

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-4569-N-01]

Notice of Certain Operating Cost Adjustment Factors

AGENCY: Office of the Secretary, HUD.
ACTION: Publication of Fiscal Year (FY) 2000 Operating Cost Adjustment Factors (OCAFs) for Section 8 rent adjustments at contract renewal under section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), as amended by the Preserving Affordable Housing for Senior Citizens and Families into the 21st Century Act of 1999, and under Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA) Projects assisted with Section 8 Housing Assistance Payments.

SUMMARY: This notice establishes factors used in rent adjustments under Section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) as amended by the Preserving Affordable Housing for Senior Citizens and Families into the 21st Century Act of 1999, and under the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA).

EFFECTIVE DATE: March 20, 2000.

FOR FURTHER INFORMATION CONTACT: Willie Spearmon, Department of Housing and Urban Development, Office of Multifamily Housing, Office of Business Products, 451 Seventh Street, SW, Washington, DC 20410; Telephone (202) 708-3000; (This is not a toll-free number). Hearing or speech-impaired individuals may access this number via TTY by calling the toll-free Federal Information Relay Service at 1-800-877-8339.

SUPPLEMENTARY INFORMATION:

I. Operating Cost Adjustment Factors (OCAFs)

Various statutes provide for rents under Section 8 project-based assistance contracts to be determined using OCAFs. The legislation requiring HUD to establish OCAFs for LIHPRHA projects and projects with contract renewals under Section 524 of MAHRA is similar in wording and intent, and HUD has developed factors that will be applied to both programs. Section 524 gives HUD broad discretion in setting OCAFs. The law simply refers to "operating cost factors established by the Secretary." The one specific requirement is that application of an OCAF shall not result in a negative adjustment.

An analysis of operating cost data for FHA-insured projects showed that their expenses could be grouped into nine categories: wages, employee benefits, property taxes, insurance, supplies and equipment, fuel oil, electricity, natural gas, and water and sewer. States are the lowest level of geographical aggregation at which there are enough projects to permit statistical analysis. Based on an analysis of these data, HUD derived estimates of the percentage of routine operating costs that were attributable to each of these nine expense categories. Data for projects with unusually high or low expenses due to unusual circumstances were deleted from analysis. No data was available for the Western Pacific Islands, and data for Hawaii was used to generate OCAFs for these areas.

The best current measures of cost changes for the nine cost categories were selected. The only categories for which current data are available at the State level are for fuel oil, electricity, and natural gas. Current price change indices for the other six categories are only available at the national level. The Department had the choice of using dated State-level data or relatively current national data. It opted to use national data rather than data that would be two or more years older (e.g., the most current local wage data are for 1996). The data sources for the nine cost indicators selected used were as follows:

Labor Costs—Bureau of Labor Statistics (BLS).

Employment Benefit Costs—BLS Employment Cost Index.

Property Taxes—BLS Consumer Price Index, All Items Index.

Goods, Supplies, Equipment—BLS Producer Price Index, Finished Goods Less Food and Energy.

Insurance—BLS Consumer Price Index, residential insurance index.

Fuel Oil—U.S. Department of Energy, average State prices for #2 residential fuel oil (U.S. average change was used for the States with too little fuel oil consumption to have values).

Electricity—U.S. Department of Energy, "Electric Power Monthly"—October 1999, "Electric Sales and Revenue—1998."

Natural Gas—U.S. Department of Energy, "Natural Gas Monthly" average annual change (monthly data are available, but are so erratic that annual averages offer a more reliable measure).

Water and Sewer—BLS Consumer Price Index Detailed Report.

The sum of the nine cost components equals 100 percent of operating costs for purposes of OCAF calculations. To calculate the OCAFs, the selected

inflation factors are multiplied by the relevant State-level operating cost percentages derived from the previously referenced analysis of FHA insured projects. For instance, if wages in Virginia comprised 50 percent of total operating cost expenses and wages increased by 4 percent from March 1998 to March 1999, the wage increase component of the Virginia OCAF for FY 2000 would be 2.0 percent (4% X 50%). This 2.0 percent would then be added to the increases for the other eight expense categories to calculate the FY 2000 OCAF for Virginia. These types of calculations were made for each State for each of the nine cost components, and are included as the Appendix to this Notice.

OCAFs are to be applied uniformly to all projects utilizing OCAFs as the method by which rents are adjusted upon expiration of the term of the contract. OCAFs are applied to project contract rent less debt service.

II. MAHRA OCAF Procedure

The Multifamily Assisted Housing Reform and Affordability Act of 1997, title V of Pub. L. 105-65 (approved October 7, 1997), 42 U.S.C. 1437f note (MAHRA) as amended by the Preserving Affordable Housing for Senior Citizens and Families into the 21st Century Act of 1999, created the Mark-to-Market Program to reduce the cost of Federal housing assistance, enhance HUD's administration of such assistance, and to ensure the continued affordability of units in certain multifamily housing projects. Section 524 of MAHRA authorizes renewal of Section 8 project-based assistance contracts for projects without Restructuring Plans under the Mark-to-Market Program, including renewals that are not eligible for Plans and those for which the owner does not request Plans. Renewals must be at rents not exceeding comparable market rents except for certain projects. For Section 8 Moderate Rehabilitation projects, other than single room occupancy projects (SROs) under the Stewart B. McKinney Homeless Assistance Act (McKinney Act, 42 U.S.C. 11301 *et seq.*), that are eligible for renewal under section 524(b)(3) of MAHRA, the renewal rents are required to be set at the lesser of: 1) the existing rents under the expiring contract, as adjusted by the OCAF; 2) fair market rents (less any amounts allowed for tenant-purchased utilities; or 3) Comparable market rents for the market area.

III. Findings and Certifications

Environmental Impact. This issuance sets forth rate determinations and related external administrative

requirements and procedures that do 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).

Executive Order 13132, Federalism. This final rule does not have federalism implications and does not impose substantial direct compliance costs on State and local governments or preempt State law within the meaning of Executive Order 13132 (entitled "Federalism").

Catalog of Federal Domestic Assistance Number. The Catalog of Federal Domestic Assistance Number for this program is 14.187.

Dated: March 13, 2000.

Andrew Cuomo,
Secretary.

Appendix

FY 2000 OPERATING COST ADJUSTMENT FACTORS (OCAF) FOR RENT ADJUSTMENTS AT SECTION 8 CONTRACT RENEWAL
[In percent]

State	Total
Alabama	2.6

FY 2000 OPERATING COST ADJUSTMENT FACTORS (OCAF) FOR RENT ADJUSTMENTS AT SECTION 8 CONTRACT RENEWAL—Continued
[In percent]

State	Total
Alaska	2.4
Arizona	2.3
Arkansas	2.2
California	2.0
Colorado	2.4
Connecticut	2.0
Delaware	2.5
Dist. of Columbia	2.5
Florida	2.2
Georgia	2.0
Hawaii	1.3
Idaho	2.5
Illinois	1.7
Indiana	2.4
Iowa	2.2
Kansas	2.0
Kentucky	2.2
Louisiana	2.0
Maine	1.9
Maryland	2.4
Massachusetts	1.6
Michigan	2.2
Minnesota	2.0
Mississippi	2.4
Missouri	2.3
Montana	2.4
Nebraska	2.1
Nevada	2.9
New Hampshire	2.2
New Jersey	2.0
New Mexico	1.8

FY 2000 OPERATING COST ADJUSTMENT FACTORS (OCAF) FOR RENT ADJUSTMENTS AT SECTION 8 CONTRACT RENEWAL—Continued
[In percent]

State	Total
New York	2.0
N. Carolina	2.5
N. Dakota	2.7
Ohio	2.4
Oklahoma	2.1
Oregon	2.7
Pennsylvania	2.2
Rhode Island	1.1
S. Carolina	2.5
S. Dakota	2.1
Tennessee	2.7
Texas	2.0
Utah	2.7
Vermont	2.4
Virginia	2.2
Washington	2.4
W. Virginia	2.5
Wisconsin	2.3
Wyoming	2.5
Pacific Islands	2.1
Puerto Rico	2.4
Virgin Islands	2.0
U.S. Average	2.1

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