

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-4803-N-01]

### Section 8 Housing Assistance Payments Program—Contract Rent Annual Adjustment Factors, Fiscal Year 2003

**AGENCY:** Office of the Secretary, HUD.

**ACTION:** Notice of Revised Contract Rent Annual Adjustment Factors.

**SUMMARY:** This Notice announces revised Annual Adjustment Factors (AAFs) for adjustment of Section 8 contract rents on housing assistance payment contract anniversaries for calendar months commencing after the date of publication of this Notice. The AAFs are based on a formula using data on residential rent and utilities cost changes from the most current Bureau of Labor Statistics Consumer Price Index (CPI) survey and from HUD's Random Digit Dialing (RDD) rent change surveys.

**EFFECTIVE DATE:** January 22, 2003.

#### FOR FURTHER INFORMATION CONTACT:

Gerald Benoit, Director, Housing Voucher Management Operations Division, Office of Housing Voucher Program, Office of Public and Indian Housing, (202) 708-0477 can respond to questions relating to the Section 8 Voucher, Certificate, and Moderate Rehabilitation programs; Allison Manning, Office of Special Needs Assistance Programs, Office of Community Planning and Development, (202) 708-1234 for questions regarding the Single Room Occupancy Moderate Rehabilitation program; Willie Spearmon, Director, Office of Housing Assistance and Grant Administration, Office of Housing, (202) 708-3000, for questions relating to all other Section 8 programs. Lynn A. Rodgers, Economic and Market Analysis Division, Office of Policy Development and Research (202) 708-0590, is the contact for technical information regarding the development of the schedules for specific areas or the methods used for calculating the AAFs. Mailing address for above persons: Department of Housing and Urban Development, 451 Seventh Street, SW., Washington, DC 20410-0500. Hearing- or speech-impaired persons may contact the Federal Information Relay Service at 1-800-877-8339 (TTY). (Other than the "800" TTY number, the above-listed telephone numbers are not toll-free.)

**SUPPLEMENTARY INFORMATION:** The sections of this Notice explain how AAFs are applied to various Section 8 programs:

- Section 1—How AAFs are used in particular Section 8 project-based assistance programs.
- Section 2—When and how to apply the statutory 1 percent reduction to AAFs.
- Section 3—Procedures for adjusting rent in three section 8 program categories.
- Section 4—How to find the applicable AAF.
- Section 5—Geographic Areas.
- Section 6—How HUD calculates AAFs.

#### I. Applying AAFs to Various Section 8 Programs

AAFs established by this Notice are used to adjust contract rents for units assisted in certain Section 8 housing assistance payments programs, during the original (*i.e.*, pre-renewal) term of the Housing Assistance Payments (HAP) contract. Three categories of Section 8 programs use the AAFs:

Category 1—The Section 8 new construction and substantial rehabilitation programs and the moderate rehabilitation program.

Category 2—The Section 8 loan management (LM) and property disposition (PD) programs.

Category 3—The Section 8 project-based certificate program.

Each Section 8 program category uses the AAFs differently. The specific application of the AAFs is determined by the law, the HAP contract, and appropriate program regulations or requirements.

AAFs are not used in the voucher program, or to determine renewal rents or budget-based rents.

- **Renewal Rents.** AAFs are not used to determine renewal rents after expiration of the original Section 8 HAP contract (either for projects where the Section 8 HAP contract is renewed under a restructuring plan adopted under 24 CFR part 401; or renewed without restructuring under 24 CFR part 402). In general, renewal rents are determined by applying a state-by-state operating cost adjustment factor (OCAF) published by HUD.

- **Voucher Program.** AAFs are not used for any purpose in the Section 8 voucher program.

- **Budget-based Rents.** AAFs are not used for budget-based rent adjustments. For projects receiving Section 8 subsidies under the loan management (LM) program (24 CFR part 886, subpart A) or under the property disposition (PD) program (24 CFR part 886, subpart C), contract rents are adjusted, at HUD's option, either by applying the AAFs or by budget-based adjustments in accordance with 24 CFR 207.19(e).

Budget-based adjustments are used for most Section 8/202 projects.

- **Certificate Program.** In the past, AAFs were used to adjust the contract rent (including manufactured home space rentals) in the tenant-based certificate program. However, this program has now been terminated. All tenancies in the tenant-based certificate program have been converted to the Voucher Program. AAFs are still used for adjustment of contract rent for outstanding HAP contracts under the project-based certificate program.

#### How AAF Is Applied in the Moderate Rehabilitation Programs

Under the Section 8 moderate rehabilitation program (both the regular program and the single room occupancy program), the public housing agency (PHA) applies the AAF to the base rent component of the contract rent, not the full contract rent. For the other covered programs, the AAF is applied to the whole amount of the pre-adjustment contract rent.

#### II. When To Use Reduced AAF (From AAF Table 2)

In accordance with Section 8(c)(2)(A) of the United States Housing Act of 1937 (42 U.S.C. 1437f(c)(2)(A)), the AAF is reduced by 0.01:

- For all tenancies assisted in the Section 8 project-based certificate program.
  - In other Section 8 programs, for a unit occupied by the same family at the time of the last annual rent adjustment (and where the rent is not reduced by application of comparability (rent reasonableness)).
- The law provides that:

Except for assistance under the certificate program, for any unit occupied by the same family at the time of the last annual rental adjustment, where the assistance contract provides for the adjustment of the maximum monthly rent by applying an annual adjustment factor and where the rent for a unit is otherwise eligible for an adjustment based on the full amount of the factor, 0.01 shall be subtracted from the amount of the factor, except that the factor shall not be reduced to less than 1.0. In the case of assistance under the certificate program, 0.01 shall be subtracted from the amount of the annual adjustment factor (except that the factor shall not be reduced to less than 1.0), and the adjusted rent shall not exceed the rent for a comparable unassisted unit of similar quality, type, and age in the market area. 42 U.S.C. 1437f(c)(2)(A).

To implement the law, HUD publishes two separate AAF Tables, contained in Schedule C, Tables 1 and 2 of this notice. Each AAF in Table 2 has been computed by subtracting 0.01