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Part V

Department of Housing and Urban Development

**Final Fair Market Rents for the Housing
Choice Voucher Program and Moderate
Rehabilitation Single Room Occupancy
Program for Fiscal Year 2007; Notice**

**DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

[Docket No. FR-5068-N-02]

**Final Fair Market Rents for the Housing
Choice Voucher Program and
Moderate Rehabilitation Single Room
Occupancy Program for Fiscal Year
2007**

AGENCY: Office of the Secretary, HUD.

ACTION: Notice of Final Fair Market Rents (FMRs) for Fiscal Year (FY) 2007.

SUMMARY: Section 8(c)(1) of the United States Housing Act of 1937 (USHA) requires the Secretary to publish FMRs periodically, but not less than annually, adjusted to be effective on October 1 of each year. The primary uses of FMRs are to determine payment standard amounts for the Housing Choice Voucher program, to determine initial renewal rents for some expiring project-based Section 8 contracts, to determine initial rents for housing assistance payment (HAP) contracts in the Moderate Rehabilitation Single Room Occupancy program (Mod Rehab), and to serve as a rent ceiling in the HOME rental assistance program. Today's notice provides final FY2007 FMRs for all areas that reflect the estimated 40th and 50th percentile rent levels trended to April 1, 2007.

DATES: *Effective Date:* The FMRs published in this notice are effective on October 1, 2006.

FOR FURTHER INFORMATION CONTACT: For technical information on the methodology used to develop FMRs or a listing of all FMRs, please call the HUD USER information line at (800) 245-2691 or access the information on the HUD Web site at <http://www.huduser.org/datasets/fmr.html>. FMRs are listed at the 40th or 50th percentile in Schedule B. An asterisk before the FMR area name identifies a 50th percentile area. Any questions related to use of FMRs or voucher payment standards should be directed to the respective local HUD program staff. Questions on how to conduct FMR surveys or further requests for methodological explanations may be addressed to Marie L. Lihn or Lynn A. Rodgers, Economic and Market Analysis Division, Office of Economic Affairs, Office of Policy Development and Research, telephone (202) 708-0590. Questions about disaster-related FMR exceptions should be referred to the respective local HUD office. Persons with hearing or speech impairments may access this number through TTY by calling the toll-free Federal Information Relay Service at (800) 877-8339. (Other

than the HUD USER information line and TTY numbers, telephone numbers are not toll-free.)

SUPPLEMENTARY INFORMATION:

I. Background

Section 8 of the U.S. Housing Act of 1937 (USHA) (42 U.S.C. 1437f) authorizes housing assistance to aid lower-income families in renting safe and decent housing. Housing assistance payments are limited by FMRs established by HUD for different areas. In the Housing Choice Voucher program, the FMR is the basis for determining the "payment standard amount" used to calculate the maximum monthly subsidy for an assisted family (see 24 CFR 982.503). In general, the FMR for an area is the amount that would be needed to pay the gross rent (shelter rent plus utilities) of privately owned, decent, and safe rental housing of a modest (non-luxury) nature with suitable amenities. In addition, all rents subsidized under the Housing Choice Voucher program must meet reasonable rent standards.

Electronic Data Availability: This **Federal Register** notice is available electronically from the HUD news page at <http://www.hudclips.org>. **Federal Register** notices also are available electronically from the U.S. Government Printing Office Web site at <http://www.gpoaccess.gov/fr/index.html>. Information on how FMRs are determined, including detailed calculations, is available at <http://www.huduser.org/fmr/fmr.html>.

II. Procedures for the Development of FMRs

Section 8(c) of the USHA requires the Secretary of HUD to publish FMRs periodically, but not less frequently than annually. Section 8(c) states in part as follows:

Proposed fair market rentals for an area shall be published in the **Federal Register** with reasonable time for public comment and shall become effective upon the date of publication in final form in the **Federal Register**. Each fair market rental in effect under this subsection shall be adjusted to be effective on October 1 of each year to reflect changes, based on the most recent available data trended so the rentals will be current for the year to which they apply, of rents for existing or newly constructed rental dwelling units, as the case may be, of various sizes and types in this section.

The Department's regulations at 24 CFR part 888 provide that HUD will develop proposed FMRs, publish them for public comment, provide a public comment period of at least 30 days, analyze the comments, and publish final FMRs. (See 24 CFR 888.115.) Final

FY2007 FMRs are published on or before October 1, 2006, as required by section 8(c)(1) of the USHA.

III. Proposed FY2007 FMRs

On June 15, 2006 (71 FR 34726), HUD published proposed FY2007 FMRs. As noted in the preamble to the proposed FMRs, the FMRs for FY2007 reflect minor changes that allow further modifications of the core-based statistical areas (CBSA), as defined by the Office of Management and Budget (OMB), based on median family income differences between the CBSA and the CBSA components defined by FY2005 FMRs. All proposed metropolitan FMR areas consist of areas within new OMB metropolitan areas. In general, any parts of old metropolitan areas, or formerly nonmetropolitan counties, that would have more than a 5 percent increase or decrease in their FMRs or median family incomes as a result of implementing the new OMB metropolitan definitions are defined as separate FMR and income limit areas (provided that there are enough recent mover renter household observations in the 2000 Census data).

During the comment period, which ended August 1, 2006, HUD received 25 public comments on the proposed FY2007 FMRs. Most of the public comments received lacked the data needed to support FMR changes. The comments received are discussed in more detail later in this notice.

IV. FMR Methodology

The FY2007 FMRs are based on current OMB metropolitan area definitions that were first used in the FY2006 FMRs. These definitions have the advantages that they are based on more current (2000 Census) data, use a more relevant commuting interchange standard, and generally provide a better measure of current housing market relationships. HUD had three objectives in defining FMR areas for FY2006: (1) To incorporate new OMB metropolitan area definitions so the FMR estimation system can employ new data collected using those definitions; (2) to better reflect current housing markets; and (3) to minimize the number of large changes in FMRs due to use of the new OMB definitions. These objectives continue to apply to the proposed FY2007 FMRs, and area definitions were developed to achieve these objectives as follows:

- FMRs were calculated for each of the new OMB metropolitan areas using 2000 Census data.
- Subparts of any of the new areas that had separate FMRs under the old OMB definitions, and that had a

sufficiently large 2000 Census count of recent mover renter households in standard quality units, were identified, and 2000 Census Base Rents for these subparts were calculated. Only the subparts within the new OMB metropolitan area were included in this calculation (e.g., counties that had been excluded from the new OMB metropolitan area were not included).

- Metropolitan subparts of new areas that had previously had separate FMRs were assigned their own FMRs if their 2000 Census Base Rents differed by more than 5 percent from the new OMB area 2000 Census Base Rent.

- Formerly metropolitan counties removed from metropolitan areas get their own FMRs.

- For FY2007 FMRs, an additional comparison was made to determine if new sub-areas should be created.

Metropolitan subparts of new areas that had previously had separate FMRs were assigned their own FMRs if their 2000 Census Median Family Income differed by more than 5 percent from the new

OMB area 2000 Census Median Family Income.

A. Data Sources

FY2007 FMRs are based on 2000 Census data updated with more current survey data. At HUD's request, the Census Bureau prepared a special publicly releasable Census file that permits almost exact replication of HUD's 2000 Base Rent calculations, except for areas with few rental units. This data set is located on HUD's HUDUSER Web site at <http://www.huduser.org/datasets/fmr/CensusRentData/>. The area-specific data and computations used to calculate final FY2007 FMRs and FMR area definitions can be found at <http://www.huduser.org/datasets/fmr/fmrs/>.

B. FMR Updates From 2006 to 2007

Local Consumer Price Index (CPI) data is used to move rents from the end of 2004 to the end of 2005 for Class A cities covered by local CPI data. Census region CPI data is used for Class B and

C size cities and nonmetropolitan areas without local CPI update factors.

C. Additional Rent Surveys and Other Data

The Department regularly obtains additional rent survey data to update the 2000 Census rent data in selected areas. Random Digit Dialing (RDD) telephone rent surveys meeting the Department's statistical criteria for updating FMRs covering 11 additional areas were conducted by HUD in the June-July 2006 period and completed in time for use in this publication. In addition, one public housing authority (PHA) survey was submitted. Table 1 identifies the areas surveyed and changes in the final FMR, if any, based on survey results. The first column of Table 1 identifies the RDD survey area. The second column shows the proposed FY2007 FMR as published on June 15, 2006. The third column shows the final FY2007 FMR. The fourth column summarizes the impact of the RDDs.

TABLE 1.—RESULTS OF RECENT RDD RENT SURVEYS

Area surveyed	Proposed FY2007 FMR	Final FY2007 FMR	RDD result
Baltimore-Towson, MD MSA	998	941	Decrease.
Beaumont-Port Arthur, TX	593	593	No Change.
Dallas, TX	798	798	No Change.
Hattiesburg, MS	549	549	No Change ¹
Houston, TX	768	768	No Change.
Island County, WA	665	823	Increase.
Jackson, MS	638	638	No Change.
Little Rock, AR	614	614	No Change.
San Antonio, TX	715	715	No Change.
San Francisco, CA	1551	1551	No Change.
Shreveport, LA	586	586	No Change.
Clallam County, WA	617	687	Increase.

¹ An RDD survey performed in Hattiesburg, MS, indicated that the two-bedroom FMR should be reduced to \$513. Even though the RDD survey was modified to cover only movers since Hurricane Katrina in 2005, HUD has determined not to use the results, given the continuing uncertainty about the state of Gulf Coast housing markets as the pressures on the rental housing stock increase with the acceleration of rebuilding activity in Mississippi.

HUD is directed by statute to use the most recent data available in its FMR publications. These RDD survey results are being implemented in this final notice FY2007 FMR publication consistent with that requirement.

The RDD surveys conducted in the Gulf of Mexico areas (Beaumont-Port Arthur, Dallas, Hattiesburg, Houston, Jackson, Little Rock, San Antonio, and Shreveport) used 6 months as the recent mover time period, instead of the normal 15 months. This shorter time period was used to determine with greater accuracy how the evacuees from the Katrina and Rita hurricanes impacted rental-housing markets in these areas. Because most of these areas had relatively soft rental markets before the hurricanes, the additional renters

were absorbed without significant rental housing cost increases.

HUD also used the shorter time period definition of recent mover for the Island County, WA survey in an attempt to measure the impact of the September 2005 addition of a naval air squadron on the local rental housing market. Again, a 6-month recent mover definition was used. This area received an increase in its FMR for FY2007.

D. FMRs by Bedroom Size

FMR estimates are calculated for two-bedroom units. This is the most common type of rental unit and, therefore, the easiest to accurately survey and analyze. After each Decennial Census, rent ratios between two-bedroom units and other unit sizes

are calculated. These ratios are then used to calculate FMRs in future years. This is done because obtaining accurate two-bedroom estimates and then using pre-established cost relationships with other bedroom sizes to update those rent estimates is much easier than developing independent FMR estimates for each bedroom size. A publicly releasable version of the data file that permits derivations of rent ratios from the 2000 Census, as well as demonstrations of how the data are used, are available at <http://www.huduser.org/datasets/fmr/CensusRentData/index.html>.

The rents for three-bedroom and larger units continue to reflect HUD's policy to set higher rents for these units than would result from using normal

market rents. This adjustment is intended to increase the likelihood that the largest families, who have the most difficulty in leasing units, will be successful in finding eligible program units. The adjustment adds bonuses of 8.7 percent to the unadjusted three-bedroom FMR estimates and adds 7.7 percent to the unadjusted four-bedroom FMR estimates. The FMRs for unit sizes larger than four bedrooms are calculated by adding 15 percent to the four-bedroom FMR for each extra bedroom. For example, the FMR for a five-bedroom unit is 1.15 times the four-bedroom FMR, and the FMR for a six-bedroom unit is 1.30 times the four-bedroom FMR. FMRs for single-room occupancy units are 0.75 times the zero-bedroom (efficiency) FMR.

A further adjustment is made for areas with local bedroom-size intervals above or below what are considered to be reasonable ranges or where sample sizes are inadequate to accurately measure bedroom rent differentials. Experience has shown that highly unusual bedroom ratios typically reflect inadequate sample sizes or peculiar local circumstances that HUD would not want to utilize in setting FMRs (e.g., luxury efficiency apartments that rent for more than typical one-bedroom units). Bedroom interval ranges were established based on an analysis of the range of such intervals for all areas with large enough samples to permit accurate bedroom ratio determinations. The final ranges used were: efficiency units are constrained to fall between 0.65 and 0.83 of the two-bedroom FMR, one-bedroom units must be between 0.76 and 0.90 of the two-bedroom unit, three-bedroom units must be between 1.10 and 1.34 of the two-bedroom unit, and four-bedroom units must be between 1.14 and 1.63 of the two-bedroom unit. Bedroom rents for a given FMR area were then adjusted if the differentials between bedroom-size FMRs were inconsistent with normally observed patterns (e.g., efficiency rents were not allowed to be higher than one-bedroom rents and three-bedroom rents were not allowed to be higher than four-bedroom rents.)²

For nonmetropolitan counties with few rental units and small Census recent-mover rent samples, Census-defined county group data were used in determining rents for each bedroom

size. This adjustment was made to protect against unrealistically high or low FMRs due to insufficient sample sizes. The areas covered by this new estimation method had less than 200 two-bedroom Census-tabulated observations.

E. State Minimums

In response to comments received on the FY2005 and the proposed FY2006 FMRs, a state minimum policy similar to that used prior to FY2005 has been implemented. The rationale for having a state minimum FMR is that some low-income, low-rent nonmetropolitan counties have Census-based FMR estimates that appear to be below long-term operating costs for standard quality rental units and raise concerns about housing quality. Housing quality problems are limited in most parts of the country and have little impact on FMR estimates. The exception to this generality within the continental United States occurs in some nonmetropolitan areas with unusually low rents. State minimum FMRs have been set at the respective state-wide median nonmetropolitan rent level, but are not allowed to exceed the U.S. median nonmetropolitan rent level. This change primarily affects small nonmetropolitan counties in the South with low rents.

V. Public Comments

A total of 25 public comments were received on the proposed FY2007 FMRs. Two comments, those from the National Association of Home Builders (NAHB) and the National Association of Housing and Redevelopment Officials (NAHRO), were broad in scope, addressing various aspects of the proposed methodology for establishing the FY2007 FMRs. The remainder of the comments addressed the FMR levels proposed in specific FMR areas as being either too low or too high, or urged that specific FMR area definitions be modified.

NAHB disagreed with the proposed requirement that an area must have a large enough sample of 2000 Census rents on which to base FMRs in order for the area to be treated as a sub-area within a CBSA. The proposed notice for the FY2007 FMRs created separate FMR areas for any parts of old metropolitan areas, or formerly nonmetropolitan counties that would have more than a 5 percent increase or decrease in their 2000 Census base 40th percentile two-bedroom rent, or more than a 5 percent increase or decrease in their 2000 Census base area median family income as a result of implementing the new OMB CBSA definitions, and have at least 200 recent mover cases in the 2000 Census rent data. NAHB urged the

Department to drop the 200 recent mover threshold in the 2000 Census data if the other criteria would qualify the area as a separate area. Since HUD's median family income and income limit estimates are defined for the same geographic areas as FMRs, the NAHB noted that the 200 recent mover criterion resulted in income limit decreases for some areas because they did not qualify to be treated as sub-areas.

In response to this comment, the Department notes that FMRs are used in the estimation process for income limits; thus, the areas upon which both estimates are made must (except when required by statute) remain the same. Furthermore, HUD cannot determine FMRs without sufficient data, so these small areas must be incorporated into the larger metropolitan areas. The Department believes that the 200 recent mover threshold is reasonable and consistent with HUD's Final Information Quality Guidelines (67 FR 69642), and no change is being made to define additional FMR areas that fail to meet this criterion.

NAHRO commented on several aspects of the proposed FY2007 FMRs. First, NAHRO recommended that the Department return to using the OMB metropolitan area definitions based on the 1990 Census data "definitions that formed the basis for establishing FMR areas from FY1993 through FY2005. NAHRO states that the proposed CBSA-based areas cause "dilution" of metropolitan FMRs by including former nonmetropolitan counties in the new metropolitan area definitions, resulting in decreased rental assistance payments for in-place voucher-assisted households. The Department finds it inappropriate to continue to use such old data (from the 1990 Census) for housing market determinations. To more accurately define today's housing markets, the final FY2007 FMRs follow the CBSA metropolitan area definitions, with modifications as appropriate, in light of these definitions being based on 2000 Census data as analyzed by OMB.

NAHRO also disagreed with the proposed rule on including rental data from formerly nonmetropolitan counties established as separate FMR sub-areas when calculating the FMRs for the remainder of the CBSA, again arguing that this causes dilution of the FMR in the affected CBSA areas. The Department believes that inclusion of rental data from the entire CBSA, even when some formerly nonmetropolitan counties have been established as sub-areas due to greater than 5 percent changes in 2000 Census based FMR or median family incomes, is appropriate

² The preamble for the final FY2006 FMRs, the revised final FY2005 FMRs, and the final FY2005 FMRs erroneously stated that a 3 percent differential between three-bedroom FMRs and four-bedroom FMRs was maintained. A 3 percent minimum differential has never been included in the estimated three-bedroom and four-bedroom FMRs.

to smooth the transition for future FMR determinations that will cover the entire CBSA area. HUD intends to analyze CBSAs and sub-areas on an ongoing basis, and, as these rents converge, to reduce the number of sub-areas.³ The final FY2007 FMR does not change this calculation methodology.

NAHRO also objected to the proposed policy to modify the CBSA definitions by establishing sub-areas based on changes in 2000 Census base median family incomes of more than 5 percent. In some cases, the result of applying the median family income test has been for some CBSA sub-areas to receive lower FMRs than in the absence of the policy. The Department listed the areas so affected in a table in Section F of the proposed FY2007 FMR notice. NAHRO suggests that this outcome is inconsistent with the Department's primary area hold-harmless policy for income limits. In response to this comment, the Department reiterates that FMRs are used in the estimation process for income limits; thus, the area definition of both estimates must (except when required by statute) remain the same. Furthermore, HUD has a hold-harmless policy for income limits because without such a policy, program rent revenues in subsidized rental projects with rents statutorily tied to income limits may fall, leading to the possibility of project default or departure from the program. HUD does not have a similar hold-harmless policy for FMRs because voucher program rules are designed to mitigate the effects of decreases in FMRs on individual tenants. In cases where FMRs decline and the PHAs reduce payment standards accordingly, voucher rents for existing tenants remaining in their units may be maintained in accordance with the previous higher payment standard until the second annual recertification of the tenants' income and rent subsidy after the payment standard declines. Thus, for existing voucher tenants who do not move, the rent level supported by their voucher will not decrease until up

³ Previously, for the area definitions used through FY2005, there was little opportunity to change the FMR data once the initial FMR areas were determined. In the future, there will be more opportunity to revise the FMR area definitions based on American Community Survey (ACS) data, and HUD expects to see the number of sub-areas reduced over time. The Department expects to use CBSA rents as the basis for FMRs whenever possible, because the strong relationships among counties in CBSAs suggests that in the long run CBSAs will generally be the best definition of rental housing markets. In the New England states, it will take longer for ACS data to become available because the areas that have to be evaluated are generally smaller, and no reduction in the number of sub-areas will occur without data.

to 2 years after the payment standard decrease goes into effect.

NAHRO disagreed with HUD's use of regional CPI data to update rents for Class B and C cities rather than using local CPI update factors. Until ACS data become available for this purpose, an available alternative to the use of regional CPI factors is to use regional RDDs. However, regional RDD update factors, instituted to improve rent estimations and requiring tremendous fiscal resources to produce, did not consistently provide better estimations than using regional CPI data. Regional RDD results showed that some areas were being overestimated and some underestimated. Therefore, the FY2007 FMRs for Class B and C cities continue to use the regional CPI update factors.

NAHRO recommended that HUD consider additional analysis of the utility component of the gross rents comprising the FMR estimates, further suggesting that HUD consider publishing utility components of FMRs separately. The Department appreciates these recommendations, but notes that utilities are included in the FY2007 FMR estimates as required by statute, and that PHAs set utility allowances based on their utility schedules and the individual circumstances of each lease. In addition, HUD is conducting research to produce a utility schedule model for PHAs to use to improve the accuracy of their utility schedule estimates.

NAHRO suggested that HUD exempt communities that have dealt with the impact of Hurricane Katrina and Rita evacuees from losing their 50th percentile status. Baton Rouge and Dallas lost their 50th percentile status in a notice dated February 14, 2006, but Dallas regained it for the FY2007 FMRs, and Baton Rouge received market adjusted 40th-percentile FMRs effective March 6, 2006, that were higher than its former 50th percentile FMRs. The Department notes that the 50th percentile FMR policy is not the correct mechanism to address the cost of disasters. HUD has a policy of allowing federal disaster areas to apply for regulatory suspension waivers and allowing payment standards to be set at up to 120 percent of the FMR.⁴ Furthermore, under section 982.503(c)(3), payment standards may even exceed 120 percent of the FMR, based on a request by a PHA to the Assistant Secretary for Public and Indian Housing. So far, this administrative flexibility has allowed the Housing Choice Voucher program to

⁴ See the October 3, 2005, Hurricane Katrina Notice (70 FR 57716) and the November 1, 2005, Hurricane Rita Notice (70 FR 66222).

continue operating effectively in these areas. HUD has also recently surveyed many FMR areas where the Gulf Coast hurricane evacuees were placed. No area had an increase in the FMR based on HUD's survey results.

Additional comments from NAHRO seem based on incorrect interpretations of the methodology for estimating the FY2007 FMR. For example, one criterion to determine if any parts of old metropolitan areas or formerly nonmetropolitan counties qualify as a sub-area under the new CBSA definitions is that the 2000 Census base 40th percentile, two-bedroom rent for the area is found to be more than 5 percent different than the comparable rent for the entire CBSA area. NAHRO erroneously suggests the 5 percent test is based on a comparison of the proposed FY2007 FMR with the final FY2006 FMR. Similarly, adjustments to the FMR areas based on median family income differentials are also based on 2000 Census data, not FY2006 data. The Department reminds all interested parties that a detailed description of the FY2007 FMR methodology is available to the public at <http://www.huduser.org/datasets/fmr/fmrs/index.asp?data=fmr07>.

One comment requested higher FMRs for manufactured home space rentals in Sonoma County, California. The comment included data obtained from a survey conducted by the Sonoma County Housing Authority in support of an exception rent. The survey results provide Sonoma County with an exception rent for manufactured homes of \$603, as listed in Schedule D.

The Housing Authority for the City of Lafayette, Indiana, noted that the FMRs for its area are too high given its low funding levels and that the Department must press for greater funding for the voucher program. The Elkhart Housing Authority stated that the proposed increase in the FMRs would reduce the number of homes they could serve since the level of funding has been reduced. HUD has no evidence of a need to reduce the FMRs in these areas; however, housing authorities have the flexibility to set payment standards below 100 percent of the FMR⁵ and the obligation to use rent reasonableness in determining rents paid to owners accepting vouchers. PHAs that are concerned about costs in their voucher programs can set payment standards at 90 percent of the FMR, without any HUD approval. Moreover, PHAs may request HUD approval to set payment

⁵ By statute, PHAs have the discretion to set their payment standards at any level within the interval of 90 percent to 110 percent of the FMR.

standards below 90 percent of the FMR. Voucher program funding and funding formula allocations are outside the scope of this notice.

The Housing Authority of Island County, Washington, noted that its FMR should be much higher than what is proposed for FY2007 and provided a report on "asking rents" in support of its comments. The report indicated that Island County rents were closer to Seattle rents than shown in the FY2007 proposed FMRs. In September 2005, the Department of Defense (DOD) moved a naval air squadron to Island County. HUD believed that the additional DOD personnel substantially changed the rental market on Island County from its FMR basis, the 2000 decennial Census, so a survey was conducted to determine the appropriate FMR level.

Several comments were filed concerning the drop in the four-bedroom FMR for the New York City metropolitan area. It was noted that this decrease in the FMR would mostly affect the immigrant community. The New York City FMR area became a sub-area in FY2007, without Monmouth and Ocean counties in New Jersey, because its median income was well below the median income of the CBSA, see:

<http://www.huduser.org/datasets/fmr/fmrs/index.asp?data=fmr07>. In FY2006, New York City used the two-bedroom FMR and the bedroom ratios of the CBSA instead of its sub-area amount because the 2000 sub-area FMR was within 5 percent of the CBSA 2000 FMR. Now that it has been established as a sub-area, New York City must use the sub-area rents to determine the 2000 two-bedroom FMR and bedroom intervals. The ratio between the two-bedroom FMR and the four-bedroom FMR is less for the sub-area than for the CBSA. According to the comments, this decrease due to a change in the area definition creates an undue hardship for larger family tenants in this area. While no data was filed with the comments, the 2005 New York City Vacancy Survey, conducted annually by the Bureau of the Census, was reviewed to determine if an adjustment could be made to the four-bedroom FMR. Analysis of the data revealed a four-bedroom recent mover, standard quality, 40th percentile rent greater than HUD's published FY2005 four-bedroom FMR. HUD then trended this value forward from 2005 to 2007 using HUD's FY2006 and FY2007 update factors, and the result has been incorporated in these final FY2007 FMRs.

A law firm, representing the plaintiff in a discrimination settlement in Dallas, requested reinstatement of the FY2005 FMRs, and charged that all reductions

since that time to the Dallas FMRs were discriminatory. The FMR decrease, since FY2005, is the result of an RDD survey conducted in early 2005. As discussed earlier, another survey conducted this summer confirmed the results of the 2005 survey, resulting in no change in the FMR. Dallas regains its 50th percentile FMR in FY2007, effective October 1, 2006, which it lost effective March 1, 2006. Because the FY2007 FMR for Dallas represents the best data that are available, reverting to the FY2005 FMR is not appropriate.

Two areas that specifically requested changes in their FMR areas are Santa Barbara County, California, and Dartmouth Town, Massachusetts. Santa Barbara would like to be split into North and South County housing markets with rents determined by apartment data. These data are not statistically valid and cannot be used to establish FMRs. The difference in the Santa Barbara County rents can be met by applying exception payment standards in the high-rent jurisdictions. Dartmouth is and has always been part of the New Bedford metropolitan area. The similarity in rents between Dartmouth and Providence is not justification for including it in the Providence metropolitan area. Again, exception payment standards can be requested to help Section 8 voucher holders find units in this area.

Several PHAs noted that their FMRs were too low. The Housing Authority of Lake Charles, Louisiana, stated that it is struggling to provide decent, safe, sanitary, and affordable housing under its Section 8 program. Landlords are facing increased repair and insurance costs as a result of the damage inflicted by Hurricane Rita. Lake Charles, like other areas designated as federal disaster areas, may apply for regulatory suspension waivers and set its payment standards at 120 percent of the FMR. The San Francisco Housing Authority stated that its rental market is tightening and was hopeful that the HUD survey would verify this result. The survey did not find higher rents; however, HUD will continue to follow this volatile rental market. The City of Casper, Wyoming, said it was conducting its own survey, but did not submit the results in time for this final notice. The Michigan State Housing Development Authority noted that the change in the geographic area definitions for Lenawee and Muskegon counties in Michigan has significantly reduced their FMRs and that these reductions have significantly affected the ability of tenants to use their vouchers. The PHA intends to conduct surveys of these areas, but the

results will not be completed in time for this publication.

Mora Housing Management, Inc., requested that the revisions made to FY2006 FMRs in Puerto Rico, effective June 2, 2006, be made retroactive to provide relief for Mod Rehab properties constrained by the lower FMRs in metropolitan areas that were in place from October 1, 2005, to June 1, 2006, since the lowest rent must be used in all cases. HUD cannot make the Puerto Rico FMR revisions retroactive in this notice. Any procedural changes that can be made for the affected Puerto Rico Mod Rehab units are outside the scope of this notice.

VI. Manufactured Home Space Surveys

In general, the FMR used to establish payment standard amounts for the rental of manufactured home spaces in the Housing Choice Voucher program is 40 percent of the FMR for a two-bedroom unit. HUD modified manufactured home space FMRs for Santa Rosa-Petaluma, California (Sonoma County) based on survey data showing the 40th percentile manufactured home space rent (including the cost of utilities) for the entire FMR area. The new manufactured home space exception FMR is shown in Schedule D.

All approved exceptions to these rents that were in effect in FY2006 were updated to the midpoint of FY2007 using the same data used to estimate the Housing Choice Voucher program FMRs. If the result of this computation was higher than 40 percent of the rebenchmarked two-bedroom rent, the exception remains and is listed in Schedule D. The FMR area definitions used for the rental of manufactured home spaces are the same as the area definitions used for the other FMRs.

VII. HUD Rental Housing Survey Guides

HUD recommends the use of professionally conducted RDD telephone surveys to test the accuracy of FMRs for areas where there is a sufficient number of Section 8 units to justify the survey cost of \$40,000 to \$50,000. Areas with 1,000 or more program units usually meet this criterion, and areas with fewer units may meet it if local rents are thought to be significantly different than the FMRs proposed by HUD. In addition, HUD has developed a simplified version of the RDD survey methodology for smaller, nonmetropolitan PHAs. This methodology is designed to be simple enough to be done by the PHA itself, rather than by professional survey organizations.

PHAs in nonmetropolitan areas may, in certain circumstances, conduct surveys of groups of counties; all county-group surveys have to be approved in advance by HUD. PHAs are cautioned that the resulting FMRs will not be identical for the counties surveyed; each individual FMR area will have a separate FMR based on its relationship to the combined rent of the group of FMR areas. In these cases, HUD recommends following the Census county-group definitions as described in the 2000 Census Base Rent section of the FY2007 Documentation System, which can be found at <http://www.huduser.org/fmr/fmrs/index.html>.

PHAs that plan to use the RDD survey technique may obtain a copy of the appropriate survey guide by calling HUD USER at (800) 245-2691. Larger PHAs should request "Random Digit Dialing Surveys; A Guide to Assist Larger Housing Agencies in Preparing Fair Market Rent Comments." Smaller PHAs should obtain "Rental Housing Surveys; A Guide to Assist Smaller Housing Agencies in Preparing Fair Market Rent Comments." These guides are also available at <http://www.huduser.org/datasets/fmr.html>.

HUD prefers, but does not mandate, the use of RDD telephone surveys, or the more traditional method described in the small PHA survey guide. Other survey methodologies are acceptable if they provide statistically reliable, unbiased estimates of the 40th percentile gross rent. Survey samples should preferably be randomly drawn from a complete list of rental units for the FMR area. If this is not feasible, the selected sample must be drawn to be statistically representative of the entire rental housing stock of the FMR area. In particular, surveys must include units of all rent levels and be representative by structure type (including single-family, duplex, and other small rental properties), age of housing unit, and geographic location. The decennial Census should be used as a starting point and means of verification used for determining whether the sample is representative of the FMR area's rental housing stock. All survey results must be fully documented.

A PHA or contractor that cannot obtain the recommended number of sample responses after reasonable efforts should consult with HUD before abandoning its survey; in such situations, HUD may find it appropriate

to relax normal sample size requirements.

Accordingly, the FMR Schedules, which will not be codified in 24 CFR part 888, are amended as follows:

Dated: September 21, 2006.

Darlene F. Williams,

Assistant Secretary for Policy Development and Research.

Fair Market Rents for the Housing Choice Voucher Program

Schedules B and D—General Explanatory Notes

1. Geographic Coverage

a. *Metropolitan Areas*—FMRs are market-wide rent estimates that are intended to provide housing opportunities throughout the geographic area in which rental-housing units are in direct competition. The FY2007 FMRs reflect a change in metropolitan area definition where HUD is using CBSAs which are made up of one or more counties, as defined by OMB, with some modifications. HUD is generally assigning separate FMRs to the component counties of CBSA micropolitan areas.

b. *Modifications to OMB Definitions*—Following OMB guidance, the estimation procedure for the FY2007 FMRs incorporates the 2003 OMB definitions of metropolitan areas based on the new CBSA standards, as implemented with 2000 Census data, but makes adjustments to the definitions to separate subparts of these areas where FMRs or median family incomes would otherwise change significantly if the new area definitions were used without modification. In CBSAs where sub-areas are established, it is HUD's view that the geographic extent of the housing markets are not yet the same as the geographic extent of the CBSAs, but may become so as the social and economic integration of the CBSA component areas increases. Modifications to metropolitan CBSA definitions are made according to a formula as described below:

Metropolitan area CBSAs (referred to as metropolitan statistical areas or MSAs) may be modified to allow for sub-area FMRs within MSAs based on the boundaries of old FMR areas (OFAs) within the boundaries of new MSAs. (OFAs are the FMR areas defined for the FY2005 FMRs. Collectively, they include old-definition MSAs/PMSAs, metropolitan counties deleted from old-

definition MSAs/PMSAs by HUD for FMR purposes, and counties and county parts outside of old-definition MSAs/PMSAs referred to as nonmetropolitan counties.) Sub-areas of MSAs are assigned their own FMRs when the sub-area 2000 Census Base Rent differs by at least 5 percent from (i.e., is at most 95 percent or at least 105 percent of) the MSA 2000 Census Base Rent. Additionally, sub-areas of MSAs are assigned their own FMR when the sub-area 2000 median family income differs by at least 5 percent. MSA sub-areas, and the remaining portions of MSAs after sub-areas have been determined, are referred to as HUD metro FMR areas (HMFAs), to distinguish these areas from OMB's official definition of MSAs.

The specific counties and New England towns and cities within each state in MSAs and HMFAs are listed in the FMR tables.

2. Bedroom Size Adjustments

Schedule B shows the FMRs for zero-bedroom through four-bedroom units. The FMRs for unit sizes larger than four bedrooms are calculated by adding 15 percent to the four-bedroom FMR for each extra bedroom. For example, the FMR for a five-bedroom unit is 1.15 times the four-bedroom FMR, and the FMR for a six-bedroom unit is 1.30 times the four-bedroom FMR. FMRs for single-room-occupancy (SRO) units are 0.75 times the zero-bedroom FMR.

3. Arrangement of FMR Areas and Identification of Constituent Parts

a. The FMR areas in Schedule B are listed alphabetically, first by metropolitan FMR area, then by nonmetropolitan county for each state. The exception FMRs for manufactured home spaces are listed alphabetically by state in Schedule D.

b. The constituent counties (and New England towns and cities) included in each metropolitan FMR area are listed immediately following the listings of the FMR dollar amounts. A metropolitan FMR area that includes counties and towns from more than one state is listed under each applicable state.

c. Two nonmetropolitan counties are listed alphabetically on each line of the nonmetropolitan county listings.

d. The New England towns and cities included in a nonmetropolitan part of a county are listed immediately following the county name.

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