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Budget Brief

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PROPOSED 2005 FAIR MARKET RENTS WILL LIKELY INCREASE THE RENT BURDEN FOR MANY LOW-INCOME CALIFORNIANS

Key Findings

On August 6, 2004, the US Department of Housing and Urban Development (HUD) published the Proposed 2005 Fair Market Rents (FMRs). Many of the Proposed 2005 FMRs are below current levels, due to changes in the methodology used to calculate FMRs. Advocates argue that at least some of the methodological changes are flawed, and have urged HUD to delay the scheduled October 1 implementation in order to provide time to review the accuracy of the Proposed 2005 FMRs as compared to actual market prices.

Many of the Proposed 2005 Fair Market Rents (FMRs) are below 2004 levels.

- HUD determines FMRs for federal housing assistance purposes. FMRs are set for five types of housing units: 0-bedroom, 1-bedroom, 2-bedroom, 3-bedroom, and 4-bedroom.
- The Proposed 2005 FMRs are 5 percent or more below current levels across all housing unit types in hundreds of counties across the country. In contrast, the 2004 FMRs represented a 5 percent or greater change from the 2003 FMRs in fewer than 2 percent of US counties.

Proposed 2005 FMRs are lower in 29 California counties.

- Proposed 2005 FMRs are lower than those for 2004 for one or more housing types in half of California's 58 counties.
- Percent decreases range from 0.2 percent (1-bedroom FMR for Santa Clara County) to 13.6 percent (4-bedroom FMR for Glenn County).

Lower FMRs threaten housing assistance for low-income Californians.

- The Housing Choice Voucher Program, commonly known as "Section 8," is the principal federal low-income housing assistance program. The Section 8 program requires a family to contribute 30 percent of its income toward rent and utilities. The voucher, up to a specified limit set by the housing agency based on the area's FMR, pays the remaining share of cost.
- If the Proposed 2005 FMRs become final, many low-income families will be forced to pay a greater share of income in order to use their housing vouchers.
- However, a participating household is not allowed to use its voucher on a housing unit if the rent is so far above the maximum limit set by the housing agency that the household's share of rent and utilities would constitute more 40 percent of the household's income.

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Introduction

On August 6, 2004, the US Department of Housing and Urban Development (HUD) published the Proposed 2005 Fair Market Rents (FMRs).[1] Many of the Proposed 2005 FMRs are below current levels, due to changes in the methodology used to calculate FMRs. Advocates argue that at least some of the methodological changes are flawed, and have urged HUD to delay the scheduled October 1 implementation in order to provide time to review the accuracy of the Proposed 2005 FMRs as compared to actual market prices.[2]

Many of the Proposed 2005 FMRs Are Below Current Levels

The Proposed 2005 FMRs have aroused controversy, for several reasons:

- ***The Proposed 2005 FMRs were released later than usual.*** HUD released the Proposed 2005 FMRs on August 6, 2004. Comments were initially due by September 7, 2004, and the proposed FMRs are scheduled to go into effect on October 1, 2004. HUD customarily provides a far longer comment period; in most years, proposed FMRs are released in May, providing more than four months for public comments to be received and processed before implementation of the final FMRs in October.[5]

- ***HUD Secretary Jackson has publicly cast doubt on the accuracy of the FMRs.*** On the day the Proposed 2005 FMRs were released, HUD Secretary Alphonso Jackson stated publicly that FMRs are "based on imprecise government data" and that they "rarely reflect true market value."[6]

- ***Many Proposed 2005 FMRs are lower than current levels.*** The Proposed 2005 FMRs include significant changes; most notably, proposed FMRs in hundreds of counties across the US are below those for 2004. Nationally, proposed FMRs are at least 5 percent lower than current levels in:

What Are Fair Market Rents?

HUD determines FMRs for federal housing assistance purposes. The FMR estimates the dollar amount at or below which 40 percent of standard quality rental housing units are rented; in recent years, FMRs for some higher-cost counties have been set at the 50th percentile.[3] FMRs are based on the distribution of rents paid by "recent movers" – renter households that have moved within the past 15 months. FMRs include the cost of shelter and utilities, excluding telephone service. FMRs are set for 0-bedroom, 1-bedroom, 2-bedroom, 3-bedroom, and 4-bedroom housing units. The 2004 FMRs went into effect on October 1, 2003.

The Housing Choice Voucher Program, commonly referred to as "Section 8," is the principal federal low-income housing assistance program. The Section 8 program, which is administered by state, local, and regional housing agencies, enables more than two million low-income households – most of them low-income working families, elderly individuals, or people with disabilities – to afford modest rental units in the private housing market. The Section 8 program requires a family to contribute 30 percent of its income toward rent and utilities. The voucher, up to a specified limit set by the housing agency based on the area's FMR, pays the remaining share of costs.[4]

206 counties nationwide (five California counties) for 0-bedroom units;
245 counties nationwide (five California counties) for 1-bedroom units;
416 counties nationwide (six California counties) for 2-bedroom units;
503 counties nationwide (six California counties) for 3-bedroom units;
818 counties nationwide (13 California counties) for 4-bedroom units.[7]

In contrast, the 2004 FMRs represented a 5 percent or greater change from the 2003 FMR in fewer than 2 percent of counties across the country.[8]

HUD is currently conducting research to improve the accuracy of the proposed FMRs, and has added an additional comment period of 60 days beyond the September 7 deadline. Implementation, however, is still scheduled for October 1.

Why Are the Proposed 2005 FMRs Lower Than the 2004 FMRs?

The drop in many area FMRs is partially due to methodological changes, including revisions based on 2000 Census data (2005 marks the first time that HUD has used 2000 Census data to calculate FMRs). In addition, state minimums (raising FMRs of some non-metropolitan areas to a state minimum level) have been eliminated from FMR calculations, and the Office of Management and Budget (OMB) has redefined the boundaries of some metropolitan areas.

In support of the lower FMRs, HUD Secretary Jackson has argued that the Section 8 Program is "broken," that program costs have "spiraled out of control," and that voucher amounts are based on inaccurate FMRs. However, reports in 2002 by the Millennial Housing Commission, the US Government Accountability Office, as well as a 2003 report by the OMB, described the Section 8 Program as cost-effective. The number and cost of vouchers issued in recent years has increased, due to stagnating and falling incomes during the weak economy and in response to growing waiting lists, but program costs are expected to level off in the years ahead. Finally, HUD has broad discretion to improve the methodology to calculate FMRs, such as by conducting additional market rent surveys.[9]

What Do Lower FMRs Mean?

In many metropolitan areas nationwide, proposed FMRs are far below current levels. As noted above, housing agencies receive federal housing assistance based on FMRs for the area, which agencies then use to calculate the maximum limit for housing vouchers. In theory, a low-income household participating in the Section 8 Program pays only 30 percent of its income toward rent and utilities, with the voucher making up the difference. A housing agency is required, however, to set a maximum voucher limit between 90 percent and 110 percent of the FMR, unless it obtains permission from HUD to set a higher limit.[10] If the Proposed 2005 FMRs become final, many housing agencies will have to lower their maximum rent limits, meaning that many new participants and families moving to new units could be forced to pay a greater share of income in order to use their vouchers. Under HUD program regulations, households entering the Section 8 Program and participating households that are moving to a new housing unit are not allowed to use a voucher if the rent and utility costs exceed the agency's maximum limit and the household's share of costs is more than 40 percent. Thus, if program participants could only find housing units with rents that far exceeded the lower rent levels, they would be unable to use their vouchers.[11]

WHAT WOULD THIS MEAN FOR CALIFORNIA?

In California, proposed FMRs are lower as compared to current FMRs in 29 counties, with decreases ranging from $3 to $211 (Table 1).

Table 1: Counties with Reductions in FMR Between 2004 and Proposed 2005										
	0BR		1BR		2BR		3BR		4BR	
County	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent
Alameda*					-$78	-5.5%	-$77	-4.0%	-32	-1.4%
Butte					-$4	-0.6%				
Calaveras									-15	-1.4%
Contra Costa*					-$78	-5.5%	-$77	-4.0%	-32	-1.4%
Del Norte					-$14	-2.2%			-138	-13.2%
El Dorado*	-$48	-7.1%	-$45	-5.9%	-$99	-10.4%	-$78	-5.9%	-$110	-7.1%
Glenn							-$21	-2.8%	-$118	-13.6%
Inyo			-$21	-4.4%	-$19	-3.1%				
Los Angeles	-$3	-0.4%			-$10	-1.0%	-$20	-1.5%	-$12	-0.7%
Marin							-$43	-1.8%	-$48	-1.9%
Merced	-$16	-3.5%	-$13	-2.5%	-$15	-2.4%			-$3	-0.3%
Napa	-$51	-6.3%	-$72	-7.8%	-$19	-1.7%	-$32	-2.1%	-$103	-5.6%
Placer*	-$48	-7.1%	-$45	-5.9%	-$99	-10.4%	-$78	-5.9%	-$110	-7.1%
Sacramento*	-$48	-7.1%	-$45	-5.9%	-$99	-10.4%	-$78	-5.9%	-$110	-7.1%
San Francisco							-$43	-1.8%	-$48	-1.9%
San Joaquin					-$23	-3.0%	-$46	-4.4%		
San Luis Obispo	-$21	-3.3%			-$24	-2.6%			-$203	-13.5%
San Mateo							-$43	-1.8%	-$48	-1.9%
Santa Barbara					-$11	-1.1%	-$90	-6.4%	-$86	-5.4%
Santa Clara*	-$41	-3.2%	-$3	-0.2%	-$82	-4.5%	-$146	-5.8%	-$211	-7.5%
Santa Cruz									-$206	-9.4%
Siskiyou									-$28	-3.2%
Solano	-$10	-1.2%	-$61	-6.6%	-$134	-12.0%	-$173	-11.1%	-$131	-7.1%
Sonoma	-$41	-5.2%			-$9	-0.8%				
Stanislaus	-$3	-0.5%			-$9	-1.3%			-$6	-0.5%
Sutter									-$5	-0.5%
Tulare									-$67	-7.1%
Tuolumne									-$131	-11.6%
Yuba									-$5	-0.5%

*FMR is set at 50th percentile rather than 40th percentile.
Source: CBP analysis of National Low Income Housing Coalition data

The Proposed 2005 FMR for at least one housing unit type would drop by more than 10 percent in eight counties: Del Norte (4-bedroom FMR), El Dorado (2-bedroom FMR), Glenn (4-bedroom FMR), Placer (2-bedroom FMR), Sacramento (2-bedroom FMR), Solano (2- and 3-bedroom FMRs), San Luis Obispo (4-bedroom FMR), and Tuolumne (4-bedroom FMR). In 16 counties, the FMR for at least one housing type would drop by more than 5 percent. Under HUD regulations, if the local FMR drops by at least 5 percent, housing agencies in the area must review the rents covered by every voucher they administer to ensure that maximum levels are reasonable as compared to market rents in the area. This could place a substantial administrative burden on local agencies.

Do the Proposed 2005 FMRs Reflect Actual Market Rents?

Although FMRs are supposed to reflect the real market, actual market rents do not appear to be falling. Between 2000 and 2003, the Consumer Price Index (CPI-U) for rent increased by 11.7 percent at the national level. During the same period, the CPI-U for rent increased by 17.3 percent for the Los Angeles area, and by 15.0 percent for the San Francisco Bay Area.[12] Between 2000 and 2003, the CPI-U for rent increased by an annual average of 3.8 percent at the national level; 5.5 percent for Los Angeles; and 4.9 percent for San Francisco.[13]

Federal standards define housing as affordable if it costs no more than 30 percent of a family's income. The 30 percent standard is used to calculate the amount families are required to pay in rent and utilities under most federal housing programs. In many of the counties where the Proposed 2005 FMRs are lower than in 2004, however, a large share of renters pay 35 percent or more of their income for rent and utilities (Table 2). In Los Angeles, San Luis Obispo, Santa Barbara, Santa Cruz, and Sonoma Counties, at least 40 percent of renter households pay 35 percent or more of their income toward shelter. In 16 of the counties where Proposed 2005 FMRs are lower as compared to 2004, the median rent for 2003 was above the Proposed 2005 1-bedroom FMR.[14]

Table 2: What Is the Rental Picture for the 29 Counties Where Proposed 2005 FMRs Are Lower Than the 2004 FMRs?

County	Share of Renters Paying 35% or More of Income on	Median Rent (2003)
Alameda	38%	$1,105
Butte	N/A	N/A
Calaveras	N/A	N/A
Contra Costa	37%	$1,119
Del Norte	N/A	N/A
El Dorado	N/A	N/A
Glenn	N/A	N/A
Inyo	N/A	N/A
Los Angeles	40%	$821
Marin	N/A	N/A
Merced	N/A	N/A
Napa	N/A	N/A
Placer	33%	$945
Sacramento	39%	$813
San Francisco	33%	$1,101
San Joaquin	37%	$767
San Luis Obispo	45%	$936
San Mateo	38%	$1,246
Santa Barbara	46%	$1,001
Santa Clara	33%	$1,239
Santa Cruz	44%	$1,113
Siskiyou	N/A	N/A
Solano	32%	$1,035
Sonoma	47%	$997
Stanislaus	30%	$726
Sutter	N/A	N/A
Tulare	33%	$554
Tuolumne	N/A	N/A
Yuba	N/A	N/A

N/A = data not available.
Median Rent represents the cost of rent and utilities.
Source: American Community Survey

What Can You Do?

For details on how to submit comments to HUD on the Proposed 2005 FMRs, please go to "How to submit a comment" on the National Low Income Housing Coalition website at http://www.nlihc.org/2005fmrs/comment.htm. The deadline for comments is November 8, 2004. Although the proposed FMRs are scheduled to go into effect on October 1, advocates are urging HUD to delay implementation of the Proposed 2005 FMRs until HUD can review comments and complete rent surveys that are currently in progress.

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Endnotes

[1] The Proposed 2005 FMRs can be viewed on the HUD website at http://www.huduser.org/datasets/FMR/FMR2005/fmr05.html. The 2004 FMRs are at http://www.huduser.org/intercept.asp?loc=/Datasets/FMR/FMR2004F/CA_FY2004F.pdf.
[2] The National Low Income Housing Coalition and 10 national housing organizations submitted formal comments to HUD on September 7, 2004; those comments can be accessed at http://www.nlihc.org/2005fmrs/comments.pdf.
[3] In California, the following counties currently have FMRs set at the 50th percentile: Alameda, Contra Costa, El Dorado, Orange, Placer, Sacramento, San Diego, Santa Clara, and Ventura. The same counties, plus San Benito and Yolo Counties, are set at the 50th percentile for the Proposed 2005 FMRs.
[4] See California Budget Project, *Thousands of California's Low-Income Families Would Lose Housing Assistance Under the Bush Budget Plan* (April 2004), for more information.
[5] Will Fischer and Barbara Sard, *Hasty Changes to HUD's "Fair Market Rents" Would Disrupt Housing Assistance* (Center on Budget and Policy Priorities: September 16, 2004).
[6] National Low Income Housing Coalition, *Responding to the 2005 Proposed FMRs,* downloaded from http://www.nlihc.org/2005fmrs/ on September 2, 2004.
[7] Center on Budget and Policy Priorities, *Impacts of 2005 Proposed Fair Market Rents,* downloaded from http://www.cbpp.org/fmr.htm on September 2, 2004.
[8] Will Fischer and Barbara Sard, *Hasty Changes to HUD's "Fair Market Rents" Would Disrupt Housing Assistance* (Center on Budget and Policy Priorities: September 16, 2004).
[9] Center on Budget and Policy Priorities, *Response to HUD Secretary Jackson's New York Times Column on Housing Vouchers* (August 16, 2004).
[10] Center on Budget and Policy Priorities, *Introduction to the Housing Voucher Program* (May 15, 2003).
[11] Families who already have vouchers and remain in their current apartments are entitled to a one- to two-year grace period under current HUD regulations; officials have indicated, however, that this grace period may be removed in order to reduce voucher costs. Will Fischer and Barbara Sard, *Hasty Changes to HUD's "Fair Market Rents" Would Disrupt Housing Assistance* (Center on Budget and Policy Priorities: September 16, 2004).
[12] Based on the Los Angeles consolidated metropolitan statistical area (CMSA) and the San Francisco CMSA. The Los Angeles CMSA includes the counties of Los Angeles, Orange, Riverside, San Bernardino, and Ventura. The San Francisco CMSA includes the counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano, and Sonoma.
[13] CBP analysis of Consumer Price Index data, downloaded from http://www.dof.ca.gov/HTML/FS_DATA/LatestEconData/FS_Price.htm on September 8, 2004. November 2003 and December 2003 data are not seasonally adjusted.
[14] US Census Bureau, American Community Survey, Data Tables: Data Profiles 2003, downloaded from http://www.census.gov/acs/www/Products/Profiles/Single/2003/ACS/CA.htm on September 7, 2004.