

Rents (FMR) for their operating area to produce the FY 2017 RFIFs. HUD's FY 2017 methodology differs in part from that used in FY 2016; HUD improved the national PUC forecast by removing the reliance on historical PUC data and independently projecting growth in gross rents and tenant incomes.

DATES: *Effective Date:* June 19, 2017.

FOR FURTHER INFORMATION CONTACT:

Miguel A. Fontanez, Director, Housing Voucher Financial Division, Office of Public Housing and Voucher Programs, Office of Public and Indian Housing, telephone number 202-402-4212; or Peter B. Kahn, Director, Economic and Market Analysis Division, Office of Policy Development and Research, telephone number 202-402-2409, for technical information regarding the development of the schedules for specific areas or the methods used for calculating the inflation factors, Department of Housing and Urban Development, 451 7th Street SW., Washington, DC 20410. Hearing- or speech-impaired persons may contact the Federal Relay Service at 800-877-8339 (TTY). (Other than the "800" TTY number, the above-listed telephone numbers are not toll free.)

SUPPLEMENTARY INFORMATION:

I. Background

Division K, Title II of the Consolidated Appropriations Act, 2017 requires that the HUD Secretary, for the calendar year 2017 funding cycle, provide renewal funding for each public housing agency (PHA) based on validated voucher management system (VMS) leasing and cost data for the prior calendar year and by applying an inflation factor as established by the Secretary, by notice published in the **Federal Register**. This notice provides the FY 2017 inflation factors and describes the methodology for calculating them. Tables in PDF and Microsoft Excel formats showing Renewal Funding Inflation Factors (RFIF) will be available electronically from the HUD data information page at: <https://www.huduser.gov/portal/datasets/rfif/rfif.html>.

II. Methodology

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

bedroom Fair Market Rent (FMR) for each area. Finally, HUD adjusts the individual area inflation factors to be consistent with the national inflation factor.

HUD has refined its methods for predicting inflation factors over time. In FY 2012, HUD changed from using a Consumer Price Index (CPI) historical gross rent index-based factor known as Annual Adjustment Factors to using a forecasting model that was based on historical levels of PUC and incorporated forecasted economic indices as explanatory variables to predict future levels of PUC. HUD continued to use the forecasting model adopted in FY 2012 through FY 2016 to calculate a national PUC inflation factor. Consistent with HUD's statement in the FY 2016 Renewal Funding Inflation Factor Notice that it planned to change its inflation factor methodology in FY 2017, HUD has now implemented a revised methodology to calculate a national PUC inflation factor that does not rely on historical values of PUC. See 81 FR 22296.

The objective of the revised methodology is to determine the amount by which baseline funding for HCVs currently under lease needs to increase to maintain the same number and quality of leased vouchers. The prior methodology had the disadvantage of incorporating the lower per-unit costs calculated during economic downturns into future projections, which resulted in a failure to account for higher per-unit costs during economic recoveries. The revised methodology instead calculates a "notional" PUC by taking the difference between national gross rent and 30 percent of national average HCV tenant income, as described below. The inflation factor is then calculated as the annual change in notional PUC.

The notional PUC is calculated following the same basic formula that is used to calculate the voucher subsidy. The monthly subsidy is the difference between total monthly gross rent (which is the total of the unit's contract rent plus utilities expenses required to make the unit habitable—principally electricity and/or heating fuel) and the monthly tenant rent contribution (which is calculated as 30% of monthly tenant income). However, the change in the notional PUC is calculated using forecasts incorporating economic indicators, in part using the same methodology used to calculate the national FMR trend factor, so that it reflects forward-looking cost projections rather than backward-looking data. The base level of the notional PUC is the two-bedroom national average FMR less 30 percent of the national average tenant

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-6037-N-01]

Section 8 Housing Assistance Payments Program-Fiscal Year (FY) 2017 Inflation Factors for Public Housing Agency (PHA) Renewal Funding

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

ACTION: Notice.

SUMMARY: This notice establishes Renewal Funding Inflation Factors (RFIF) to adjust Fiscal Year (FY) 2017 renewal funding for the Tenant-based Rental Assistance (TBRA), or Housing Choice Voucher (HCV), Program of each public housing agency (PHA), as required by the Consolidated Appropriations Act, 2017. The notice apportions the expected percent change in national Per Unit Cost (PUC) for the HCV program, 3.97%, to each PHA based on the change in Fair Market

income measured using HUD administrative data. Future values of the notional PUC are calculated as the difference between the *forecast* of monthly gross rent (using a national average) and the *forecast* of the monthly tenant rent contribution (calculated as 30% of the national average forecast of monthly tenant adjusted gross income).

An accurate PUC forecast depends upon the interaction of the three factors mentioned above that determine the voucher subsidy amounts: Rents and utility expenses—together, gross rents—and tenant incomes. Note that if tenant incomes grow more strongly than gross rents, voucher costs will grow more slowly than gross rents. This typically does not occur, as tenant incomes have historically grown more slowly than gross rents. However, modeling the growth in gross rents and tenant incomes independently is an improvement of the prior methodology, which forecasted PUC changes directly, essentially assuming that gross rents and tenant incomes grow at the same rates. In contrast, the new model expressly captures differences in expected growth rates of the three relevant factors: Rent of primary residence, utilities associated with renting a housing unit, and tenant incomes.

HUD calculates a gross rent index forecast by combining two indices that HUD independently forecasts using data from the CPI-U: A rent of primary residence index and a housing—fuels and utilities index. The Rent of Primary Residence Index (BLS CPI-U component series “SEHA”) is weighted at 80 percent, or 0.8 times, and is estimated from quarterly data on residential fixed investment from the National Income and Product Accounts, and civilian employment from the Bureau of Labor Statistics. The Housing—Fuels and Utilities Index (BLS CPI-U component series “SAH2”), a forecast of quarterly utility expense growth, is weighted at 20 percent, or 0.2 times, and is estimated using the quarterly average spot price in dollars per barrel of West Texas Intermediate crude oil, the quarterly national average price in dollars per short ton of bituminous coal, the quarterly average Henry Hub price of natural gas in dollars per million BTUs, and the overall level of the Consumer Price Index (CPI-U) lagged by 2 quarters. The changes predicted by the gross rent index forecast are then applied to a “base” gross rent—for this year, the FY 2016 national voucher-weighted average two-bedroom FMR—to “inflate” the FY 2016 national average gross rent to its projected FY 2017 amount.

HUD forecasts quarterly average tenant household incomes (sourced from HUD administrative data) using a model that includes a seasonal difference and seasonal moving average factor. The other independent variables are BLS’s civilian employment and unemployment rate data.

As stated above, the notional PUC is the difference between the national average monthly gross rent forecast less 30% of the national average monthly voucher tenant household income forecast. The national inflation factor is the annual change in the national average PUC predicted for the current calendar year (in this case 2017) divided by the national average PUC for the prior year (in this case 2016). The Calendar Year 2017 PHA HCV allocation uses 3.97 percent as the national inflation factor. Forecast components for each economic series used in the model in FY 2017 were taken from the FY 2017 OMB Midsession Review Economic Assumptions.

III. The Use of Inflation Factors

HUD then calculates individual geographic area inflation factors for each PHA administering the HCV program to account for relative differences in the changes of local rents so that HCV funds can be allocated among PHAs according to local costs. HUD does so by assigning each PHA an inflation factor calculated for its FMR area(s) and then adjusting these individual inflation factors to be consistent with the national forecast.

The inflation factor for an individual geographic area is based on the annualized change in the area’s FMR between FY 2016 and FY 2017.¹ These changes in FMRs are then scaled such that the voucher-weighted average of all individual area inflation factors is equal to the national inflation factor, *i.e.*, the expected annual change in national PUC from CY 2016 to CY 2017 (now calculated using the revised “notional PUC” methodology described above), and also such that no area has a factor less than one. For PHAs operating in multiple FMR areas, HUD calculates a voucher-weighted average inflation factor based on the count of vouchers in each FMR area administered by the PHA

¹ The FY 2017 inflation factors use the one-year change in FMRs measured between FY 2016 and FY 2017. As noted in the FY 2016 “Section 8 Housing Assistance Payments Program-Fiscal Year (FY) 2016 Inflation Factors for Public Housing Agency (PHA) Renewal Funding” notice, HUD used the annualized two-year change in FMRs measured between FY 2014 and FY 2016 because the FY15 predicted inflation rate was negative. The notice also stated that HUD intended future inflation factors to be based on the one-year change in FMRs.

as captured in HUD administrative data as of September 30, 2016.

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

IV. Geographic Areas and Area Definitions

As explained above, inflation factors based on area FMR changes are produced for all FMR areas and applied to eligible renewal funding for each PHA. The tables showing the RFIFs, available electronically from the HUD data information page, list the inflation factors for each FMR area on a state-by-state basis. The inflation factors use the same OMB metropolitan area definitions, as revised by HUD, that are used in the FY 2017 FMRs. PHAs should refer to the Area Definitions Table on the following Web page to make certain that they are referencing the correct inflation factors: http://www.huduser.org/portal/datasets/rfif/FY2017/FY2017_RFIF_FMR_AREA_REPORT.pdf. The Area Definitions Table lists areas in alphabetical order by state, and the counties associated with each area. In the six New England states, the listings are for counties or parts of counties as defined by towns or cities. HUD is also releasing the data in Microsoft Excel format to assist users who may wish to use these data in other calculations. The Excel file is available at <https://www.huduser.gov/portal/datasets/rfif/rfif.html>.

V. Environmental Impact

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

Dated: June 2, 2017.

Matthew Ammon,

General Deputy Assistant Secretary for Policy Development and Research.

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