

Appendix A: Data Notes, Methodologies and Sources

Appendix A describes the methodology underpinning the *Out of Reach* analyses. Following a description of each variable, the link to the primary data source is provided. In some instances, supplementary material is also cited.

Metropolitan Area Definitions

Appendix B explains the usage of new metropolitan area definitions in the delineation of this year's Fair Market Rent (FMR) areas. This section explains the way in which this methodological shift manifests itself in *Out of Reach*.

As a result of the methodological departure in question, all counties and towns that fall within a new metropolitan area are included in a Fair Market Rent area labeled as either a Metropolitan Statistical Area (MSA) or a HUD Metro FMR Area (HMFA). Where metro areas are consistent with the new OMB definitions, HUD assigns them the former suffix; where they differ as a result of significantly different 2000 base rents, they are classified as HMFAs.

Because the new metropolitan area definitions are county-based, this new methodology impacts the six New England states in unique ways. New England has traditionally been the only geographic region in the nation where MSA borders have not always corresponded with county borders. Thus, in many cases, it was customary for towns in one part of a county to be

within an MSA, while other towns in the same county were considered non-metropolitan.

In previous issues of *Out of Reach*, the non-metropolitan portion of a county in New England was summarized separately from the metropolitan area that included its more urbanized portion. This has changed with the introduction of the new county-based metropolitan area definitions. Under this taxonomy, each county is classified as either metropolitan or non-metropolitan. Given HUD's adjustments described above, if a county is classified as metropolitan, all of its cities and towns are included in one or more MSAs or HMFAs. Consistent with previous editions of *Out of Reach*, only non-metropolitan counties are listed for New England states, and tables are provided that list the city and town components of the metropolitan areas.

A list of the counties and towns that comprise each MSA and HMFA is available at: www.huduser.org/datasets/fmr/fmr2006F/FY2006F_SCHEDULE_B.doc.

40th and 50th Percentile FMR Designation

According to an interim rule (65 FR 8870) published in 2000, HUD is required to set FMRs at the 50th percentile rent, rather than the 40th, for units 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.

In FY02, the FMRs for 39 metropolitan areas were set at the 50th percentile. With the conversion to the new metropolitan area definitions, these 39 areas now comprise 48 distinct MSAs and HMFAs. In the August 25, 2005 notice, however, it was proposed that the FMR level for 34 of the 48 would be reduced to the 40th percentile. Reasons for failing to meet the criteria for a 50th percentile FMR this year include changing demographics and area definitions, a lack of progress toward poverty deconcentration, and insufficient information to make that determination. Additionally, changing demographics and area definitions meant 10 areas would be added to the list of 50th percentile qualifiers, bringing the total to 24 areas. No final notice has yet been published.

In the notice published on October 1, 2005, the 34 areas that HUD proposed to disqualify in August maintained their 50th percentile FMR, bringing the total number of 50th percentile areas to 58 MSAs and HMFAs. Because this edition of *Out of Reach* reflects the most recent data available, the calculations provided herein are based on the assumption that all 58 areas will remain eligible for 50th percentile FMRs. The 34 areas proposed as 40th percentile areas in August are listed alphabetically in Appendix C.

Income and Affordability

HUD reports the 2005 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. The median income for states and combined nonmetropolitan areas reflects the AMI for each county in the state or combined nonmetropolitan area weighted by the number of households in each county (Census 2000). As a check, this methodology results in state-level incomes within 6% of the state values reported by HUD for FY05.

Estimates of income in this edition of *Out of Reach* may differ significantly from previous editions, however, for three reasons. The primary reason is that this year’s FMR areas are not consistent with those used in the past (see Appendix B), and income estimates have not been developed for HMFAs. Because HUD is staging a migration to the current definition of metropolitan areas, and the FMR areas used in FY06 more closely reflect the new definitions, the income estimates included in this booklet are based on the new metropolitan definitions. This is a divergence from previous editions of *Out of Reach* and can have a significant impact on what is reported as an area’s median income.

By way of example, under the previous delineation of metropolitan areas, Lamar County, GA was considered nonmetropolitan and assigned a 2005 median income of \$51,600. Under the new metropolitan definitions, however, Lamar County is part of the Atlanta-Sandy Springs-Marietta MSA and assigned a significantly higher income of \$69,300. Complicating matters further is that Lamar County’s

substantially lower 2000 base rent prevents it from being included in the Atlanta MSA; instead, it is relegated to a separate HMFA because of historic housing characteristics, despite being assigned Atlanta's income.

While not the norm, this situation is not unique to Lamar County. Because FMRs do not reflect either the historic or the current metropolitan area definitions in their entirety, neither set of income data would be perfectly compatible. The decision was made to use the income associated with the most current metropolitan areas, as HUD will very likely wholly adopt these definitions at some point in the future.

For areas unaffected by this transition, smaller differences in this year's income relative to last year's may be attributed to methodological changes in the calculation. This year, HUD recalculated county and metropolitan base year income to more closely approximate levels reported in Census 2000. Any adjustment made to the base year income will have implications for current year estimates. Current year income estimates also incorporate wage data from the Bureau of Labor Statistics not applied in last year's estimates.

Out of Reach conducts an analysis by percent of the AMI for each jurisdiction. The results for households earning 30% of AMI are presented in this book, and those at 50% and 80% are also 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 administrative thresholds for Extremely, Very and Low Income categories.

In terms of affordability, *Out of Reach* is consistent with federal housing policy subsidy programs in that the analyses are based on the assumption that no more than 30% of a household's income should be consumed by housing costs.

It is also worth noting that *Out of Reach* addresses affordability for the rental housing market, not the homeownership market. This is not meant to imply that housing affordability problems are unique to renters. Harvard University's Joint Center for Housing Studies' *State of the Nation's Housing: 2005* (www.jchs.harvard.edu/publications/markets/son2005/index.html) includes an analysis of the affordability problems of homeowners.

HUD estimates of median family income for 2005 Core-Based Statistical Areas are available at: www.huduser.org/datasets/il/IL05Est/index.html.

Census 2000 data are from Summary File 3, available at: www.census.gov/main/www/cen2000.html.

For a description and a list of the current metropolitan areas, follow this link to the relevant bulletin released by the Office of Management and Budget: www.whitehouse.gov/omb/bulletins/fy04/b04-03.html.

Detailed information on HUD's calculation of family Area Median Income can be found at: www.huduser.org/Datasets/IL/IL05Est/FY05-CBSA-medians-calculation-methodology.pdf.

Wages, Jobs, and Hours

The federal minimum wage in 2005 is \$5.15 per hour. Where a state has enacted a minimum wage that is higher than the federal minimum, the higher value is used to calculate the number of jobs per household needed to pay the two-bedroom FMR at 30% of income.¹ These calculations assume that an individual works 40 hours per week, 52 weeks each year, for a total of 2,080 hours per year. Realistically, few are able to maintain a full-time work schedule throughout the year for reasons such as unpaid sick leave or vacation, a temporary lay-off, or a job change. In fact, according to Current Employment Statistics data for the second and third quarters of 2005, the average wage earner worked roughly 1,750 hours per year. Thus, the annual income of a minimum wage worker used for the calculations of affordability here is likely to overestimate the real income of minimum wage workers by as much as 19%.

The number of jobs per household required to pay the two-bedroom FMR at 30% of income at the mean (average) renter wage is also computed for each county where data are available. The calculation of the mean renter wage is based on the average weekly earnings of private (non-governmental) employees working in each county as reported by the Bureau of Labor Statistics in the Quarterly Census of Employment and Wages. Earnings include the hourly wage as well as paid leave,

¹ New York, New Jersey, and the District of Columbia are expected to increase their minimum wage rates in January 2006; however, this study incorporates the minimum wage at the time of publication in the event that the wage is not increased as planned.

bonuses, stock options, and other forms of compensation. Preliminary annual values for 2004 are used, and data are not provided for 29 counties because the number of employees working in the county is insufficient to calculate a reliable wage. For each county, the mean wage is multiplied by the ratio of renter to total household income in Census 2000 to arrive at the mean renter wage. In 13 cases, this resulted in an upward adjustment; nationally, however, renter households earned only 65% of the total household income reported in 1999.

In approximately 4% of the counties, the mean renter wage is below the state's prevailing minimum wage. This is to be expected because to obtain the average renter wage, weekly wages reported by the BLS are divided by 40 even though the actual basis may be fewer hours. This is clearly a matter of accounting and does not affect the conclusions that can be drawn from the data. These counties clearly demonstrate that when starting with an hourly wage, it may be somewhat conservative to assume that all workers are employed for 40 hours each week.

In the past, *Out of Reach* has reported the number of hours of work at the minimum wage necessary to afford the two-bedroom FMR, rather than the number of full-time jobs required of each household, as is reported this year. This number is still available online (www.nlihc.org/oor05). Anyone wishing to calculate the number of hours at either the minimum or the mean renter wage in FY06 need only multiply the number of full-time jobs by 40, the number of hours in the standard definition of a full-time workweek.

Information on statewide minimum wages can be found on the Department of Labor's website at: www.dol.gov/esa/minwage/america.htm. Although absent from this federal site, information on New Jersey's minimum wage increase can be found at: www.state.nj.us/labor/lasse/forms/mw-220.pdf.

For an expanded report on hours and earnings by the Current Employment Statistics program, see *The Employment Situation: October 2005* at: www.bls.gov/news.release/empsit.nr0.htm.

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.

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. The basic federal SSI payment for individuals in 2005 is \$579. State governments can supplement this in various ways. Included in these analyses are the state supplements administered by the Social Security Administration that apply to all individual SSI recipients in the state. State supplements that may be administered at the state level or those administered only to populations with specific disabilities, in specific facilities, or in specific household settings are not included.

For reference, the federal SSI payment is slated to increase to \$603 for individuals in 2006. However, since information pertaining to next year's state supplements were not readily available, the decision was made to utilize the 2005 payment in *Out of Reach* analyses. As SSI payments are set at the state level, the published version of *Out of Reach* provides state-level comparisons. County and metropolitan area data available on-line also includes comparisons to the 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.

For a more thorough treatment of SSI data see the Technical Assistance Collaborative, Inc. and Consortium for Citizens with Disabilities Housing Taskforce report *Priced Out in 2002* at www.c-c-d.org/PO2002.pdf.

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/oor2005/.

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