

Appendix A: Data Notes, Methodologies and Sources

Appendix A describes the data and methodological underpinnings of *Out of Reach*. Following a description of each variable, the link to the primary data source is provided. In some instances, supplementary material is also cited. Information on how to calculate and interpret the data can be found in the sections “Where the Numbers Come From” and “How to Use the Numbers” that immediately follow the introduction.

Fair Market Rent Area Definitions

Each year, HUD determines Fair Market Rents (FMRs) for metropolitan and rural housing markets across the country. In metropolitan areas, HUD tries to use the most current Office of Management and Budget (OMB) metropolitan area definitions to define housing market boundaries for its FMR areas. Since the OMB definitions are meant to apply across government programs and the FMR areas are meant to specifically reflect housing markets, and because as administrative standards significant changes affect current recipients, simply adopting the OMB definitions for administrative purposes is not always preferable. Thus, in keeping with guidance to all federal agencies from OMB, HUD modifies the boundaries in some instances for purposes of program administration. HUD (and *Out of Reach*) refers to unmodified OMB defined areas as Metropolitan Statistical Areas (MSAs) and modified areas as HUD Metro Fair Market Rent Areas (HMFAs). This is

important to remember when comparing these statistics to other sources.

Since the boundaries of an FMR area determine the stock of housing that is included in the calculation of its Fair Market Rents, changing the boundaries can have profound effects on these values. This was made clear in 2004, when HUD proposed new FMR areas for the FY05 FMRs based on updated (2003) and unmodified OMB MSA definitions. Previous definitions had been based on the 1990 Census while the new definitions were based on the 2000 Census.

Public outcry about the often-dramatic shifts in FMR values that would have resulted caused HUD to delay implementing the updated MSA definitions until FY06.

HUD proposed FMR areas for FY06 that modified the new MSA definitions if a county (or town) to be added under those definitions had 2000 base rents 5% higher or lower than the newly defined MSA. In such cases, HUD did not combine these jurisdictions and instead created HMFAs. These changes were implemented in the Final FY06 FMRs. The FY07 FMR areas defined by HUD and evaluated in *Out of Reach* this year are largely consistent with those implemented last year.

However, there are exceptions. The exceptions are the result of HUD updating its income limits to correspond to the new FMR areas for FY06 for statistical and administrative purposes.

HUD determined that income limits for many areas would drop under the new definitions with significant ramifications for programs such as the Low Income Housing Tax Credit. HUD therefore developed a complex process to determine new income limits for the new FMR areas, including changing some FY07 FMR area definitions based in part on income data. As a result, in FY07, Ft. Lauderdale and West Palm Beach in Florida and Bergen-Passaic and Monmouth-Ocean in New Jersey became distinct FMR areas, whereas in FY06 they were included with the larger Miami and New York FMR areas, respectively. The methodological shift also resulted in changes to seven additional FMR areas and had a modest affect on the rent level of approximately 14 others.¹

Readers may also notice that HUD assigned different names to a handful of FMR areas based on changes to their official names as determined by OMB (e.g., Des Moines, IA is now called Des Moines-West Des Moines, IA). These changes do not indicate a change to the underlying geography included in the FMR area.

¹ A thorough description of HUD's income-based methodology for defining FMR areas, as well as a list of the specific geographies affected, can be found in HUD's notice of the FY07 Proposed Fair Market Rents at www.huduser.org/datasets/fmr/fmr2007P/FY2007P_Preamble.pdf. For the record, NLIHC objected to this methodological change when it was proposed because its general effect is to increase the income limits for an FMR area, thereby potentially increasing the incomes of those federal housing programs serve and reducing the number of the lowest-income households receiving federal housing assistance. NLIHC's comments on the changes are at www.nlihc.org/news/021606comments.pdf.

Lastly, in cases in which an FMR area crosses state lines, this report provides an entry under each state that contains a portion of that area. While the Housing Wage, FMR and Area Median Income values will be the same in each of these entries, the other contextual data, such as the number of renter households and the minimum and renter wages, apply only to the portion of the FMR area within that state's borders. (Appendix B provides further information on the background and development of FMRs.)

A list of the counties and towns that comprise each FMR area and the FY07 final FMRs are available at www.huduser.org/datasets/fmr/fmr2007f/FY2007F_SCHE_DULEB_rev2.pdf.

HUD also provides an online system that illustrates with relevant data the logic behind each FMR area definition. This tool is available at www.huduser.org/datasets/fmr/fmrs/index.asp?data=fmr07.

40th and 50th Percentile FMR Designation

According to an interim rule (65 FR 58870) published in 2000, HUD is required to set FMRs at the 50th percentile rent, rather than the 40th, in large metropolitan areas with concentrated poverty. This rule was established to expand rental opportunities by making units in less-impooverished areas affordable to Housing Choice Voucher holders.

Following publication of *Out of Reach 2005*, HUD revoked the 50th percentile designation in 34 areas that, after the FMR

areas were redefined in FY06 and data were evaluated, no longer met all of the criteria for the higher payment standard. Effective March 1, 2006, the 50th percentile designation applied to only 24 areas.

For FY07, HUD has reinstated the 50th percentile designation in the following four FMR areas: Dallas, TX HMFA; Fort Lauderdale, FL HMFA; San Diego-Carlsbad-San Marcos, CA MSA; and West Palm Beach-Boca Raton, FL HMFA. Dallas lost its 50th percentile designation in FY06 because the data it provided to HUD were deemed insufficient to evaluate its progress toward deconcentrating poverty. The two FMR areas in Florida had the higher payment standard until FY06, when the Miami MSA, of which they were a part last year, was disqualified.

An explanation of the 50th percentile FMRs and the status for the 34 areas is provided in HUD's supplemental notice on FY06 50th percentile designation, available at www.huduser.org/datasets/fmr/fmr2006r/FedPreamble.pdf.

National, State and Nonmetro Fair Market Rents

HUD calculates FMRs for metropolitan areas and nonmetro counties, but not for states, combined nonmetro areas or the nation. The FMRs for these larger geographies provided in *Out of Reach* are not HUD data but instead reflect the weighted average FMR for the counties within the state or combined nonmetro area. The weight used for FMRs is the number of renter households within each county from the 2000 Census.

Income

HUD reports the 2006 Area Median Income (AMI) for families at the metropolitan level for more urbanized areas and at the county level for nonmetropolitan areas. The Census definition of "family" is two or more persons related by blood, marriage or adoption residing together. This family AMI value relates to the universe of all families and is not intended to apply to a specific family size.

As with FMRs, the median income for states and combined nonmetropolitan areas reflects the weighted average of local AMI data, with the number of all households, rather than only renter households, used as the weight.

HUD releases Fair Market Rents in October and publishes the corresponding income limits in early spring. As a result, income estimates for the FY06 FMR areas were not available before publication of *Out of Reach* last year. HUD did, however, calculate incomes limits for the new OMB metropolitan areas and these were reported in *Out of Reach 2005* instead.

This year, *Out of Reach* includes income estimates developed specifically for FY06 FMR areas. Since most FY07 FMR areas are consistent with last year's, the estimates largely reflect the underlying geography to which they are applied.²

² This is not true for the handful of areas affected by HUD's new income-based methodology of defining FMR areas. These areas are still associated

However, readers should not make any direct comparisons to the AMI in the 2005 edition or any calculations predicated on it without understanding how the area definitions likely affect their comparisons.³ By way of example, the AMI assigned in *Out of Reach* last year to Meade and Nelson Counties, KY was \$57,300 as they are both part of the Louisville, KY-IN CBSA. Since HUD considers these counties to be separate FMR areas, however, it published FY06 AMIs for the two counties, which *Out of Reach* reports this year as \$47,900 and \$53,700, respectively. These differences do not reflect a marked decrease in actual median incomes for these counties, but simply a change in the geography considered in making the calculations.

Based on the incomes provided by HUD, *Out of Reach* conducts an analysis by percent of AMI for each jurisdiction. The results for households earning 30% of AMI are presented in this book, and calculations corresponding to 50% and 80% of AMI are included in the online publication. It is important to note that these are straight percentages and do not include adjustments HUD uses in calculating its income limits for federal housing programs.

with the incomes of the FMR areas to which they belonged in FY06. See Fair Market Rent Area Definitions above.

³ The same caveat applies to Estimated Renter Median Household Income data provided online, although differences should be less significant because the Census 2000 data on which renter incomes are based are independent of the FMR area definitions.

A comprehensive list of the counties and towns included in FY06 income limit calculations can be found at www.huduser.org/datasets/il/il06/Definitions06.pdf.

The methodology for calculating median family income estimates and a discussion of HUD's adjustments to subsequent income limits are provided in the *FY 2006 HUD Income Limits Briefing Material*, available at www.huduser.org/datasets/il/il06/BRIEFING-MATERIALS.pdf.

Affordability

Out of Reach is consistent with federal housing policy in the assumption that no more than 30% of a household's income should be consumed by housing costs. Spending more than 30% of income on housing is considered "unaffordable."⁴

Although *Out of Reach* explicitly addresses affordability in the rental housing market, housing affordability problems are not unique to renters. Harvard University's Joint Center for Housing Studies' *State of the Nation's Housing: 2006* (www.jchs.harvard.edu/publications/markets/son2006/index.htm) includes an analysis of the affordability problems faced by homeowners.

⁴ The Housing and Urban-Rural Recovery Act of 1983 made the 30% "rule of thumb" applicable to all current rental housing assistance programs.

Prevailing Minimum Wage

The federal minimum wage in 2006 is \$5.15 per hour. According to the Economic Policy Institute, the District of Columbia and 20 states had implemented a state minimum wage higher than \$5.15 by the end of October 2006. For these states, *Out of Reach* incorporates the higher wage level as the prevailing minimum wage.⁵

Further information on state minimum wages can be found in Table 5 of the Economic Policy Institute's Issue Guide on the Minimum Wage: www.epi.org/issueguides/minwage/epi_minimum_wage_issue_guide.pdf.

Average Renter Wage

Recognizing that the minimum wage reflects the earnings of only a subset of Extremely Low Income workers, *Out of Reach* also provides an Estimated Mean Renter Hourly Wage. This

⁵ The Economic Policy Institute also reports that 21 states, including eight that currently use the federal level, plan to increase their minimum wage in 2007, which would put the total at 29 states with minimum wages above the federal rate. Also, as of this writing, Congress looks increasingly likely to pass a national increase in the federal minimum wage in 2007. Only changes that took effect in people's paychecks before October 31, 2006, however, are reflected here.

measure reflects what a typical or average renter is likely to earn in an hour of work at prevailing wages.⁶

The Estimated Mean Renter Hourly Wage is based on the mean weekly earnings of private (non-governmental) employees working in each county⁷ as reported by the Bureau of Labor Statistics (BLS) in the Quarterly Census of Employment and Wages. For each county, the mean hourly earnings are multiplied by the ratio of median renter income to median total household income in Census 2000 to arrive at an estimated average renter wage. In 13 cases, this results in an upward adjustment; nationally, however, the median renter household earned only 65% of the overall median household income in 1999.

Earnings include the hourly wage as well as paid leave, bonuses, stock options and other forms of compensation. Preliminary annual values for 2005 are used.

With few exceptions, the Estimated Mean Renter Hourly Wage reported in this edition of *Out of Reach* is directly comparable with last year's wage, and any change in its value should reflect actual year-to-year differences in compensation for employment. For roughly 80% of the counties, this annual difference falls between -0.4% and +7.5%. More dramatic differences can be observed for some smaller counties, where

⁶ Thus this measure is different from the Estimated Renter Median Household Income provided online, which reflects an estimate of what renter *households* are earning today and includes non-wage income.

⁷ Data are not provided for 34 counties because the number of employees working in the county is insufficient to calculate a reliable wage.

events such as plant openings, mass layoffs and year-end bonuses can cause wage levels to fluctuate considerably from one year to the next.

Wage data from the Quarterly Census of Employment and Wages are available through the Bureau of Labor Statistics at: www.bls.gov/cew/home.htm.

Working Hours

Calculations of the Housing Wage and of the number of jobs required at the minimum or mean renter wage to afford the FMR assume that an individual works 40 hours per week, 52 weeks each year, for a total of 2,080 hours per year.

Seasonal employment, unpaid sick leave, temporary lay-offs and job changes prevent many individuals from maximizing their earnings throughout the year. Therefore, according to BLS Data from October, the average wage earner in the US worked roughly 1,760 hours per year.

This statistic explains why in approximately 4% of the counties, the mean renter wage is below the state's prevailing minimum wage. For these counties, weekly compensation is likely earned in fewer than 40 hours, on average, but the mean renter wage reported in *Out of Reach* reflects weekly wages reported by the BLS divided by 40 since the average number of hours worked is not known. These cases illustrate that it is conservative to assume, as calculations in *Out of Reach* do, that all employees have the opportunity to translate an hourly wage

into full-time, year-round employment and subsequent compensation.

Thus, the annual income of a worker at the minimum or mean renter wage used for the calculations of affordability here may overestimate what a worker is likely to earn by as much as 15%. Put another way, if a worker can only work fewer than 2,080 hours a year, the average wage he or she must earn in those hours must be higher than the Housing Wage to afford an apartment at the Fair Market Rent.

For an expanded report on hours and earnings by the Current Employment Statistics program, see *The Employment Situation: October 2006* at www.bls.gov/schedule/archives/empisit_nr.htm#2006.

Supplemental Security Income (SSI)

Out of Reach continues to compare rental housing costs and Supplemental Security Income (SSI) payments made to individuals in each state. While the basic federal SSI payment for individuals in 2006 is \$603 per month, *Out of Reach* includes supplements administered by the Social Security Administration (SSA) that benefit all individual SSI recipients in seven states. Supplements to the federal SSI payment administered directly by an additional 30 states are not included because the data are not collected and disseminated by the SSA. *Out of Reach* also excludes additional monies provided only to populations with specific disabilities, in specific facilities or in specific household settings.

The federal SSI payment is slated to increase to \$623 for individuals in 2007. However, since information pertaining to next year's state supplements was not readily available, *Out of Reach* reflects payments made in 2006. As SSI payments are set at the state level, the published version of *Out of Reach* provides state-level comparisons. Available online are data comparing county and metropolitan area rent levels with state SSI payments.

Information on SSI payments is available through the Social Security Administration at www.ssa.gov/notices/supplemental-security-income/. Information on state supplements can be found at www.ssa.gov/pubs/11015.pdf.

Areas Affected by Hurricane Katrina

The loss of affordable rental units, the slow pace of recovery and the demand for rental housing that have followed in the wake of Hurricane Katrina have culminated in tight rental markets and rising rents in parts of the Gulf Coast region. In a notice published on March 6, 2006 updating the final FY06 Fair Market Rents, HUD increased the FMR for the New Orleans-Metairie-Kenner, LA MSA and the Baton Rouge, LA HMFA by 35% and 25%, respectively, with a promise to monitor the situation for future rent increases. HUD has not indicated any further changes and as a result FY07 FMRs are only 4% higher than last year's, reflecting the general level of inflation for rent and utilities in the region.

In preparation for the release of FY07 FMRs, HUD conducted Random Digit Dialing (RDD) surveys in eight metropolitan

areas – including Houston, Dallas and Shreveport – that received a large number of households displaced by Hurricane Katrina and were thus considered at risk of market tightening and higher rents. None of the surveys indicated that rent levels were significantly higher as a result of the influx of evacuees, and so payment standards were increased only by local or regional inflation factors, which would fold acute local impacts into much larger regional trends.

Finally, with regard to the mean renter wage data included in *Out of Reach*, the BLS encountered problems collecting compensation data from employers in affected areas in the third and fourth quarters of 2005. If a worker was paid during the quarter in question, regardless of the worker's location or displacement status, the worker's wages were reported, but employer nonresponse rates were extraordinarily high in the most heavily impacted areas during the second half of the year.

Despite methodological adjustments made by the BLS, the uncertainty surrounding the data indicates that mean renter wage values provided for affected areas should be treated as "best estimates" and should be used only after reading the methodological notes provided by the BLS (www.bls.gov/katrina/qcewquestions.htm).

Additional Data Available On-line

As referenced above, the data available in the print version of *Out of Reach* is limited, in an effort to present the most

important information clearly. Additional data can be found online at: www.nlihc.org/oor2006/.

Included in the online version for the first time is an estimation of the change in rent levels between 2000 and 2007 at each level of geography and for each unit size (0-4 bedrooms). This calculation was facilitated by a dataset provided by HUD that included both the Census 2000 base rent for each FY07 FMR area and the current Fair Market Rent. The current FMR and base rent data for individual areas are also publicly available from HUD's Individual Area Final FY2007 FMR Documentation system.⁸ It is worth noting that many abnormal growth rates can be explained by the results of an RDD survey, while more stable growth rates often reflect increases based solely on estimates of local or regional inflation.

The *Out of Reach* methodology was developed by Cushing N. Dolbeare, founder of the National Low Income Housing Coalition.

⁸ Available at www.huduser.org/datasets/fmr.html.