

makes the Renewal Funding AAFs six months more current than the CPI data used to derive Contract Rent AAFs. These CPI data are more current data and better reflect the economic circumstances most relevant to the Housing Choice Voucher (HCV) program in 2010 and the assumptions of the 2010 budget. Like the Contract Rent AAFs, these factors are based on a formula using residential rent and utility cost changes. Contract Rent AAFs were published in a separate notice which can be viewed at: [http://www.huduser.org/portal/datasets/aaf.html/FY2010\\_CF\\_table.pdf](http://www.huduser.org/portal/datasets/aaf.html/FY2010_CF_table.pdf).

**DATES:** *Effective Date:* February 10, 2010.

**FOR FURTHER INFORMATION CONTACT:** Contact David Vargas, Associate Deputy Assistant Secretary for Office of Public Housing and Voucher Programs, Office of Public and Indian Housing, 202-708-2815; and Marie L. Lihn, Economist, Economic and Market Analysis Division, Office of Policy Development and Research, 202-708-0590, for technical information regarding the development of the schedules for specific areas or the methods used for calculating the AAFs. Mailing address for the above persons: Department of Housing and Urban Development, 451 7th Street, SW., Washington, DC 20410. Hearing- or speech-impaired persons may contact the Federal Information Relay Service at 800-877-8339 (TTY). (Other than the "800" TTY number, the above-listed telephone numbers are not toll free.)

**SUPPLEMENTARY INFORMATION:** The table showing Renewal Funding AAFs will be available electronically from the HUD data information page at [http://www.huduser.org/portal/datasets/aaf.html/FY2010\\_RF\\_table.pdf](http://www.huduser.org/portal/datasets/aaf.html/FY2010_RF_table.pdf). Renewal Funding AAFs include utility costs and only one set of AAFs is published for this purpose.

#### **I. Methodology**

Renewal Funding AAFs are derived from rent inflation factors to account for relative differences in rent inflation among different parts of the country. Two types of rent inflation factors are typically calculated for AAFs: Gross rent factors and shelter rent factors; however, only the gross rent inflation factor is used for Renewal Funding AAFs. The gross rent factor accounts for inflation in the cost of both the rent of the residence and the utilities used by the unit.

Renewal Funding AAFs are calculated using CPI data on "rent of primary

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#### **DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

[Docket No. FR-5391-N-02]

#### **Section 8 Housing Assistance Payments Program—Renewal Funding Annual Adjustment Factors, Fiscal Year 2010**

**AGENCY:** Office of the Secretary, HUD.

**ACTION:** Notice of Renewal Funding Annual Adjustment Factors (AAFs).

**SUMMARY:** The Consolidated Appropriations Act, 2010 (Pub. L. 111-117), directs HUD's Office of Public and Indian Housing (PIH) to "provide renewal funding for each Public Housing Agency (PHA) based on Voucher Management System (VMS) leasing and cost data for the most recent Federal fiscal year and by applying the most recent Annual Adjustment Factors as established by the Secretary". This notice announces Renewal Funding AAFs in response to that directive. Consumer Price Index (CPI) data, similar to those used for "Contract Rent AAFs", are used, but semi-annual CPI data replaces annual CPI data. This

residence” and “fuels and utilities”.<sup>1</sup> The CPI inflation index for rent of primary residence measures the inflation of all surveyed units regardless of whether utilities are included in the rent of the unit or not. In other words, it measures the inflation of the “contract rent” which includes units with all utilities included in the rent, units with some utilities included in the rent and units with no utilities included in the rent. In producing a gross rent inflation factor, HUD decomposes the contract rent CPI inflation factor into parts to represent the gross rent change and the shelter rent change. This is done by applying the percentage of renters who pay for heat (a proxy for the percentage of renters who pay shelter rent) from the Consumer Expenditure Survey (CEX) and American Community Survey (ACS) data on the ratio of utilities to rents.<sup>2</sup> The CEX data used to decompose the contract rent inflation factor into gross rent and shelter rent inflation factors come from a special tabulation of 2007 CEX survey data produced for HUD for the purpose of computing Renewal Funding AAFs. The utility-to-rent ratio used in the formula comes from 2007 ACS median rent and utility costs.

In this publication, the rent and utility inflation factors for large metropolitan areas and Census regions are based on changes in the rent of primary residence and fuels and utilities CPI indices from the first half of 2008 to the first half of 2009, the most recent data available at the time of the development of final budget projections for fiscal year (FY) 2010. Typically, CPI indexes averaged over a 12-month period have been used to measure the change in gross rents from year to year. The semi-annual indexes used for Renewal Funding AAFs average data over six months as opposed to 12 months; the Renewal Funding AAFs use change over the course of two semi-annual index cycles to derive a 12-month adjustment.

## II. The Use of Renewal Funding AAFs

The Renewal Funding AAFs differ from past AAFs and the FY2010 Contract Rent AAFs in that they make use of more recent semi-annual CPI indexes in place of average annual CPI indexes. The Renewal Funding AAFs have been developed to account for relative differences in the recent inflation of rents among different areas

and are used to allocate HCV funds among PHAs. HUD is reviewing and updating the methodologies for all program parameters, including Fair Market Rents (FMRs), AAFs and other inflation indices. The publication of these separate Renewal Funding AAFs for allocation of voucher funds is an interim step toward more complete reforms including using more recent data in HUD’s estimations for various program parameters, including FMRs, as published in the **Federal Register** on September 30, 2009 (74 FR 50552).

## III. Geographic Areas

Renewal Funding AAFs are produced for all Class A CPI cities (CPI cities with a population of 1.5 million or more) and for the four Census Regions. They are applied to core-based statistical areas (CBSAs), as defined by the Office of Management and Budget (OMB), according to how much of the CBSA is covered by the CPI city-survey. If more than 75 percent of the CBSA is covered by the CPI city-survey, the Renewal Funding AAF that is based on that CPI survey is applied to the whole CBSA and to any HUD-defined metropolitan area, called “HUD Metro FMR Area” (HMFA), within that CBSA. If the CBSA is not covered by a CPI city-survey, the CBSA is assigned the relevant regional CPI factor. Almost all non-metropolitan counties are assigned regional CPI factors. For areas assigned the Census Region CPI factor, both metropolitan and non-metropolitan areas receive the same factor.

The Renewal Funding AAF tables list the four Census Regions first, followed by an alphabetical listing of each metropolitan area, beginning with Akron, OH, MSA. Renewal Funding AAFs are provided:

- For separate metropolitan areas, including HMFAs and counties that are currently designated as non-metropolitan, but are part of the metropolitan area defined in the local CPI survey, and
- For the four Census Regions for those metropolitan and non-metropolitan areas that are not covered by a CPI city-survey.

Renewal Funding AAFs use the same OMB metropolitan area definitions, as revised by HUD, that are used in the FY 2010 FMRs.

## IV. Area Definitions

To make certain that they are referencing the correct Renewal Funding AAFs, PHAs should refer to the Area Definitions Table at [http://www.huduser.org/portal/datasets/aaf.html/FY2010\\_AreaDef.pdf](http://www.huduser.org/portal/datasets/aaf.html/FY2010_AreaDef.pdf). For units located in metropolitan areas with a

local CPI survey, Renewal Funding AAFs are listed separately. For units located in areas without a local CPI survey, the metropolitan or non-metropolitan counties receive the regional CPI for that Census Region.

The Area Definitions Table for Renewal Funding AAFs, shown at [http://www.huduser.org/portal/datasets/aaf.html/FY2010\\_AreaDef.pdf](http://www.huduser.org/portal/datasets/aaf.html/FY2010_AreaDef.pdf), lists areas in alphabetical order by state. The associated CPI region is shown next to each state name. Areas whose Renewal Funding AAFs are determined by local CPI surveys are listed first. All metropolitan areas with local CPI surveys have separate Renewal Funding AAF schedules and are shown with their corresponding county definitions or as metropolitan counties. In the six New England states, the listings are for counties or parts of counties as defined by towns or cities. The remaining counties use the CPI for the Census Region and are not specifically listed on the Area Definitions Table.

Puerto Rico and the Virgin Islands use the South Region Renewal Funding AAFs. All areas in Hawaii use the Renewal Funding AAFs identified in the Table as “STATE: Hawaii,” which are based on the CPI survey for the Honolulu metropolitan area. The Pacific Islands use the West Region Renewal Funding AAFs.

Accordingly, HUD publishes these Renewal Funding Annual Adjustment Factors as set forth in the Renewal Funding AAF Table posted at [http://www.huduser.org/portal/datasets/aaf.html/FY2010\\_RF\\_table.pdf](http://www.huduser.org/portal/datasets/aaf.html/FY2010_RF_table.pdf).

Dated: February 4, 2010.

**Raphael W. Bostic,**

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<sup>1</sup> CPI indexes CUUSA103SEHA and CUSR000SAH2 respectively.

<sup>2</sup> The formulas used to produce these factors can be found in the Annual Adjustment Factors overview and in the FMR documentation at <http://www.HUDUSER.org>.