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Part IV

Department of Housing and Urban Development

**Proposed Fair Market Rents for the
Housing Choice Voucher Program and
Moderate Rehabilitation Single Room
Occupancy Program Fiscal Year 2005;
Notice**

**DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

[Docket No. FR-4937-N-01]

**Proposed Fair Market Rents for the
Housing Choice Voucher Program and
Moderate Rehabilitation Single Room
Occupancy Program Fiscal Year 2005**

AGENCY: Office of the Secretary, HUD.

ACTION: Notice of Proposed Fiscal Year (FY) 2005 Fair Market Rents (FMRs).

SUMMARY: Section 8(c)(1) of the United States Housing Act of 1937 (USHA) requires the Secretary to publish Fair Market Rents (FMRs) annually to be effective on October 1 of each year. The Department's regulations at 24 CFR part 888 provide a notice and comment process for developing FMRs. Today's notice proposes FMRs for FY2005. The proposed numbers would amend FMR schedules used to determine payment standard amounts for the Housing Choice Voucher program, to determine initial renewal rents for some expiring project-based section 8 contracts, and to determine initial rents for housing assistance payment (HAP) contracts in the Moderate Rehabilitation Single Room Occupancy program. Other programs may require use of FMRs for other purposes.

Proposed FY2005 FMRs are based on 40th percentile recent mover FMR estimates for most areas, but FMRs for 38 metropolitan areas are shown at the 50th percentile FMR standard. The 50th percentile FMRs were initiated in 2001 to increase housing choice opportunities in metropolitan areas where high percentages of vouchers were being used in high poverty census tracts. For informational purposes, 40th percentile FMRs for the 38 areas that currently have 50th percentile FMRs are also listed.

The proposed FY2005 FMRs in this notice are the first to utilize new Office of Management and Budget (OMB) area definitions and 2000 Census data (which became available in September 2003). The FMR estimates have been trended to April 2005, the mid-point of FY2005.

DATES: Comments Due Date: September 7, 2004. Due to a number of technical and policy issues associated with rebenchmarking the FY2004 FMRs with 2000 Census data, the proposed FY2005 FMRs are being published later than usual. HUD is required to publish FMRs for effect by October 1, 2004. To meet this requirement, HUD is allowing a 30-day comment submission period for the FMRs proposed in this notice. Reviews of these comments will be reflected in

a **Federal Register** notice issued on or about October 1, 2004. HUD will accept comments during the 60-day period following the initial 30-day comment period. Comments received during the 60-day period will be considered for inclusion in a subsequent FY2005 **Federal Register** FMR notice.

ADDRESSES: Interested persons are invited to submit comments regarding HUD's estimates of the FMRs as published in this notice to the Office of the General Counsel, Rules Docket Clerk, Room 10276, Department of Housing and Urban Development, 451 Seventh Street, SW., Washington, DC 20410-0001. Communications should refer to the above docket number and title and should contain the information specified in the "Request for Comments" section. To ensure that the information is fully considered by all of the reviewers, each commenter is requested to submit two copies of its comments, one to the Rules Docket Clerk and the other to the Economic and Market Analysis Staff in the appropriate HUD field office. A copy of each communication submitted will be available for public inspection and copying during regular business hours (8 a.m. to 5 p.m. eastern time) at the above address.

FOR FURTHER INFORMATION CONTACT: Deborah Hernandez, Director, Office of Housing Voucher Programs, telephone (202) 708-2934, responsible for decisions on how fair market rents are used; or Mark Johnston, Office of Special Needs Assistance Programs, telephone (202) 708-4300, responsible for administration of the Mod Rehab Single Room Occupancy program. For technical information on the methodology used to develop fair market rents or a listing of all fair market rents, 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>. Further questions on the methodology may be addressed to Marie L. Lihn, Economic and Market Analysis Division, Office of Economic Affairs, telephone (202) 708-0590, e-mail marie_l_lihn@hud.gov. Hearing- or speech-impaired persons may use the Telecommunications Device for the Deaf (TTY) at (800) 927-7589. (Other than the HUD USER and TTY numbers, telephone numbers are not toll-free.)

SUPPLEMENTARY INFORMATION:

I. Background

Section 8 of the 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. The interim rule published on October 2, 2000 (65 FR 58870), established 50th percentile FMRs for certain areas.

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>.

II. Procedures for the Development of FMRs

Section 8(a) of the USHA requires the Secretary of HUD to publish FMRs periodically, but not less frequently than annually. The Departments regulations provide that HUD will develop proposed FMRs, publish them for public comment, analyze the comments, and publish final FMRs. (See 24 CFR 888.115.) Final FY2005 FMRs will be published on or before October 1, 2004, as required by section 8(c)(1) of the USHA.

III. Fair Market Rent Schedules

This notice proposes revised FMRs for FY2005. These are the first FMRs calculated using 2000 Census data, which only recently became available in the level of detail (recent mover, standard-quality unit rents by number of bedrooms) necessary to calculate FMRs. The Department refers to the use of new decennial census data to revise FMRs as "rebenchmarking." This process involves replacing the base year FMR estimates with those developed from new Census data and then updating the Census-based estimates from the date of the Census to the midpoint of the program year during which the FMRs will be in effect. The proposed FY2005 FMRs for all areas in the country have been rebenchmarking, either with Census data or with Random Digit Dialing surveys or American Housing Surveys conducted after the date of the 2000 Census.

In addition to the use of Census 2000 data for FMRs, these FMRs also reflect a change in metropolitan area definitions. Please see the following

section on Metropolitan Area Definitions for a discussion of housing market areas and HUD's use of OMB-defined metropolitan area. Due to the rebenchmarking and the changes in area definitions, the proposed FMRs for many areas differ from the normal updating of last year's FMRs.

Schedules B(1) and B(2) at the end of this document list the proposed FMR levels for rental housing. Schedule B(1) lists the proposed 2005 FMRs for all areas using the estimated 40th or 50th percentile FMR standard. An asterisk in Schedule B(1) identifies the FMR areas where use of 50th percentile FMRs had been authorized. There are some

metropolitan areas and parts of metropolitan areas that previously qualified for 50th percentile FMRs but no longer do so because of OMB area definitional changes.

Schedule B(1) contains 40th percentile FMRs for most areas, but provides 50th percentile FMRs for the following metropolitan FMR areas:

Albuquerque, NM	Atlanta-Sandy Springs-Marietta, GA.
Austin-Round Rock, TX	Baton Rouge, LA.
Buffalo-Niagara Falls, NY	Chicago-Naperville-Joliet, IL.
Cleveland-Elyria-Mentor, OH	Dallas-Plano-Irving, TX.
Denver-Aurora, CO	Detroit-Livonia-Dearborn, MI.
Fort Lauderdale-Pompano Beach-Deerfield Beach, FL	Fort Worth-Arlington, TX.
Grand Rapids-Wyoming, MI	Houston-Baytown-Sugar Land, TX.
Kansas City, MO-KS	Las Vegas-Paradise, NV.
Miami-Miami Beach-Kendall, FL	Minneapolis-St. Paul-Bloomington, MN-WI.
Newark-Union, NJ-PA	Oakland-Fremont-Hayward, CA.
Oklahoma City, OK	Oxnard-Thousand Oaks-Ventura, CA.
Philadelphia, PA	Phoenix-Mesa-Scottsdale, AZ.
Richmond-Petersburg, VA	Sacramento-Arden-Arcade-Roseville, CA.
St. Louis, MO-IL	Salt Lake City-Ogden, UT.
San Antonio, TX	San Diego-Carlsbad-San Marcos, CA.
San Jose-Sunnyvale-Santa Clara, CA	Santa Ana-Anaheim-Irvine, CA.
Tampa-St. Petersburg-Clearwater, FL	Tulsa, OK.
Virginia Beach-Norfolk-Newport News, VA-NC	Washington-Arlington-Alexandria, DC-VA-MD-WV.
West Palm Beach-Boca Raton-Boynton Beach, FL	Wichita, KS.

For informational purposes, Schedule B(2) of this document provides the 40th percentile FMR standard for the 38 areas that have a 50th percentile rent shown in Schedule B(1). FMR areas are listed by State; a FMR area that covers parts of two States will be shown under each State listing.

FMRs for the Moderate Rehabilitation program are 120 percent of the Schedule B(1) Fair Market Rents (see 24 CFR 882.408(a) and 888.113(e)(1)). The payment standard amount for a single-room occupancy unit in the Rental Voucher program is 75 percent of the efficiency FMR listed in Schedule B(1).

Manufactured home space rents are set at 40 percent of the Schedule B(1) FMR and include utilities. Exceptions to this calculated rent are based on surveys of space rents plus utilities and are shown on Schedule D.

IV. Metropolitan Area Definitions

A housing market area is a geographic area where housing units of similar characteristics are in competition with each other. With a few exceptions identified below, HUD uses OMB-defined metropolitan areas as the geographic basis for defining housing markets because of the correspondence that typically exists between these definitions and housing market area definitions.

As part of the 2000 Census process, OMB released new metropolitan area definitions on June 6, 2003, and updated them on February 18, 2004.

The new 2000 Census-based metropolitan area standards use somewhat different terminology than previously in use. The 1980 and 1990 Census-based standards identified two types of metropolitan areas: (1) Metropolitan Statistical Areas (MSAs), and (2) Consolidated Metropolitan Statistical Areas (CMSAs). CMSAs were large metropolitan areas that had two or more large, distinct subparts referred to as Primary Metropolitan Statistical Areas (PMSAs). For instance, the Baltimore-Washington metropolitan area was categorized as a CMSA, and it was split into a Baltimore PMSA and a Washington, DC PMSA. Counties were the building blocks for metropolitan area definitions except in New England, where aggregations of townships were used to define metropolitan areas. HUD FMR areas were defined using MSA and PMSA definitions.

The terms "Consolidated Metropolitan Statistical Area" and "Primary Metropolitan Statistical Area" are now obsolete. Under the 2000 standards, the term "Metropolitan Statistical Area" is used for all metropolitan areas. These areas are also referred to as Core-Based Statistical Areas (CBSAs). A large metropolitan CBSA area may be divided into "Metropolitan Divisions," which consist of a county or group of counties within a Metropolitan Statistical Area that has a population core of at least 2.5 million. A Metropolitan Division is similar in concept to the now obsolete Primary

Metropolitan Statistical Area concept. Special note should be made of the fact that the new metropolitan area definitions are county-based. This results in significant changes in how some New England metropolitan areas are defined.

While a Metropolitan Division is a subdivision of a large Metropolitan Statistical Area, it functions as a distinct social, economic, and cultural area within the larger region. Metropolitan Divisions are given separate statistical identities (e.g., Census reports will provide separate estimates for these areas). Federal agencies that had been using Primary Metropolitan Statistical Areas for program administrative and fund allocation purposes were directed by OMB to consider replacing them with Metropolitan Divisions because of the conceptual similarities.

Many metropolitan areas have been revised to include counties previously designated as nonmetropolitan areas. Some of these formerly nonmetropolitan counties will find that the proposed FY2005 FMRs are substantially higher. Counties with substantial increases in the FMR may find program implementation difficult because of insufficient funding. These counties should apply to the Office of Public and Indian Housing for exception rents below 90 percent of the FMR standard (See 24 CFR 982.503) when appropriate.

The revised OMB definitions identify two types of nonmetropolitan areas. A "Micropolitan Area" consists of one or

more counties that meet certain population size and other criteria. Remaining nonmetropolitan areas consist of individual nonmetropolitan counties that lack the "Micropolitan Area" designation.

HUD has made two changes to OMB area definitions in establishing proposed FY2005 FMR areas. One change is legislatively mandated, and requires establishing separate FMRs for Westchester County, New York, even though it is part of the New York City Metropolitan Area. The other change relates to Virginia independent cities, which are treated as county-equivalents by the Census but which are too small to be considered distinct housing market areas. For FMR program purposes, Virginia independent cities are associated with a metropolitan area or nonmetropolitan county. Independent cities that fall within metropolitan or micropolitan areas are considered a part of those areas and will be listed in their respective metropolitan, micropolitan, or nonmetropolitan area.

VIRGINIA NONMETROPOLITAN COUNTY FMR AREA AND INDEPENDENT CITIES INCLUDED WITH COUNTY

County	Cities
Allegheny	Clifton Forge, Covington.
Carroll	Galax.
Greensville	Emporia.
Rockbridge	Buena Vista and Lexington.
Southampton	Franklin.
Wise	Norton.

Fiftieth percentile FMRs were originally assigned to 39 areas. Current OMB definitions split four of these areas into metropolitan divisions: Chicago, Detroit, Philadelphia and Washington, DC. The core part of these areas remains qualified for 50th percentile FMRs, but the parts put into separate metropolitan divisions are no longer qualified. In addition, the merger of Bergen-Passaic into the New York City Division means that those counties are no longer qualified to have 50th percentile FMRs. Therefore, under the new metropolitan area definitions, only 38 areas have 50th percentile FMRs.

V. Method Used To Develop FMRs

FMR Standard: FMRs are gross rent estimates that include both shelter rent paid by the tenant to the landlord, and the cost of tenant-paid utilities, except telephones. HUD sets FMRs to assure that a sufficient supply of rental housing is available to program participants. To accomplish this objective, FMRs must

be both high enough to permit a selection of units in neighborhoods and low enough to serve as many families as possible.

FMRs are set at a percentile within the rent distribution of standard quality rental housing units in each FMR area (see 24 CFR 888.113). FMRs are based on the distribution of rents for units that are occupied by recent movers. The distribution does not include rents for units less than two years old and is adjusted for public housing units.

Attached FMR Schedule B(1) provides FY2005 FMRs at the 40th or 50th percentile of rents paid by recent movers for all areas. The 50th percentile FMRs were assigned to large metropolitan areas that had high program concentrations in high poverty areas. Schedule B(2) provides FY2005 FMRs at the 40th percentile for the 38 areas that are currently set at the 50th percentile. The 40th percentile rent standard means that 40 percent of all standard-quality rental housing units rented by recent movers have rents at or below this dollar amount. Public Housing Authorities (PHAs) have discretion to increase their payment standards to 110 percent of published FMRs. Because the variation in rents between the 40th and 60th percentiles is so small, a 10 percent increase in a rent set at the 40th percentile produces a rent standard that is, on average, equal to the 55th percentile of rents paid by recent movers (i.e., 55 percent of all recent mover rents are below this rent level).

Data Sources

HUD has used the most accurate and current data available to develop the FMR estimates. The sources of survey data used for the base-year estimates are:

- (1) The 2000 Census, which provides statistically reliable rent data for all FMR areas,
- (2) Random Digit Dialing (RDD) telephone surveys of individual FMR areas, which are based on a sampling procedure that uses computers to select statistically random samples of rental housing, and
- (3) American Housing Surveys (AHS) of the largest metropolitan areas and have statistical accuracy comparable to the decennial Census.

The base-year FMRs are updated using trending factors based on Consumer Price Index (CPI) data for rents and utilities or on HUD regional rent-change factors developed from regional RDD surveys. There are 76 metropolitan areas that are covered by metropolitan CPI surveys. For all other areas, RDD regional rent-change factors

are developed annually for the metropolitan and nonmetropolitan parts of each of the 10 HUD regions. The RDD factors are used to update the base-year estimates for all FMR areas that are not covered by a metropolitan CPI survey.

The decennial Census provides statistically reliable rent data for use in establishing base-year FMRs. The RDD telephone survey technique is based on a sampling procedure that uses computers to select statistically random samples of telephone numbers that are then contacted to seek information on rental housing. RDD surveys are conducted for two purposes: (1) For developing FMR estimates for selected individual FMR areas, and (2) for developing HUD regional gross rent-change factors. The HUD Regional surveys are conducted annually. Contingent on funding, HUD conducts 60 to 80 individual FMR area surveys each year. In late 2005, Census American Community Survey (ACS) data will begin to become available that will provide highly reliable annual rent estimates for most metropolitan areas, and eliminate the need for HUD regional RDD surveys as well as most local RDD surveys. The ACS will collect the same type of rent data as the decennial Census. ACS data will be used to replace HUD regional RDD surveys in FY 2006 FMRs, and area-specific ACS FMR estimates will also become available for use. The AHS is used to develop between Census revisions for the largest metropolitan areas on a four-year cycle. Those surveys used in the FY2005 FMRs were conducted in 2002.

Areas With FMRs Based on 2000 Census Data

For areas where the base-year estimates were developed from the 2000 Census, the 40th and, where appropriate, 50th percentile gross rent of standard-quality units occupied by recent movers was calculated separately for each number of bedrooms. The rent distributions were modified to eliminate public housing units, so that only market-rent units are considered. FMRs are calculated for all metropolitan areas or divisions, and all nonmetropolitan counties or micropolitan areas.

The rents for three-bedrooms units continue to reflect HUD's policy to set higher rents for three-bedroom and larger units than would result from using normal market rents. This adjustment was intended to increase the likelihood that the largest families, who have the most difficulty leasing units, will be successful in finding eligible program units. The adjustment added 8.7 percent to the three-bedroom FMRs

and corresponding increases for four-bedroom and larger units.

The FMR for unit sizes larger than four bedrooms were 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 was made for areas with local bedroom-size intervals above or below what are considered to be reasonable ranges. Experience has shown that highly unusual bedroom ratios typically reflect inadequate sample sizes or peculiar local circumstances that HUD would not want to recognize in setting FMRs (e.g., luxury efficiency apartments in New York City). Bedroom interval ranges were established based on an analysis of the range of such intervals for all metropolitan areas. The final ranges used were: efficiency units must be between .66 and .84 of the two-bedroom FMR, one-bedroom units must be between .78 and .89 of the two-bedroom unit, three-bedroom units must be between 1.21 and 1.42 of the two-bedroom unit and four-bedroom units must be between 1.23 and 1.66 of the two-bedroom unit. Rents were then adjusted if they were non-sequential (e.g., efficiency rents were not allowed to be higher than one-bedroom rents).

State minimum FMRs will no longer be used. Instead, for low-population nonmetropolitan counties with small Census recent-mover rent samples, Census-defined county group data were used as the basis for determining rents for each bedroom size. (Census county groups consist of an aggregation of counties with similar social and economic characteristics.) 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 have less than 33 two-bedroom Census sample observations.

After base 2000 Census estimates were established for each FMR area and bedroom size, they were updated from the estimated Census date of April 1, 2000, to April 1, 2005, the midpoint of FY2005, the year in which these FMRs will be in effect. Update factors were based either on the area-specific CPI survey data that were available for the largest metropolitan areas or on HUD regional RDD survey data.

For areas with local CPI surveys, CPI annual data on rents and utilities were used to update the Census rent

estimates. Three-quarters of the 2000 CPI change factor was used to bring the FMR estimates forward from April to December of 2000, followed by the annual CPI data for 2001, 2002, and 2003. An annual trending factor of three percent, based on the average annual increase in the median gross rent as measured in the 1990 and 2000 Census, was used to update estimates from the last date for which CPI data were available until the midpoint of the fiscal year in which the estimates were used. Trending to cover the period from January 1, 2004, to April 1, 2005, was needed. The 15-month trending factor was 3.75 percent (3 percent times 15/12).

For areas without local CPI surveys, the same process was used except that regional RDD survey data were substituted for CPI data. Regional RDD surveys were done for 20 areas—the metropolitan and nonmetropolitan part of each of the 10 HUD regions. Areas covered by CPI metropolitan surveys were excluded from the RDD metropolitan regional surveys.

The use of the 2000 Census rent data and the change in OMB area definitions resulted in significant revisions for a large number of FMR areas this year. The availability of more detailed local information on public housing, which is excluded from FMR estimates, also affected these estimates. Because of extensive metropolitan geographical definitional changes, FMRs for many old and new areas cannot be directly compared. Counties offer the best unit of comparison, but don't work well in New England. Approximately 22 percent of all counties have proposed FY2005 FMRs that are less than their final FY2004 FMRs, and 36 percent of counties had increases of more than 10 percent over the FY2004 FMRs as a result of rebenchmarking. A disproportionate number of areas with increases are small nonmetropolitan counties.

A number of RDDs will be conducted in the summer of 2004 for metropolitan areas with unusual changes to ensure that their FY2005 FMRs are accurate. Areas where completed surveys show that an increase over proposed FMR levels is warranted will be given higher FMRs in the final FMR publication.

Areas With FMRs Based on Local RDD Survey Data

HUD uses RDD telephone surveys to obtain statistically reliable FMR estimates for selected areas. The RDD technique involves use of large, randomly selected samples to obtain data on current rents paid for one- and two-bedroom rental units occupied by

recent movers. Both one- and two-bedroom units are used because there usually are consistent relationships between one- and two-bedroom rents in local housing markets, and use of data on one-bedroom rents can be used to improve the accuracy of two-bedroom FMR estimates. One-bedroom survey rents are converted into two-bedroom equivalent rents using the average Census differential between one- and two-bedroom rents.

RDD surveys exclude public housing units, newly built units and non-cash rental units. They do not exclude substandard units because there is no practical way to determine housing quality from telephone interviews. Such surveys, however, also exclude units without a telephone, and past analysis has shown that the slightly downward rent estimate bias caused by including some substandard units is almost exactly offset by the slightly upward bias that results from only surveying units with telephones. This relationship held true across a variety of areas.

RDD surveys that meet HUD criteria have a high degree of statistical accuracy. There is a 95 percent likelihood that the 40th or 50th percentile recent mover contract rent estimates developed using this approach are within three to four percent of the actual 40th or 50th percentile. Virtually all of the estimates will be within five percent of the actual 40th or 50th percentile value.

A number of RDD surveys were conducted after the 2000 Census. Approximately one-half of these could not be used because of large changes in the OMB-defined geographic area. Of the areas which did not change or changed very little under the new OMB definitions, RDD survey results are used to replace FMR estimates rebenchmarking using the 2000 Census only when the Census-based estimate is outside the 95 percent confidence interval of the RDD survey estimate (i.e., there is only a five percent likelihood that the Census-based estimate is correct). For areas where the RDD survey results are determined to have a statistically significant difference, RDD surveys are used to provide a rebenchmarking FMR instead of the Census. These estimates are updated in essentially the same manner as Census estimates.

The proposed FMRs include RDD surveys completed in 2001 and 2002. Survey results for surveys conducted in 2000 produced contract rent estimates very similar to the Census estimates, so they are not used. The survey estimate confidence intervals are partly dependent on the FMR standard

selected. The RDD surveys used in place of Census data for Schedule B(1) were for the following areas:

2001 Surveys: Muncie, IN; New Orleans, LA; Orlando, FL; Riverside, CA; San Jose, CA; Payne County, OK; Jackson County, NC; McDowell County, NC; and Polk County, NC.

2002 Surveys: Baltimore, MD; Jacksonville, FL; Pittsburgh, PA; Norfolk, VA; St. Louis, MO; and Salinas, CA.

The RDD surveys used in place of Census-based estimates for Schedule B(2) were for the following areas:

2001 Surveys: Buffalo, NY; Minneapolis, MN; and San Jose, CA.

2002 Surveys: Norfolk, VA and St. Louis, MO.

Areas With FMRs Based on AHS Data

HUD used AHS data to calculate rents from the distributions of two-bedroom units occupied by recent movers. Public housing units, newly constructed units, and units that fail a housing quality test are excluded from the rental housing distributions before the FMRs are calculated.

Thirteen areas were covered by AHS surveys conducted in 2002. Two of these surveys could not be used because of differences in AHS and new OMB metropolitan area definitions. Another two surveys did not have enough recent mover cases to provide reliable estimates. More current AHS results were used to replace FMR estimates based on Census or RDD survey data if the Census- or RDD-based estimate was outside the 95 percent confidence interval of the AHS estimate. The AHS results produced statistically different FMR estimates and were used to rebenchmark FMRs for the following areas in Schedule B(1): Dallas, TX; Phoenix, AZ; Portland, OR; and Santa Ana, CA.

Dallas and Phoenix are 50th percentile FMR areas and the AHS rent was also used to rebenchmark the FMR for these two areas at the 40th percentile rent shown in Schedule B(2).

Manufactured Home Space Rents

Manufactured home space rents are set at 40 percent of the two-bedroom rent. Exceptions to this rent are granted when justified by survey data. All approved exceptions to these rents that were in effect in FY2004 were updated to 2005 using the relevant update factor. 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.

VI. Request for Comments

HUD seeks public comments on FMR levels for specific areas. Comments on FMR levels must include sufficient information (including local data and a full description of the rental housing survey methodology used) to justify any proposed changes. Changes may be proposed in all or any one or more of the unit-size categories on the schedule. Recommendations and supporting data must reflect the rent levels that exist within the entire FMR area.

For the supporting data, 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 approximately \$20,000 to \$30,000. Areas with 500 or more program units usually meet this cost criterion, and areas with fewer units may meet it if actual rents for two-bedroom units are significantly different from the FMRs proposed by HUD. In addition, HUD has developed a 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, at a cost of \$5,000 or less.

PHAs in nonmetropolitan areas may, in certain circumstances, conduct surveys of groups of counties. HUD must approve all county-grouped surveys in advance. 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 the relationship of rents in that area to the combined rents in the cluster of FMR areas. In addition, PHAs are advised that counties whose FMRs are based on the combined rents in the cluster of FMR areas will not have their FMRs revised unless the grouped survey results show a revised FMR above the combined rent level.

PHAs that plan to use the RDD survey technique should obtain a copy of the appropriate survey guide. Larger PHAs should request HUD's survey guide entitled "Random Digit Dialing Surveys; A Guide to Assist Larger Public Housing Agencies in Preparing Fair Market Rent Comments." Smaller PHAs should obtain the guide entitled "Rental Housing Surveys; A Guide to Assist Smaller Public Housing Agencies in Preparing Fair Market Rent Comments." These guides are available from HUD USER on (800) 245-2691, or from HUD's Web site, in Microsoft Word or Adobe Acrobat format, at the following

address: <http://www.huduser.org/datasets/fmr.html>.

Other survey methodologies are acceptable in providing data to support comments, if the survey methodology can provide statistically reliable, unbiased estimates of the 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. Surveys must include units at 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 means of verifying if a sample is representative of the FMR area's rental housing stock.

Most surveys cover only one- and two-bedroom units, which has statistical advantages. If the survey is statistically acceptable, HUD will estimate FMRs for other bedroom sizes using ratios based on the decennial Census. 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.

HUD will consider increasing manufactured home space FMRs where public comment demonstrates that 40 percent of the two-bedroom FMR is not adequate. In order to be accepted as a basis for revising the manufactured home space FMRs, comments must include a pad rental survey of the mobile home parks in the area, identify the utilities included in each park's rental fee, and provide a copy of the applicable public housing authority's utility schedule.

Accordingly, the Fair Market Rent Schedules, which will not be codified in 24 CFR part 888, are proposed to be amended as shown in the Appendix to this notice:

Dated: July 30, 2004.

Alphonso Jackson,
Secretary.

Fair Market Rents for the Housing Choice Voucher Program

Schedules B and D—General Explanatory Notes

1. Geographic Coverage

a. Metropolitan Area FMRs—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.

b. Nonmetropolitan Area FMRs—FMRs also are established for nonmetropolitan counties and for county equivalents in the United States, and for FMR areas in Puerto Rico, the Virgin Islands, and the Pacific Islands.

c. Virginia Independent Cities—FMRs for the areas in Virginia shown in the table below were established by combining the Census data for the nonmetropolitan counties with the data for the independent cities that are located within the county borders. Because of space limitations, the FMR listing in Schedule B(1) includes only the name of the nonmetropolitan county. The full definitions of these areas, including the independent cities, are as follows:

VIRGINIA NONMETROPOLITAN COUNTY FMR AREA AND INDEPENDENT CITIES INCLUDED WITH COUNTY

County	Cities
Allegheny	Clifton Forge and Covington.
Carroll	Galax.
Greensville	Emporia
Rockbridge	Buena Vista and Lexington.
Southhampton	Franklin
Wise	Norton

2. Bedroom Size Adjustments

Schedule B(1) 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 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(1) are listed alphabetically by metropolitan FMR area and by nonmetropolitan county within each State. The exception rent FMRs for manufactured home spaces in Schedule D are listed alphabetically by State.

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

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