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Part II

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 2006; Notice**

**DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

[Docket No. FR-4995-N-03]

**Final Fair Market Rents for the Housing
Choice Voucher Program and
Moderate Rehabilitation Single Room
Occupancy Program for Fiscal Year
2006**

AGENCY: Office of the Secretary, HUD.

ACTION: Notice of Final Fair Market Rents (FMRs) for Fiscal Year 2006.

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, and to serve as a rent ceiling in the HOME rental assistance program. Today's notice provides final FY2006 FMRs for all areas that reflect the estimated 40th and 50th percentile rent levels trended to April 1, 2006. Today's notice, however, does not include final determinations on 50th percentile rent levels, as proposed in HUD's notice published on August 25, 2005. The 30-day public comment period on that notice ended September 26, 2005, and HUD is evaluating the public comments. A notice that provides final determinations on 50th percentile FMRs will be issued subsequently, and as further discussed in Section VII of this notice.

This notice also invokes the Secretary's authority to waive regulatory requirements for exception FMRs in areas affected by Hurricane Katrina and by displacement of residents of the affected area.

DATES: The FMRs published in this notice are effective on October 1, 2005.

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, <http://www.huduser.org/datasets/fmr.html>. FMRs are listed at the 40th or 50th percentile in Schedule B. For informational purposes, a table of 40th percentile recent mover rents for those areas currently at the 50th percentile FMRs will be provided on the same Web

site noted above. 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 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. The final FY2006 FMRs are the first to be calculated using the revised Office of Management and Budget (OMB) statistical area definitions that were issued in 2003. The new definitions are county-based.

Electronic Data Availability: This **Federal Register** notice is available electronically from the HUD news page: <http://www.hudclips.org>. **Federal Register** notices also are available electronically from the U.S. Government Printing Office Web site: <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 FY2006 FMRs are published on or before October 1, 2005, as required by section 8(c)(1) of the USHA.

III. Proposed FY2006 FMRs

On June 2, 2005 (70 FR 32402), HUD published proposed FY2006 FMRs. In the proposed FY2006 FMRs notice, HUD advised that the assessment, as directed by HUD's regulations, on eligibility or ineligibility for 50th percentile FMRs would be addressed by a subsequent notice. The subsequent notice on 50th percentile FMRs was published on August 25, 2005, and is further discussed in Section VII of this notice.

As noted in the preamble to the proposed FMRs, the FMRs for FY2006 were based on a change in metropolitan area definitions. HUD is using the county-based statistical areas as defined by OMB, with some modifications. The only modifications made are to permit OMB-defined metropolitan areas to be divided into more than one FMR area when necessary to minimize changes in FMRs due solely to the use of the new definitions. 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 as a result of implementing the new OMB metropolitan definitions are defined as separate FMR areas.

During the comment period, which ended August 1, 2005, HUD received 58 public comments on the proposed

FY2006 FMRs. Over one-half of the comments concerned the changes in FMRs as a result of using the new OMB metropolitan definitions. Other comments opposed reductions in their FMRs as a result of recent Random Digit Dialing (RDD) surveys. Low FMRs were cited as a reason for program difficulties. 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.

All RDD results are being implemented with the exception of the reduction for New Orleans. This area experienced such massive losses to its rental housing inventory that the survey results are no longer valid.

IV. FMR Methodology

As detailed in the June 2, 2005, notice, the FY2006 FMRs are based on current OMB metropolitan area definitions. These definitions have the advantages that they are based on more current (2000 Census) data, use a more relevant commuting interchange, 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. The proposed FMR 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 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 metro counties removed from metro areas get their own FMRs.

- Proposed FY2006 FMRs were calculated using the same information used to compute FY2005 Final FMRs plus additional update factors.

A. Data Sources

FY2005 and FY2006 FMRs for most areas were 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 FY2006 FMRs and FMR area definitions can be found at <http://www.huduser.org/datasets/fmr/fmrs/>.

B. FMR Updates From 2005 to 2006

The 2000 to 2005 update factors in the Revised Final FY2005 FMRs, published February 28, 2005 (70 FR 9778), are used to update the metropolitan area to the new OMB definition, as modified by HUD. All new FMR areas that are part of a new metropolitan area are updated with the same 2005-to-2006

metropolitan area update factor, except where RDDs were performed at the subarea level.

Specifically, local Consumer Price Index (CPI) data is used to move rents from the end of 2003 to the end of 2004 and the same 15-month trending factor is then applied. Regional RDD surveys were used to provide update factors for areas without local CPI estimates. Regional RDDs, however, were not conducted in 2004 in anticipation of the arrival of American Community Survey (ACS) data. Data from the 2004 ACS was not available in time for inclusion in the final FY2006 FMR publication. Therefore, for proposed FY2006 FMRs, census region CPI data for Class B and C size cities is being used to update areas without local CPI update factors. Once full-scale ACS data collections start to become available in the latter part of 2006, sample sizes will be large enough to estimate FMRs for the larger metropolitan areas on an annual basis and for other areas on a two-to four-year basis.

C. Additional RDD Surveys and Other Data

RDDs covering 18 additional areas were conducted by HUD in the July-August 2005 period and completed in time for use in this publication. In addition, one PHA survey was submitted. The first column of the following table identifies the RDD survey area. The second column shows the proposed FY2006 FMR as published on June 2, 2005. The third column shows the final FY2006 FMR. The fourth column shows whether or not the RDD results were statistically different enough to justify replacing the updated Census or other survey estimates with the RDD results. The survey results were as follows:

TABLE 1.—RESULTS OF RECENT RDD RENT SURVEYS

Area surveyed	Proposed FY2006 FMR	Final FY2006 FMR	RDD result
New Bedford, MA HMFA	694	753	Increase.
Taunton-Mansfield-Norton, MA HMFA	940	992	Increase.
Providence-Fall River, RI-MA HMFA	891	965	No Change.*
Davidson County, NC	543	543	No Change.
Lincoln County, NC	549	549	No Change.
Rowan County, NC	564	593	Increase.
Aguadilla, PR HMFA	321	352	Increase.*
Fajardo, PR MSA	403	403	No Change.
Arroyo-Patillas, PR HMFA	312	352	No Change.*
Mayaguez, PR MSA	400	400	No Change.
Ponce, PR MSA	349	423	Increase.
San German-Cabo Rojo, PR MSA	364	364	No Change.
San Juan Guaynabo, PR HMFA	403	403	No Change.
Arecibo, PR HMFA	330	352	No Change.*
Caguas, PR HMFA	362	362	No Change.
Barranquitas-Aibonito-Quebradillas, PR HMFA	324	352	No Change.*
Yauco, PR	349	352	No Change.*

TABLE 1.—RESULTS OF RECENT RDD RENT SURVEYS—Continued

Area surveyed	Proposed FY2006 FMR	Final FY2006 FMR	RDD result
Nonmetropolitan Counties, PR	309	352	Increase.

*Providence increased as a result of becoming a 50th percentile FMR area. Other "No change" areas increased as a result of the state minimum FMRs. Aguadilla had an increase resulting from the RDD and a further increase resulting from applying the state minimum.

HUD is directed by statute to use the most recent data available in its FMR publications. These RDD survey results are being implemented in the revised final FY2006 FMR publication consistent with that requirement.

The RDD surveys conducted in Puerto Rico included a number of additional housing quality questions that were used to address the concerns of HUD and the Puerto Rico Housing Authority. Only one question produced increases in FMR estimates; it was related to whether a housing unit had hot and cold running water. Screening RDD results based on that housing quality question increased FMR estimates in some areas. The Puerto Rico RDD results had small recent mover samples, and none of the areas had high recent mover bonuses. For FMR computation purposes, FMR estimates were based on a mix of stayer rents inflated by the average Puerto Rico recent-mover-to-stayer ratio and recent mover rents. Using this approach, three areas had increases based on RDD results, and nine areas showed no change, but there were increases over the proposed FMRs for five areas that would otherwise be below the state minimum FMR.

HUD also reviewed a survey submitted by the St. Mary's County (MD) PHA and data on two-bedroom rents submitted by the Housing Authority of the County of Santa Clara. Neither of these submissions provided data that was statistically representative of their rental markets. HUD plans to conduct surveys of both areas within the next few months to address their concerns.

D. Large Bedroom Rents

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 after a two-bedroom FMR is calculated. This is done because it is much easier to obtain accurate two-bedroom estimates, and then to use pre-established cost relationships with other

bedroom sizes to update those rent estimates, than it is to develop 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/fmr.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 in New York City 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 four-bedroom rents were set at a minimum of 3 percent higher than three-bedroom rents).

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

Form letters were received from the tenants and landlords of Section 8 housing in Taunton, MA. Taunton used to be part of the Boston metropolitan area and is now part of the Providence

metropolitan area. The 2000 Census data shows that Taunton's rents are more than 5 percent higher than those for the Providence metropolitan area. Taunton is therefore established as a separate FMR area, the Taunton-Mansfield-Norton, MA HMFA, but the Taunton comments objected to the fact that its FMRs were decreased because it had been removed from the Boston metropolitan area. The social services office and the town government of Mansfield also submitted comments stating that FMRs were too low and would hinder Mansfield in meeting the Massachusetts State requirement for a 10 percent affordable housing stock. New Bedford was not significantly affected by the geography change, but requested a survey because it believed its proposed FMRs are too low. RDD surveys of the Taunton-Mansfield-Norton and New Bedford subareas of Providence were conducted. Both areas received higher FMRs as a result of the surveys.

The Milford Housing Authority (representing the Eastern Worcester, MA HMFA) also submitted comments objecting to the significant FMR reduction that resulted from its being removed from the Boston metropolitan area and placed in the Worcester, MA metropolitan area. A few tenants also filed comments requesting that Milford remain part of Boston. Data from the 2000 Census showed that Eastern Worcester's rents are more than 5 percent higher than those for the Worcester metropolitan area, and there is a separate FMR area, Eastern Worcester County, MA HMFA. No change in the proposed FMRs was warranted. The Citizens Housing and Planning Association of MA requested that HUD use the city-town building blocks in Census Bureau NECTA area definitions rather than county-based areas.

The Lexington and Lincoln public housing agencies (PHAs) of North Carolina, representing Davidson and Lincoln counties, respectively, protested the large FMR decreases that resulted from these counties being removed from metropolitan areas under the new OMB definitions and being redefined as nonmetropolitan counties with their own FMRs. Davidson County formerly was in the Greensboro-Winston-Salem-High Point MSA and Lincoln was in the Charlotte-Gastonia-Rock Hill MSA. Surveys were conducted of these two counties, as well as Rowan County, which was also formerly part of the Charlotte metropolitan area. Only Rowan County received a survey-based increase.

The Chatham County Housing Authority protested the change in area definitions for what had been the Raleigh-Durham-Chapel Hill metropolitan area. This metropolitan area was split into three metropolitan areas, and Chatham County was defined to be part of the new Durham HMFA. The Homeless Services Network, serving the Charlotte-Gastonia-Concord, NC-SC HMFA, also protested the reduced FMRs that were proposed for some counties in the newly defined areas. In each of these instances, the 2000 Census data and OMB definitions used supported the proposed FMR area definitions and the FMR estimates.

The South Carolina Regional Housing Authority Number 1 opposed the creation of a new one-county metropolitan area, the Anderson, SC MSA. It also complained about inconsistencies and inequities in FMRs among nonmetropolitan counties. A number of other criticisms of very low nonmetropolitan FMRs were raised in other comments both this year and last year. Many of the concerns about nonmetropolitan FMRs are addressed by state minimum FMRs.

A number of other comments were received on the new metropolitan area definitions. Island County, WA, formerly part of the Seattle metropolitan area but now a nonmetropolitan county, submitted a request that it be made part of the Mount Vernon-Anacortes, WA MSA. Island County, however, failed to meet the OMB commutation test to become part of that metropolitan area. Simpson Property Group, LP argued that Broomfield County, CO should be placed in the Boulder metropolitan area rather than the Denver metropolitan area. This request is not supported by the data used to determine to which area a county is most closely aligned. Lafayette, IN, and Rochester, MN, both expressed concern that adding a nonmetropolitan county reduced their FMRs. Rochester, MN, reiterated its comments filed for the FY2005 FMRs that the reduction in the FMRs for the large bedroom-size rents was based on flawed Census 2000 data and HUD should not increase all bedroom FMRs at the same rate. No acceptable factual data were submitted to support this group of requests or to indicate why 2000 Census data should not be used.

Comments on proposed San Francisco FMRs were filed by the local housing authority, the Mayor, the Housing Rights Committee, and U.S. Representative Tom Lantos. All protested the low FMRs, which were reduced last year, and all expressed concern that San Francisco's tight rental market was not adequately measured by

the FMR methodology, which found the same large decreases in rents in 2004 as indicated by earlier private market apartment complex surveys. The Mayor requested reinstatement of high exception rents for San Francisco. Available data from private market apartment complex surveys, however, show little increase in rents through the middle of 2005. San Francisco indicated it preferred to conduct its own survey.

Comments on Puerto Rico's FMRs were submitted by the Departamento de la Viviendo, a housing management corporation, and the Affordable Housing Management Association. They stated that Puerto Rico has a unique rental housing market and requested that its FMRs be based on construction and operating costs rather than the costs of existing housing. Concern was expressed that low FMRs adversely affected the Moderate Rehabilitation program. It was argued that it was inconsistent for Puerto Rico to have lower FMRs than the Virgin Islands.

HUD did not accept any of the Puerto Rico arguments as a valid basis for changing FMRs, but did conduct surveys that resulted in higher FMRs for some areas. Market rents for many Moderate Rehabilitation units are higher than typical rent levels, but this is not a basis for changing FMRs. The Virgin Islands has income and rents that current and past survey data show are far higher than Puerto Rico's. The statutory guidance on FMRs explicitly differentiates between new construction rents and rents for existing structures, and indicates that rents for existing structures are to be based on rents for existing rental housing dwelling units. An extensive survey of all Puerto Rico FMR areas was conducted during the summer of 2005. Puerto Rico's FMRs were calculated so as to take into consideration all available data that might result in upward housing quality or other adjustments to rents, and the final FMRs are considerably above the normal points in which FMRs are located within overall rent distributions.

Many areas expressed concern with FMR reductions resulting from either recent RDDs or modifications to their area definition. These include the Oklahoma City Housing Authority, the Chicago Area Fair Housing Alliance, the Village of North Syracuse Housing Authority, and the Bloomington Housing Authority. The Oklahoma and Chicago concerns were not supported by factual data and are inconsistent with survey data. The North Syracuse problem can be addressed using the HUD exception policy. HUD plans to conduct a survey of Bloomington, but this was delayed until the fall because

the respective PHA agreed with HUD staff that conducting a survey during the summer of 2005 was undesirable because it would have omitted the significant impact of college student renters.

The National Association of Home Builders (NAHB), the Public Housing Authorities Directors Association (PHADA), the National Association of Affordable Housing Lenders (NAAHL), and the National Association of Housing and Redevelopment Officials (NAHRO) provided comments for their constituents. NAHB stressed that there should be a strict floor on FMR reductions, no more than five percent, including RDD survey results. HUD disagrees that there should be constraints on increases or decreases, since these are based on factual rent relationships and only affect prospective voucher leases.

NAAHL commented that the application of the five percent rule is uneven because it did not limit decreases for FMRs of counties that were removed from metropolitan areas. They suggested that areas with large decreases should be held harmless. PHADA also expressed concern for formerly metropolitan counties with large decreases. HUD disagrees that its treatment of nonmetropolitan county FMRs is inconsistent with its treatment of metropolitan areas. Metropolitan areas with more than a five percent increase or decrease as a result of the new definitions were assigned FMRs calculated based on their own data. Counties that were removed from FMR areas were also given FMRs based on their own data. The only difference is that use of FMR area data produced larger decreases for some of the counties removed from metropolitan areas.

NAHRO asserted that recent RDD results that produced a much higher number of FMR reductions than increases point to a problem with this methodology. HUD does not agree. Data

from Census Bureau and private market rental surveys show that rental vacancy levels have been unusually high the past few years and that rent changes in many areas are minimal or negative. Census surveys show the same pattern of results. Given this information, it was to be expected that FMR surveys would produce more decreases than increases if a representative selection of FMR areas was surveyed.

A better explanation of the utility component of the gross rent in the FMR was also requested. This has been provided in HUD's new FMR documentation system at <http://www.huduser.org/datasets/fmr/fmrs.html>.

VI. Manufactured Home Space Surveys

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 will consider modification of the manufactured home space FMRs where public comments present statistically valid survey data showing the 40th percentile manufactured home space rent (including the cost of utilities) for the entire FMR area. No new exception requests were filed.

All approved exceptions to these rents that were in effect in FY2005 were updated to the midpoint of FY2006 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. 50th Percentile FMR Area Designation

An interim rule published on October 2, 2000 (65 FR 58870), established 50th percentile FMRs for 39 FMR areas. That

notice required a periodic review of areas eligible for 50th percentile FMRs. The notice published on August 25, 2005 (70 FR 50138), provided updated information on which areas met the 50th percentile FMR eligibility criteria and requested public comments on the proposed changes. Because FY2006 FMRs have to be issued for effect before public comments on the August 25, 2005, notice can be considered, the FMRs published in this notice do not implement any of the proposed FMR reductions from the 50th to the 40th percentile level. This notice does, however, provide 50th percentile FMRs for the newly eligible areas designated in the August 25, 2005, notice.

HUD asks that areas please take special note that unless information is submitted that changes the results of the eligibility determinations issued in the August 25, 2005, notice, the proposed reductions in FMRs from the 50th to the 40th percentile for selected areas will be implemented in a subsequent notice. HUD intends to issue this subsequent notice as quickly as possible after review and consideration of the public comments on the August 25, 2005, notice.

Because the results of the 50th percentile FMR eligibility analysis contained in the August 25, 2005, notice are not being fully implemented at this time, all areas that had 50th percentile FMRs in the June 2, 2005, notice of proposed FY2006 FMRs continue to have them in this notice. In addition, the 10 newly designated areas that qualified for 50th percentile FMRs are assigned them in this notice. Again, however, HUD anticipates that the subsequent notice to be issued on 50th percentile FMRs will be limited to the areas listed as eligible for 50th percentile FMRs in the August 25, 2005, notice and not the June 2, 2005, notice. Table 2 identifies the 10 new areas (which were identified in the August 25, 2005, notice).

TABLE 2.—PROPOSED FY2006 40TH PERCENTILE FMR AREAS THAT SHOULD BE ASSIGNED 50TH PERCENTILE FMRs

Baltimore-Towson, MD MSA	Providence-Fall River, RI-MA HMFA.
Hartford-West Hartford-East Hartford, CT HMFA	Riverside-San Bernardino-Ontario, CA MSA.
Honolulu, HI MSA	Sarasota-Bradenton-Venice, FL MSA.
Milwaukee-Waukesha-West Allis, WI MSA	Tacoma, WA HMFA.
New Haven-Meriden, CT HMFA	Tucson, AZ MSA.

Riverside-San Bernardino-Ontario, CA, in addition to becoming a 50th percentile FMR area, has an additional FMR increase based on RDD results. At the 50th percentile standard, the RDD survey conducted showed a statistically significant increase in the 50th

percentile FMR estimate for the area that is reflected in this publication.

VIII. Katrina Disaster Area FMRs

The Secretary of HUD has authority to modify FMRs to meet changes in rents resulting from declared Federal

disasters. HUD's past natural disaster policy has been to allow PHAs in Federal Emergency Management Agency (FEMA)-designated disaster areas to request exception FMRs of 110 percent of published FMRs, and to allow them to retain use of those FMRs for a two-

year period. The Department is fully aware that the Katrina disaster is much larger in scope than previous disasters and that the FMRs in this publication are based on pre-Katrina data. Communities far outside FEMA-designated disaster areas are being significantly impacted by displacees seeking housing. HUD's Office of Public and Indian Housing will be issuing a notice within the next few weeks that addresses how PHAs may obtain disaster-related exception FMRs to meet local needs.

IX. 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 \$20,000 to \$30,000. Areas with 500 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 FMR 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, do 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.

PHAs that plan to use the RDD survey technique may obtain a copy of the appropriate survey guide by calling HUD USER on (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 on the Internet 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 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 is prepared 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 27, 2005.

Roy A. Bernardi,
Deputy Secretary.

Fair Market Rents for the Housing Choice Voucher 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 FY2006 FMRs reflect a change in metropolitan area definition where HUD is using Core-Based Statistical Areas (CBSA), that 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 Metropolitan Areas.

b. Modifications to OMB Definitions—Following OMB guidance, the estimation procedure for the FY2006 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 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 Areas 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, metro 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 non-metropolitan 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. MSA subareas, and the remaining portions of MSAs after sub-areas have been determined, are referred to as 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

Schedules B shows the FMRs for 0-bedroom through 4-bedroom units. The FMRs for unit sizes larger than 4 bedrooms are calculated by adding 15 percent to the 4-bedroom FMR for each extra bedroom. For example, the FMR for a 5-bedroom unit is 1.15 times the 4-bedroom FMR, and the FMR for a 6-bedroom unit is 1.30 times the 4-bedroom FMR. FMRs for single-room-occupancy (SRO) units are 0.75 times the 0-bedroom FMR.

3. Arrangement of FMR Areas and Identification of Constituent Parts

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

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. All constituent parts of a metropolitan FMR area that are in more than one state can be identified by consulting the listings for 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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