



Special Attention of:

NOTICE PDR-2006-01

Regional Directors, Field Office Directors,
Economists, Public & Indian Housing
Division Directors, Multifamily Hub Directors,
Multifamily Program Center Directors

Issued: March 8, 2006
Expires: Effective until superseded

Cross References:

Subject: Estimated Median Family Incomes for FY 2006

This memorandum transmits median family income and income distribution estimates for Fiscal Year 2006. They are calculated for each metropolitan and nonmetropolitan area using the Fair Market Rent (FMR) area definitions applied in the Section 8 Housing Choice Voucher Program. The estimated median family income for the United States for FY 2006 is \$59,600.

Like last year, the Fiscal Year 2006 HUD median family income estimates are based on 2000 Census family income data updated to 2006 using Census P-60 median family income data, Census American Community Survey data on changes in state median family incomes, and local Bureau of Labor Statistics wage data. However, unlike last year, HUD is using new OMB-defined metropolitan area definitions with some area subgroupings in calculating these estimates. In its December 16, 2005, Federal Register notice, HUD solicited comments on its proposed modified implementation of the new OMB area definitions. The comment period specified in the notice ended on February 14, 2006, but additional weeks are required to allow for late postings and comment reviews. Most areas will receive increases in their income estimates and income limits in FY 2006, and some households would be adversely affected by delays in implementing the updated numbers. In response to comments received to date, HUD is therefore making FY 2006 median family income estimates effective on an interim basis. Comments will continue to be reviewed and any needed changes made subsequent to close of the comment period.

An explanation of the methodology used to develop median family income estimates and related documents are attached. Attachment 1 provides an explanation of the methodology used to develop these estimates. Attachment 2 provides state-level median family income estimates. Attachment 3 provides metropolitan area and nonmetropolitan county estimates of median family incomes. Attachment 4 provides the area definitions used in calculating median family incomes.

Please note that the use of the HUD median family income estimates and income limits is subject to individual program guidelines covering definitions of income and

family, family size, effective dates, and other factors. If you have any questions concerning these matters, please refer them to your field office economist.

HUD median family income estimates are also available at the Department's World Wide Web site, which provides a menu from which you may select the year and type of data of interest (<http://www.huduser.org/datasets/il.html>).

/s/

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Attachments

ATTACHMENT 1

HUD METHODOLOGY FOR ESTIMATING FY 2006 MEDIAN FAMILY INCOMES (ECONOMIC AND MARKET ANALYSIS DIVISION, OFFICE OF ECONOMIC AFFAIRS, PD&R)

FY 2006 HUD estimates of median family income are based on 2000 Census data estimates updated with county-level bureau of labor statistics earnings data, Census American Community Survey (ACS) state-level data, and Census Current Population Survey (CPS) data. Separate median family income estimates (MFIs) are calculated for all Metropolitan Statistical Areas (MSAs), and nonmetropolitan counties.

HUD has begun to increasingly rely on Census American Community Survey (ACS) data as the basis for calculating median family income estimates. The ACS surveys were initiated in 2000, but the first full-scale annual survey of approximately three million households started in 2005. The 2005 survey will provide data in 2006 that can be used to estimate median family incomes for most metropolitan areas, and subsequent surveys will eventually provide estimates for all but the smallest non-metropolitan counties.

The income adjustment factors used to update the 2000 Census-based estimates of Median Family incomes (MFIs) are developed in several steps. Census CPS and ACS survey data are used to develop national and state level estimates of change in median family incomes. Annual data on median family incomes are available at the national and regional level from the CPS. State-level ACS income data are now available for calendar years 2000 through 2004. CPS P-60 national data were used to cover the period between the 2000 Census and the first ACS data. In previous years, BLS local area wage data were used as an indicator of relative income change within states, but these indicators were constrained so that they equaled the CPS changes at the CPS Census Divisional level. Retrospective analysis of the 1990-2000 period showed that BLS average wage changes had larger differences with median family income changes than in the previous decade and that, by themselves, they were not the best available predictor of local changes in median family incomes. Based on statistical testing, HUD concluded that a combination of state ACS and local BLS data offered the best approach to calculating local median family income estimates until more localized ACS data begin to be available in 2006.

The Census, ACS, and CPS estimates are based on different samples, have different timing, use somewhat different methodologies, and produce somewhat different estimates.¹ The year-to-year income change factors derived from these data sets (e.g., the national CPS MFI from one year to the next) should, however, be reasonably consistent over time. The decennial Census has the largest samples, but is only available every 10 years and may be more subject to non-response bias. The 2000-2004 ACS had relatively large samples, provides annual estimates, and should be less subject to non-response bias than the Census. The 2000-2004 ACS has larger sample sizes than the CPS, and therefore produces more accurate estimates.

Estimates of income need to be associated with a point in time. This poses the need to attribute an "as of" date to estimates when such dates are not explicitly defined. The 2000 Census income data, for instance, are based on questions regarding total income for 1999. For most households, income for a year is based on an income stream with at least some changes during the year. For purposes of estimation, HUD assumes that the 2000 Census income estimates have an "as of" date of mid-1999. For the same reason, it assumes

¹ The national 1999 MFI from the Census was \$50,046; the March 2000 CPS produced a 1999 national MFI estimate of \$48,952; and the first ACS survey, which collected data during the course of 2000 and is adjusted by Census to represent a measurement a year after those of the other surveys, had a MFI estimate of \$49,628.

that March CPS income estimates, which are based on responses to questions about the previous year's total income, also relate to the middle of the previous calendar year.

ACS estimates present a more complex timing issue, because they are based on samples drawn throughout a year that ask about income for the previous 12 months. Adjustments are made to incomes collected prior to December to make them approximate December reporting. Income figures collected in January are inflated by the CPI change from January to December of that year, the February changes are inflated from February to December, etc. If median income changes during the year (which are not known when the estimates are done) exactly paralleled the CPI changes, an ACS-based median family income estimate would approximate a median family income estimate based on surveying all respondents in December. That, in turn, means that the ACS income data have an approximate "as of" date of the middle of the year if median incomes changed at the same pace during the course of a year.

The importance of the "as of" assumptions becomes less important over time. After the initial income estimates are produced, annual updates are estimated using the same data sources. Any estimation error or bias associated with the "as of" assumptions affects only the first year a data series starts to be used. The impact of this type of bias cannot be measured but, since it is a fixed amount and incomes increase over time, the effect should be modest. The potential for bias is further mitigated by the fact that the CPI and CPS changes for the period in question were very similar at the national level.

The step-by-step normal procedures used to develop FY 2006 estimates are as follows:

1. The 2000 Census was used to estimate what are treated as mid-1999 local median family income estimates.
2. The March 2000 and 2001 CPS surveys, which provided what were effectively mid-1999 and mid-2000 median family income estimates, provided an estimate of change in median family income levels at the national level that was applied to 2000 Census-based local median family income estimates to update them from mid-1999 to mid-2000. The national change in median family incomes for this period was 3.57 percent. (Multi-state Census Division CPS changes could have been used in place of a national factor, but research suggests that it is questionable whether this would have improved estimation accuracy if used only for one year.)
3. The 2000 and 2004 American Community Surveys were used to estimate the change in State MFIs for the mid-2000 to mid-2004 period. The ACS income change factors for each State for the 2000-2004 period were calculated as follows:

$$\frac{\text{ACS MFI (2004)}}{\text{ACS MFI (2000)}} = \frac{\text{4-year increase factor for ACS Median Family Income}}{\text{ACS Median Family Income}}$$

4. State and Local (metropolitan areas and nonmetropolitan counties) BLS average wage changes for all employees for the 1999-2003 period were calculated:

$$\frac{\frac{\text{BLS Wages (2003)}}{\text{BLS Employees (2003)}}}{\frac{\text{BLS Wages (1999)}}{\text{BLS Employees (1999)}}} = \text{4 year BLS wage increase factor}$$

5. Local area update factors were derived using local BLS average wage changes in conjunction with State level Income changes. They were combined according to the results of research done on the determinants of income change between 1990 and 2000.

$$(17\% * \text{Local BLS Average wage change}) \\ + (83\% * \text{ACS State Income Change}) = \text{Local Update Factor}$$

6. A state level factor was generated by computing the employee-weighted average of the local area BLS wage change data for the state and using the same formula, as follows:

$$(17\% * \text{State Weighted Average Local BLS wage changes}) \\ + (83\% * \text{ACS State Income Change}) = \text{State Update Factor}$$

7. A state ACS control factor was developed that adjusted for differences between the aggregated results of the step 5 local update factors (as computed in step 6) and the actual ACS state change factor for the same period. Changes in BLS-reported average wages, even though they are a component of family income, are not a direct measure of changes in family income and require adjustment if being used for that purpose. This was done as follows:

$$\frac{\text{ACS State MFI (2004)}}{\text{ACS State MFI (2000)}} = \text{State control factor}$$

State Update factor
Generated in Step 6

8. Local area update factors were adjusted with the state control factor as follows:

$$\text{Local update factor (step 5)} * \text{State control factor (step 7)} \\ = \text{Adjusted local update factor}$$

9. Convert the step 1 median family income estimate to an April 1, 2006 estimate as follows:

$$\text{Step 1 median family income} \\ * \text{Step 2 mid-1999 to mid-2000 CPS factor} \\ * \text{Step 8 2000-2004 adjusted local update factor} \\ * 1.035 (3.5\% \text{ annual trending}) * 1.75 \text{ years} \\ = \text{FY 2006 Median Family Income estimate}$$

10. As described in FR-4995-N-01, a hold-harmless policy is applied that sets income limits at the higher of normal income limit calculations or at the previous year's income limits for the largest part of the new metropolitan area definition (primary area hold-harmless policy).

11. Rounding: Two rounding changes have been made to the calculation of medians and income limits. One is that median incomes, which historically have been rounded to the nearest 100, were mistakenly rounded to the nearest 50 for FY2005 median publications. FY2006 medians are rounded to the nearest 100. The other change is that the rounded 4-person income limit is now being used to calculate other family size income limits instead of the unrounded 4-person income limit. This will make it easier for those seeking to reproduce HUD calculations.

Attachment 2

FY 2006 MEDIAN FAMILY INCOMES FOR STATES, METROPOLITAN
AND NONMETROPOLITAN PORTIONS OF STATES

	FY 2006			1999		
	TOTAL	METRO	NONMETRO	TOTAL	METRO	NONMETRO
ALABAMA	51400	54800	45200	41657	44345	36633
ALASKA	72900	78700	68200	59036	61161	54260
ARIZONA	54900	57100	40950	46723	48590	34682
ARKANSAS	45300	51200	40000	38664	42408	34268
CALIFORNIA	64100	64600	50800	53024	53451	42074
COLORADO	65400	67850	53900	55870	58000	44319
CONNECTICUT	81000	81500	75900	65521	65943	61354
DELAWARE	67350	71450	55100	55258	58619	45203
DISTRICT OF COLUMBIA	60100	60100	.	46283	46283	.
FLORIDA	54800	55600	44100	45625	46303	36703
GEORGIA	58400	64900	46350	49280	52536	37277
HAWAII	67600	71300	59900	56961	60118	50547
IDAHO	50850	56650	47700	43490	46523	39157
ILLINOIS	66600	69900	52200	55545	58262	43476
INDIANA	58800	60500	53500	50261	51692	45683
IOWA	57800	63800	53550	48005	52409	43847
KANSAS	59300	66400	49800	49624	55623	41651
KENTUCKY	49100	57900	40100	40938	48265	32782
LOUISIANA	48800	51700	40000	39774	42193	32654
MAINE	55600	61100	49300	45179	49629	40087
MARYLAND	75900	76800	61500	61875	62636	50109
MASSACHUSETTS	75700	75700	71700	61663	61673	58382
MICHIGAN	62100	65500	51200	53457	56384	44086
MINNESOTA	68200	74700	55100	56872	62325	45957
MISSISSIPPI	40700	48900	36500	37405	43160	33535
MISSOURI	57000	63300	44800	46045	50949	36187
MONTANA	48600	51900	46900	40488	43226	39044
NEBRASKA	59400	67500	51400	48032	54645	41598
NEVADA	59550	59650	59050	50849	51078	49209
NEW HAMPSHIRE	71000	77000	62900	57577	62442	50966
NEW JERSEY	81200	81200	.	65370	65370	.
NEW MEXICO	46200	52800	39100	39425	43195	33627
NEW YORK	61500	62900	49900	51691	52887	41753
NORTH CAROLINA	53800	57900	47100	46335	49800	40571
NORTH DAKOTA	57000	65100	51800	43656	49842	39664
OHIO	58400	60300	51800	50037	51617	43778
OKLAHOMA	48800	53000	42600	40709	44258	35546
OREGON	58900	63300	48300	48680	51880	39834
PENNSYLVANIA	60000	62200	50600	49184	50959	41452
RHODE ISLAND	64550	63950	.	52780	52780	.
SOUTH CAROLINA	52900	55400	46600	44227	46219	38930
SOUTH DAKOTA	52600	59200	48000	43234	48701	39484
TENNESSEE	51200	55000	43500	43517	46735	36972
TEXAS	54300	56600	43100	45862	47797	36410
UTAH	57450	60000	49300	51022	52316	41227
VERMONT	62100	70800	58900	48625	55412	46087
VIRGINIA	66400	71800	48950	54169	58055	39000
WASHINGTON	62200	64700	49900	53761	55868	42260
WEST VIRGINIA	46800	51800	41600	36484	40433	32454
WISCONSIN	62200	65800	54900	52912	56008	46677
WYOMING	58800	59400	58500	45685	46159	45472
US	59600	62400	47700	50046	52413	40111