



[Docket No. FR-6462-N-01]

Section 8 Housing Assistance Payments Program-

Fiscal Year (FY) 2024 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 (RFIFs) to adjust Fiscal Year (FY) 2024 renewal funding for the Housing Choice Voucher (HCV) Program of each public housing agency (PHA), as required by the Consolidated Appropriations Act, 2024. The notice apportions the expected percent change in national Per Unit Cost (PUC) for the HCV program, 7.38 percent, to each PHA based on the change in Fair Market Rents (FMRs) for their operating area to produce the FY 2024 RFIFs. HUD's FY 2024 methodology differs in part from that used in FY 2023. HUD has refined the national PUC forecast by changing the gross rent component in a manner that weights projected recent mover rents as measured by the FMR with an independent forecast of all-mover rents as measured by the Consumer Price Index (CPI).

DATES: *Applicability Date:* **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

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, Room 4222, U.S. Department of Housing and Urban Development, 451 Seventh Street, SW, Washington, DC, 20410; telephone (202) 422-0278 (this is not a toll-free number). Adam Bibler, Program Parameters and Research Division, Office of Policy Development and Research, Room 8208, U.S. Department of Housing and Urban Development, 451 Seventh Street, SW, Washington, DC, 20410; telephone (202) 402-6057 (this is not a toll-free number), for technical information regarding the development of the schedules for specific

areas or the methods used for calculating the inflation factors. HUD welcomes and is prepared to receive calls from individuals who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. To learn more about how to make an accessible telephone call, please visit <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

SUPPLEMENTARY INFORMATION:

I. Background

Division F, Title II of the Consolidated Appropriations Act, 2024 requires that the HUD Secretary, for the calendar year 2024 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 announces the availability of the FY 2024 inflation factors and describes the methodology for calculating them. Tables in PDF and Microsoft Excel formats showing Renewal Funding Inflation Factors (RFIFs) by HUD Fair Market Rent Area are 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.

Since FY 2017, HUD's method of projecting the national average PUC has been based on independent forecasts of gross rent and tenant income. Each forecast is produced using historical and forecasted macroeconomic data as independent variables, where the forecasts are

consistent with the Economic Assumptions of the Administration's FY Budget. The forecast for gross rent is itself based on forecasts of the Consumer Price Index (CPI) Rent of Primary Residence Index and the CPI Fuels and Utilities Index. Forecasted values of gross rent series were then applied to the relevant FY national average two-bedroom FMR to produce a CY value. Finally, a "notional" PUC is then calculated as the difference between gross rent value and 30 percent of tenant income (the standard for tenant rent contribution in the voucher program). HUD uses a notional PUC as opposed to the actual PUC to project costs that are consistent with PHAs leasing the same number and quality of units.

For FY 2024, HUD is continuing its overall methodology of forecasting notional PUC based on a combination of expected gross rent increases and tenant income increases. However, HUD has modified how it calculates the gross rent increase based on recent dynamics in rental markets. As previously mentioned, HUD has historically used the CPI Rent of Primary Residence series as its measure of shelter rent inflation. The CPI is constructed based on a survey of rents paid in a fixed sample of units over time. Recent research has shown that since 2020, rents paid for newly leased units have increased at a significantly faster rate than overall rents. HUD attempted to address this dynamic in its calculation of FY 2024 FMRs by replacing the use of the CPI in part with rates of rental inflation as captured by private sector rent data. This was done as the FMR is required by regulation to reflect rents paid by "recent movers." However, for purposes of forecasting Per Unit Costs, the gross rent component should represent all types of tenants in the Housing Choice Voucher program, including new admissions and recent movers, as well as those staying in place. Using both a baseline and projected CY FMR as the gross rent component of PUC as in prior years risks overstating program gross rents in a manner that only reflects rents paid by recent movers. HUD's analysis of tenant administrative data has found that the vast majority of HUD assisted households remain in place from year to year, and experience slower rates of rent inflation on average. Using an FMR-only rent, especially in times of large recent mover rent growth, would likely overstate per unit costs. In contrast, using a PUC based

solely on an all-mover CPI Forecast would further risk underestimating per unit costs when PHA's are implementing large recent mover rent increases. Therefore, for FY 2024, HUD is calculating the gross rent component of PUC based on a weighted average of the expected change in national FMR (to represent recent movers) and the expected national change in Rent of Primary Residence CPI (to represent in-place tenants).

For the reasons outlined above, HUD is considering two different approaches for weighting the FMR and CPI. Under the first approach, HUD develops a gross rent inflation factor using a weighted average of the established CY FMR projection and independent CY CPI gross rent index forecast methodology, where the FMR is weighted at approximately 56.7 percent and the CPI gross rent inflation index measure is weighted at approximately 43.3 percent. HUD determined the weights empirically in a manner that best predicts the historical average voucher tenant gross rents.¹ The change between the forecasted CY 2024 notional PUC and the CY 2023 notional PUC is the expected national change in PUC, or 9.54 percent. The strengths of this approach are that by considering the time series of actual rents, these weights are likely capturing important dynamics of the real-world dynamics of the voucher program. The weaknesses are that there is no guarantee that these past trends will continue and, given that there was historically little difference between rates of recent mover and all mover inflation, the weights assigned to each component may be arbitrary.

Under the second approach, HUD takes a weighted average of the CY FMR projection and independent CY CPI gross rent index forecast, where the FMR is weighted at approximately 15 percent and the CPI gross rent index is weighted at approximately 85 percent. HUD determined these weights based on the historical composition of new admissions and recent movers based on HUD administrative data. The change between the forecasted CY 2024 notional PUC and the CY 2023 notional PUC for this approach is 5.22 percent. The strength of this

¹ Specifically, HUD attempted to predict each year's tenant gross rent using a weighted average of FMR and CPI change, then compared the predicted gross rent to the actual historical gross rent. HUD then generated an error measure as the difference between the predicted and actual rent. HUD then solved for the weights that minimize the root mean squared error of the predicted and actual rents.

approach is that weights based on the actual number of new leases in the program is a better theoretical approach to assigning recent mover rates of inflation than simply following past trends. However, there is also evidence to suggest that even non-movers in the voucher program may experience higher rates of rent inflation, such as existing tenants having rents exceeding payment standards or landlords pricing units based on FMR regardless of unit turnover.

Given these uncertainties, HUD takes the average of the two factors produced by these approaches and gets a final CY2024 PUC estimate of 7.38 percent. HUD's forecasts of the Consumer Price Index (CPI) Rent of Primary Residence Index, CPI Fuels and Utilities Index and HUD tenant incomes remain consistent with the Economic Assumptions of the Administration's FY 2025 Budget. For more information on HUD's forecast methodology, see 82 FR 26710 (June 8, 2017).

The inflation factor for an individual geographic area is based on the annualized change in the area's FMR between FY 2023 and FY 2024. 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 2023 to CY 2024, and 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 as captured in HUD administrative data as of December 31, 2023.

III. The Use of Inflation Factors

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 2024 FMRs. PHAs should refer to the Area Definitions Table on the following webpage to make certain that they are referencing the correct inflation factors: http://www.huduser.org/portal/datasets/rfif/FY20234/FY2024_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>. Note that, as described earlier, the actual renewal funding inflation factor applied to agency funding will be the voucher-weighted average of the FMR area factors when the PHA operates in multiple areas.

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).

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for Policy Development and Research.*

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