82 FR 26710.

The inflation factor for an individual geographic area is based on the annualized change in the area's FMR between FY 2017 and FY 2018. These changes in FMRs are then scaled such that the voucher-weighted average of all individual area inflation factors is equal to the national inflation factor, i.e., the expected annual change in national PUC from CY 2017 to CY 2018, and such that no area has a factor less than one. For PHAs operating in multiple FMR areas, HUD calculates a voucher-weighted average inflation factor based on the count of vouchers in each

FMR area administered by the PHA as captured in HUD administrative data as of December 31, 2017.

III. The Use of Inflation Factors

HUD subsequently applies the calculated individual area inflation factors to eligible renewal funding for each PHA based on VMS leasing and cost data for the prior calendar year.

IV. Geographic Areas and Area Definitions

As explained above, inflation factors based on area FMR changes are produced for all FMR areas and applied to eligible renewal funding for each PHA. The tables showing the RFIFs, available electronically from the HUD data information page, list the inflation factors for each FMR area on a state-by-state basis. The inflation factors use the same OMB metropolitan area definitions, as revised by HUD, that are used for the FY 2018 FMRs. PHAs should refer to the Area Definitions Table on the following webpage to make certain that they are referencing the correct inflation factors: http://www.huduser.org/portal/datasets/rfif/FY2018 /FY2018_RFIF_FMR_AREA_REPORT.pdf. The Area Definitions Table lists areas in alphabetical order by state, and the counties associated with each area. In the six New England states, the listings are for counties or parts of counties as defined by towns or cities. HUD is also releasing the data in Microsoft Excel format to assist users who may wish to use these data in other calculations. The Excel file is available at https://www.huduser.gov/portal/ datasets/rfif/rfif.html.

V. Request for Comment on the Use of FMRs Based on Ad Hoc Surveys for Renewal Funding

As described above, HUD uses the annual change in an area's FMR in part to produce its inflation factor. HUD allows for the use of PHA-sponsored local rent survey data in calculating

FMRs, and the use of this data can produce erratic RFIFs as certain areas switch from FMRs based on American Community Survey (ACS) data to FMRs based on local rent surveys and vice versa. For example, in cases where rents are increasing and an area's FMR was based on the same sponsored local rent survey for two consecutive years, or was previously based on a (higher-rent) local survey that was superseded by more current (lower-rent) ACS data, that area's RFIF will be lower relative to underlying rent growth in the area, leaving PHAs with the choice to either fund additional surveys or accept the lower RFIF. With this notice, HUD seeks comment on this issue, including its equitability to PHAs that have not sponsored local surveys, and on potential method changes to the RFIF calculation. Funds are not available for HUD to carry out extensive local rent surveys. Given this limitation, HUD seeks comment on the following possible ways to calculate the local rent change used in the calculation of RFIFs:

- Maintain the current policy of including the survey-based FMR change in the first calculation of RFIFs following the implementation of the survey and continue using the change in FMRs while the survey is still in effect.
- Stop incorporating local rent surveys in the calculation of the FMR change component of the RFIF calculation.
- As with current policy, include the survey-based FMR change in the first calculation of RFIFs following the implementation of the survey. In subsequent years, while the survey is still being used in the calculation of the published FMRs, use the change in underlying rent data collected via the ACS. By doing this, the rent change component of the RFIF will be based on a local measure of actual year-to-year rent change.
- Instead of having a large increase in the FMR in the first year of using local survey data, with little to no inflation for the next several years, spread the increase over the expected

usable life of the survey. HUD would do this by calculating the average annual change between the survey-derived rent and the ACS rent over a two- or three-year period. Surveys conducted in January through June generally are used in two FMR calculations and surveys conducted in July through December are typically used in three FMR calculations. By using the annual average increase as the FMR change component of the RFIF calculation, PHAs in areas submitting local survey data will ultimately have the full increase in their survey-based FMR realized in their inflation factors, but the distortive impacts of implementing the entire change in the first year of the use of the local survey-based rent will also be ameliorated. This would also likely lessen the mismatch between the RFIF and local rent growth rates at the transition back <u>from</u> survey data to ACS data.

- Pursue another strategy recommended by commenters.

HUD recognizes that PHAs may need additional renewal funding to support their HCV program when they must increase payment standards commensurate with increases in FMRs due to submission of locally funded survey data. Including the full survey-based FMR change in the RFIF calculation helps to achieve this need[1]; however, use of survey-based FMRs in the RFIF calculation skews the distribution of renewal funding towards those areas where surveys are conducted, all other factors remaining constant. Therefore, HUD is interested in comments from all interested parties, including those PHAs that have engaged in a local survey program, and those PHAs that have not supplied local survey data.

[1] HUD notes that even when the FMR change component of the RFIF calculation uses a local survey, the RFIF calculated for the given area is not as large as the FMR change itself since no PHA may receive a negative RFIF. Consequently, the allocation process dampens both FMR increases and FMR decreases towards a central value.

VI. Environmental Impact

This notice involves a statutorily required establishment of a rate or cost determination which does not constitute a development decision affecting the physical condition of specific project areas or building sites. Accordingly, under 24 CFR 50.19(c)(6), this notice is categorically excluded from environmental review under the National Environmental Policy Act of 1969 (42 U.S.C. 4321).

Dated: May 23, 2018.

Todd Richardson,
Acting General Deputy Assistant Secretary for
Policy Development and Research.

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