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2006 Median Income Data Released

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The U.S. Department of Housing and Urban Development's (HUD) estimated U.S. median family income for 2006 has risen from \$58,000 to \$59,600, an increase of \$1,600. The increases were low on state and county levels, with an exception for those counties affected by the new OMB-defined areas.

HUD's 2006 income limits for the Public Housing and Section 8 programs were released March 8, 2006 and are available for all metropolitan statistical areas (MSAs), primary metropolitan statistical areas (PMSAs) and non-metropolitan counties. Median family incomes are determined by taking the income where half the families are earning incomes above the median level and half are earning incomes below the median level. The income limits are then used to compute maximum rents and tenant income limits for low-income housing tax credit (LIHTC) units and tax-exempt bond units, as well as other federal housing programs.

Median family income estimates are calculated for each metropolitan and non-metropolitan area using the Fair Market Rent (FMR) area definitions applied in the Section 8 Housing Choice Voucher Program. Like last year, HUD median family income (MFI) estimates are based on 2000 Census family income data updated with county-level Bureau of Labor statistics earning data, Census American Community Survey state-level data and the Census Current Population Survey data. HUD used the newly defined metropolitan statistical areas, as defined in 2003 by the Office of Management and Budget (OMB), to calculate MFI on an interim basis. OMB says these new MSAs are "believed to be increasingly good reflections of housing market growth patterns over time based on existing settlement and commuting patterns." As expected, because the OMB changes in MSA definitions were so extensive, the effect on both rents and incomes in affected areas were substantial.

The state median income chart on page five is based on pure statistical amounts, but the charts, with counties listed, begin with the very low-income limits and are grossed up to 100 percent median income levels. The IRS requires very low-income limits to be the starting point for calculating income limits for tax credit and tax-exempt bond projects. The very low-income limit for a four-person family is calculated by HUD as follows:

- ◆ 50 percent of the area median income is calculated and set as the preliminary four-person family income limit;
- ◆ a minimum four-person income limit is calculated as the amount required to afford a two-bedroom unit renting at 85 percent of the fair market rent (FMR) if 35 percent of income is used for rent (this adjusts income limits upward for areas where rental housing costs are unusually high in relation to the median income);
- ◆ a maximum four-person income limit is calculated as the greater of 80 percent of the U.S. median family income or the income needed to afford a two-bedroom unit renting at 100 percent of the FMR if 30 percent of income is used for rent (this adjusts income limits downward for areas with unusually high incomes and relatively moderate rental housing costs);
- ◆ to minimize program management problems, income limits are normally held at FY 2005 levels for areas where lower income limits would result because of FMR reductions (in instances where a FY2006 FMR areas consisted of multiple FY2005 FMR areas, the applicable hold-harmless income limit used was that for the part of the FMR area with the largest population);

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- ♦ income limits are never set less than if they were based on the state non-metropolitan median family income level.

In order to minimize changes in fair market rents and reduce the changes in income limits, HUD has modified the application of the new definitions. The only difference between HUD FMR area definitions and the new OMB metropolitan area definitions is that HUD has established metropolitan area submarkets for the purpose of income limit determination in instances where old FMR and income limit areas were significantly modified. In general, any parts of old metropolitan areas, or formerly nonmetropolitan counties, that would have more than a 5 percent increase or decrease in their FMRs as a result of implementing the new OMB definitions, are defined as separate FMR areas. The changes in area definitions have resulted in different proposed income limits, particularly in counties that were located in a metropolitan area and are now considered non-metropolitan under the new OMB definitions. According to HUD, the implemented approach makes HUD FMR area definitions more consistent with current local housing market relationships and with those used by most other federal agencies.

The new FMR areas are defined using the following guidelines:

- ♦ Fair market rates were calculated for each of the new OMB metropolitan areas using 2000 Census data.
- ♦ Subparts of any of the new areas that had previously had separate FMRs under the old OMB definitions were identified and 2000 Census base rents were calculated.
- ♦ Metropolitan subparts of new areas that had previously had separate FMRs were assigned their own FMRs and income limits if their 2000 FMR differed by more than 5 percent from the new OMB area.
- ♦ Former metro counties that were removed from old metro areas were assigned their own FMRs and income limits as designated by HUD, accounting for most of the large decreases in income limits.
- ♦ Former non-metro counties that were added to the new OMB metro areas were assigned the fair market rent and income limits of the appropriate adjoining metro counties. These counties accounted for most of the large increases in FMRs and income limits.

As mentioned in the February 2006 issue of the *Property Compliance Report*, this year some counties were affected greatly by the changes. This year, approximately 2 percent of areas saw an increase in incomes that exceeded 20 percent. Counties in larger metropolitan areas were the ones most affected by the changes. For example, Heard County, Ga., a non-metro county, which was incorporated in the Atlanta MSA, saw a 52 percent increase in median income; Caldwell County, Kan., also a non-metro county, incorporated in the Kansas City MSA, saw a 51 percent increase in median income; and Copiah County, Miss., incorporated in the Jackson, Miss. MSA, experienced a 45 percent increase.

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Different areas in Worcester County, Mass. saw both a big increase and a big decrease. Areas of Worcester County that were designated as Eastern Worcester County Metro Area experienced a 44 percent increase. Properties in the Boston Metro area that were designated as part of the Fitchburg-Leominster Metro Area saw a 14 percent decrease.

Most of the increases nationally are due to poorer suburbs that were absorbed into metro areas, usually in smaller metro areas in states like Georgia, Virginia and West Virginia. Likewise, most of the decreases nationally are due to richer suburbs absorbed into metro areas, usually in larger metro areas in states like New York and Massachusetts.

Examples of 2006 changes in defined areas include the creation of new counties such as Kalawao County, Hawaii, previously part of Honolulu, Hawaii MSA in Honolulu County. Also, Puerto Rico, which in 2006 consisted of seven counties, and now consists of 78 counties. Also, some MSAs that were considered separate were combined in 2006 under the new area definitions: Connecticut counties were reduced from 25 MSAs to 14 MSAs in 2006. Another example includes those MSAs that were defined as non-metropolitan, but redefined as metropolitan in 2006; they include the Cumberland County, Maine MSA, which is now part of Portland, Maine MSA.

In the past HUD, has adopted a hold-harmless policy that was applied to all areas of the country and that did not allow income limits to decrease from one year to the next, otherwise known as the "historical exemption." However, in 2006 the hold-harmless policy was modified and is no longer being applied to all counties. HUD has changed its hold-harmless policy to apply only to the largest part of the new metropolitan area definition. HUD refers to this approach as a Primary Area Hold-Harmless Policy. Basically, when two areas are combined, the new area will take the income limit of the area that has the most people living in it. Under this system small areas will see decreases or increases but the larger area will remain unaffected by the absorption of the other smaller county. Two quick examples will help illustrate this point.

1) A county of 40,000 people with a 2006 50 percent one-person income limit of \$30,000 is combined with a 60,000 person metropolitan area with a 50 percent one-person income limit of \$50,000; the income limit of the new metropolitan area would be set at \$50,000.

2) A county of 40,000 people with a 2006 50 percent one-person income limit of \$50,000 was to join a 60,000 person metropolitan area with a 50 percent one-person income limit of \$30,000; the income limit of the new metropolitan area would be set at the \$30,000.

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In a request for comment, dated December 16, 2005, HUD indicated it believes that this policy will best serve to protect the integrity of the income limits. HUD states that applying a blanket hold-harmless policy would result in "income limits (that) would be so much higher than if based on the area's true median family income estimates that its income limits would need to remain frozen for several years. In such instances area income limits would be much higher than income limits permitted in other areas of the country with similar economic and demographic characteristics." More information about HUD's hold-harmless policy will be featured in the May issue of *Property Compliance Report*.

Complete income limit information can be downloaded from www.taxcredithousing.com. Income limits and LIHTC rents can also be calculated online using Novogradac & Company LLP's LIHTC Rent & Income Limit Calculator @novoco.com/rilc.shtml. ❖

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2006 State Median Income Limits

	2006			2005		Percent Change	
	Metro	Nonmetro		Metro	Nonmetro	Metro	Nonmetro
Alabama	54,800	45,200	Alabama	52,750	41,300	3.89%	9.44%
Alaska	78,700	68,200	Alaska	78,700	68,200	0.00%	0.00%
Arizona	57,100	40,950	Arizona	55,200	40,590	3.44%	0.89%
Arkansas	51,200	40,000	Arkansas	51,200	40,000	0.00%	0.00%
California	64,600	50,800	California	63,100	49,100	2.38%	3.46%
Colorado	67,850	53,900	Colorado	67,850	53,900	0.00%	0.00%
Connecticut	81,500	75,900	Connecticut	77,400	71,250	5.30%	6.53%
Delaware	71,450	55,100	Delaware	71,450	55,100	0.00%	0.00%
District of Columbia	60,100	N/A	District of Columbia	55,750	N/A	7.80%	N/A
Florida	55,600	44,100	Florida	53,350	43,200	4.22%	2.08%
Georgia	64,900	46,350	Georgia	64,900	46,350	0.00%	0.00%
Hawaii	71,300	59,900	Hawaii	67,750	56,950	5.24%	5.18%
Idaho	56,650	47,700	Idaho	56,650	47,700	0.00%	0.00%
Illinois	69,900	52,200	Illinois	66,950	49,400	4.41%	5.67%
Indiana	60,500	53,500	Indiana	59,800	52,750	1.17%	1.42%
Iowa	63,800	53,550	Iowa	63,800	53,550	0.00%	0.00%
Kansas	66,400	49,800	Kansas	64,600	48,050	2.79%	3.64%
Kentucky	57,900	40,100	Kentucky	57,600	40,100	0.52%	0.00%
Louisiana	51,700	40,000	Louisiana	50,050	39,900	3.30%	0.25%
Maine	61,100	49,300	Maine	60,150	48,650	1.58%	1.34%
Maryland	79,800	61,500	Maryland	76,800	59,050	3.91%	4.15%
Massachusetts	75,700	71,700	Massachusetts	74,900	63,250	1.07%	13.36%
Michigan	65,500	51,200	Michigan	64,850	49,500	1.00%	3.43%
Minnesota	74,700	55,100	Minnesota	73,700	54,350	1.36%	1.38%
Mississippi	48,900	36,500	Mississippi	48,900	36,500	0.00%	0.00%
Missouri	63,300	44,800	Missouri	63,300	44,450	0.00%	0.79%
Montana	51,900	46,900	Montana	51,600	46,400	0.58%	1.08%
Nebraska	67,500	51,400	Nebraska	65,800	50,150	2.58%	2.49%
Nevada	59,650	59,050	Nevada	59,650	59,050	0.00%	0.00%
New Hampshire	77,000	62,900	New Hampshire	74,300	60,300	3.63%	4.31%
New Jersey	81,200	N/A	New Jersey	77,800	N/A	4.37%	N/A
New Mexico	52,800	39,100	New Mexico	52,800	39,100	0.00%	0.00%
New York	62,900	49,900	New York	61,150	49,900	2.86%	0.00%
North Carolina	57,900	47,100	North Carolina	57,500	45,200	0.70%	4.20%
North Dakota	65,100	51,800	North Dakota	61,750	49,150	5.43%	5.39%
Ohio	60,300	51,800	Ohio	59,400	51,800	1.52%	0.00%
Oklahoma	53,000	42,600	Oklahoma	52,250	41,800	1.44%	1.91%
Oregon	63,300	48,300	Oregon	63,300	48,300	0.00%	0.00%
Pennsylvania	62,200	50,600	Pennsylvania	59,500	48,450	4.54%	4.44%
Rhode Island	63,950	N/A	Rhode Island	63,950	73,150	0.00%	N/A
South Carolina	55,400	46,600	South Carolina	55,400	46,300	0.00%	0.65%
South Dakota	59,200	48,000	South Dakota	57,550	46,150	2.87%	4.01%
Tennessee	55,000	43,500	Tennessee	54,750	42,950	0.46%	1.28%
Texas	56,600	43,100	Texas	55,500	42,400	1.98%	1.65%
Utah	60,000	49,300	Utah	60,000	49,300	0.00%	0.00%
Vermont	70,800	58,900	Vermont	69,200	55,800	2.31%	5.56%
Virginia	71,800	48,950	Virginia	71,800	48,950	0.00%	0.00%
Washington	64,700	49,900	Washington	64,400	49,900	0.47%	0.00%
West Virginia	51,800	41,600	West Virginia	50,400	40,600	2.78%	2.46%
Wisconsin	65,800	54,900	Wisconsin	64,750	54,400	1.62%	0.92%
Wyoming	59,400	58,500	Wyoming	55,800	54,950	6.45%	6.46%
United States	62,400	47,700	United States	61,200	46,900		

(Source: Novogradac & Company LLP, HUD 2006 Income Limits)

