THE ROLE OF UTILITY COSTS
IN SETTING FAIR MARKET RENTS
FOR SECTION 8 HOUSING

Presented in HUD Docket N-94-3754; FR-3699-N-01

Section 8 Housing Assistance Payments Program—Fair Market Rent (FMR)
Schedules for Use in the Rental Certificate Programs, Loan Management
and Property Disposition Programs, Moderate Rehabilitation Program
and Rental Voucher Program

Presented on Behalf of

The Legal Services Client Coalition:
Vermont, New York, Kentucky, Colorado
Alaska, Oregon, Utah, Washington

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These comments provide the response of certain Legal Services programs around the country, on behalf of eligible clients (hereafter sometimes referred to as the Legal Services Client Coalition), regarding the calculation of Fair Market Rents (FMRs) as set forth by the U.S. Department of Housing and Urban Development (HUD) in the Federal Register of June 23, 1994. The comments are set forth in five parts. Part I describes the parties making up the Legal Services Client Coalition. Part 2 provides the policy background giving rise to the Client Coalition concerns about HUD's proposed FMRs. Part 3 describes the methodology used in making the utility/FMR comparisons. Part 4 presents the results of the empirical analysis. Part 5 outlines recommended remedies.

PART 1: THE LEGAL SERVICES CLIENT COALITION

These comments are provided on behalf of the following client groups represented by Legal Services offices around the nation. In total, the Client Coalition represents assisted housing residents and applicants in eight states. The individual client groups include:

1. **Vermont:** Vermont Legal Aid appears on behalf of the Vermont Low-Income Advocacy Council. VLIAC is a nonprofit corporation formed in 1973 to advocate generally for low-income Vermonters with the state and federal governmental bodies whose actions affect the lives of the poor. Through more than two decades of existence, VLIAC has become the most widely recognized and respected voice for the poor in Vermont. Members of the Council are nominated by local Community Action Agencies and/or through regional caucuses of low-income persons, and represent poor Vermonters from every region of the state. VLIAC has participated as an intervenor or amicus curiae in many proceedings involving utility rates, housing, and other issues of individual rights.

2. **Alaska:** Alaska Legal Services appears on behalf of an individual client, who is a person over 65 with an income below 125 percent of poverty. She is a resident of Section 8 housing.

3. **Colorado**: Pikes Peak Legal Services appears on behalf of the Hampton Village Residents Association, a tenant association of the Hampton Village Apartments. The Hampton Village Apartments is a 120 unit apartment complex with all 120 units Section 8 eligible, located in Colorado Springs, Colorado.

4. **Frankfort, Kentucky**: Central Kentucky Legal Services appears on behalf of an unincorporated group of past and present tenants of the Georgetown Housing Authority. This group of tenants has banded together to challenge the local Housing Authority's utility allowances, collection practices, and conservation practices.

5. **Louisville, Kentucky**: Legal Aid Society of Louisville appears on behalf of People Organized and Working for Energy Reform (POWER). POWER is a grassroots organization made up of low-income utility customers. Formed in 1987, this group has worked on affordable payment plans, LIHEAP funding, energy efficiency, utility legislation on the state level, and rate issues. Their primary goal is to end utility shutoffs.

6. **Oregon:** Oregon Legal Services, Hillsboro Regional Office, appears on behalf of two individual clients, both of whom are Section 8 residents. The first client is a single parent, disabled with five children. Her actual utility bills routinely, and on average, exceed her utility allowance. The second client is a family of seven with five children. The utility allowance for this family's three bedroom townhouse is sufficiently low that the family is forced to live in unheated rooms in the winter because they cannot afford the electricity bill.

7. **Oregon:** Oregon Legal Services, Oregon City Regional Office, appears on behalf of an unassociated group of applicants for, and tenants of, Section 8 housing in Hood River, Wasco, and Sherman Counties, Oregon.

8. **New York:** The Public Utility Law Project of New York (PULP) appears on its own behalf. PULP is a statewide Legal Services back-up program, which works on energy, utility and related issues involving low-income households. PULP routinely advocates on the federal and state levels, in judicial, legislative and administrative proceedings, on, among other things, the impact of utility bills on the affordability of low-income housing.

9. **Utah:** Utah Legal Services appears on behalf of the Salt Lake City Community Action Program. The Salt Lake City Community Action Program serves primarily low and very-low income clients. Many of these clients have requested help regarding FMRs. The agency has recorded numerous instances in which its clients have become homeless because of FMRs. The agency serves Salt Lake and Tooele Counties, Utah.

10. **Washington State:** Evergreen Legal Services appears on behalf of an income-eligible individual client, who is currently a resident in Section 8 housing.

PART 2: THE POLICY BACKGROUND

The Client Coalition has concerns regarding Fair Market Rents that do not adequately consider the cost of utility service in their respective communities. Clearly, the purpose of providing affordable housing is intended to be served through the provision of rental subsidies. In addition to the rental subsidies, a Section 8 utility allowance is provided that varies depending on fuel source, type of housing, and the like. Clearly, therefore, the Section 8 program has two components to it, one dealing with rental costs and the other dealing with utility costs. The utility allowance, when combined with the rental subsidy, is intended to reduce the shelter costs of program participants to 30 percent of income.

The 30 percent limit is "enforced" in two ways. First, limits are set on the contract rent that a landlord may charge for a Section 8 dwelling. The contract rent plus the utility allowance may not exceed the Fair Market Rent for the locale in question. If the shelter costs do exceed the fair market rent, the property is not eligible to be certified by HUD as a Section 8 unit. In other words, assuming a Fair Market Rent of $500 and an $85 utility bill, if the landlord seeks a rent of $430 (thus making total shelter costs $515), the landlord may not participate in Section 8.[1]

Second, the household is, at least presumably, held harmless against all utility bills (except telephones). Each local Public Housing Authority (PHA) is directed to develop a utility allowance such that the sum of the Section 8 tenant's uncovered utility bill and contract rent will be no more than the 30 percent limit. Since household rental payments are specifically set equal to 30 percent of a household's income, the utility allowance is thus assumed to be equal to the utility bill.

The Conceptual Problem

Client problems arise because, within this framework, utility allowances compete with "Fair Market Rents" in Section 8 housing. When HUD publishes its determination of "Fair Market Rents," it implicitly sets a cap not only on contract rents, but on the utility allowances that a PHA may develop as well. Since the combination of contract rent plus utility allowances (not actual utility costs) may not exceed this Fair Market Rent, in other words, for every dollar that a utility allowance is increased, the contract rent allowed to rental property owners is decreased in kind (assuming that the sum of contract rents plus utility allowances has reached the FMR ceiling).

As can be seen, therefore, the mathematics of the Fair Market Rent system serve to create perverse incentives with regard to treating the energy bills of residents of Section 8 housing. To the extent that utility allowances are kept artificially low, the portion of the Fair Market Rent that can be committed to area landlords is increased. There is, if nothing else, at least an implicit pressure for Local Housing Authorities to do this. On the one hand, keeping contract rents high, and thus competitive, will help continue to draw rental property into the Section 8 program. On the other hand, utilities will continue to serve residents of assisted housing, often working under substantial regulatory pressure to do so, irrespective of what the utility allowance might be. As a result, when FMRs are not adequate, it is more likely that Housing Authorities will "squeeze" the utility allowances than that they will squeeze the contract rents.

The impact of these incentives inherent within the determination of Fair Market Rents involve real harms to low-income households. When utility allowances are inadequate to cover actual utility bills, Section 8 residents pay more than 30 percent of their income toward shelter costs, in direct contravention of the affordability limit. To the extent that

[1] HUD regulations regarding its "existing housing" program define "fair market rent" as: "The rent, including utilities (except telephone), ranges and refrigerators, and all maintenance, management, and other services, which would be required to be paid in order to obtain privately owned, existing, decent, safe, and sanitary rental housing of modest (non-luxury) nature with suitable amenities." 24 C.F.R. §882.102 (1992). HUD regulations for "new construction" provide, pursuant to a definition of fair market rent, that "the contract rent plus any utility allowance for the unit must not exceed the Fair Market Rent in effect at the time of processing." 24 C.F.R. §880.204 (1992)

the excess occurs in the utility component of a household's shelter costs, the household is faced with unpaid bills, ongoing arrears, and, ultimately, the potential disconnection of service.

Moreover, given the extent to which actual utility costs exceed utility allowances, this process of keeping utility allowances low so as to keep contract rents high transfers the risk of utility bills to the low-income tenant who is charged with paying them, adequate allowance or not. Ultimately, therefore, the risk is also transferred to the utility who must carry the resulting arrears, write-off the resulting bad debt, and pay the resulting expenses associated with credit and collection activities.

Not a Hypothetical Problem

The problem identified above—that of the incentive within FMRs for LHAs to keep utility allowances artificially low—may be "conceptual," but it is certainly not hypothetical. It is a real problem involving hundreds of thousands of real low-income households paying real utility bills.

The utility allowances provided to Section 8 households fall seriously short of covering actual Section 8 utility bills, according to a recent study by the U.S. General Accounting Office (GAO).[2] The households hardest hit, GAO found, involve those "households with the lowest incomes and the largest disparity between the allowance and their utility expenses* * *."[3]

<u>Annual allowances are inadequate:</u> The GAO has documented the prevalent nature of the mismatch between utility allowances and actual utility costs. According to GAO:

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[2] U.S. General Accounting Office, Assisted Housing. Utility Allowances Often Fall Short of Actual Risk Expenses (Vol. I) (March 1991); Assisted Housing. Utility allowances Often Fall Short of Actual Utility Expenses (Vol, II) (March 1991).

[3] Id., at 22 -23.

> * * *[A]bout 70 percent of the Section 8 households paid more than 30 percent of their adjusted income for rent and utilities. Even more striking, 32 percent of the Section 8 households had rent burdens exceeding 40 percent of adjusted income.

On average, those Section 8 households that exceeded 30 percent of adjusted income paid about $43 more in utility expenses than they received in allowances. For Section 8 households, rent burdens averaged about 36 percent of adjusted monthly income—notably different than the statutory amount. The total monthly income of the Section 8 households in our review averaged $544 (plus/minus $24). After paying $165 per month (36 percent of adjusted income for rent and utility expenses—the average result we obtained), Section 8 households in our review, on average, had about $379 in disposable income remaining each month to cover other living expenses. Thus, $43 each month for additional utility expenses represents a sizable portion of the households' disposable income.[4]

GAO noted that "invariably, households with very low incomes and high utility allowances risk incurring greater rent burdens than households with high incomes and low allowances when expenses exceed allowances. Therefore, a household's allowance takes on a greater or lesser importance in achieving the 30-percent rent burden amount depending on its income and utility expenses."[5] As GAO explained:

> For example, a hypothetical household has an adjusted monthly income of $250, a $10 utility allowance, and a resulting monthly rent (including the utility allowance) of $75 ($250 x 0.3 = $75). If the household's utility expenses were 50 percent more than the allowance, the rent burden would be 32 percent. However, if this same household received a $75 allowance and again consumed 50 percent more than the allowance, the rent burden would rise to 45 percent.

On the other hand, GAO said, "if the hypothetical household's adjusted monthly income were $750, with the same allowance and consumption factors as cited above, the rent burden would be 31 percent with a $10 allowance and 35 percent with a $75 allowance."[6]

Moreover, the GAO report examined how accurately public utility allowances reflected actual utility costs for Section 8 households. According to GAO, approximately 70 percent of Section 8 households "had utility expenses that were higher than their allowances.* * *Because the deviations were so great for some households, paying utility bills can pose financial hardships * *."[7]

<u>Seasonal allowances are inadequate:</u> Even when *annual* utility <u>allowances</u> adequately covered *annual* utility <u>expenses,</u> "because allowances are typically the same each month while utility expenses vary, month-to-month rent burden fluctuations can create cash flow problems for lower-income households despite an overall 30 percent rent burden."[8] GAO

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[4] Id, at 24 - 25
[5] Id, at 27.
[6] Id, at 27 - 28.
[7] Id, at 3.
[8] Id, at 18. (emphasis added). Reaching a 30 percent rent burden is the measure of whether utility allowances accurately cover utility bills. Contract rents (paid to landlords) are, by law, set equal to 30 percent of household income. Hence, if a utility allowance is accurately set, and thus covers the entire

found that within the population of Section 8 households with annual rent burdens equal to 30 percent of income, monthly rent burdens varied from 18 percent to 48 percent because of the uneven nature of utility usage throughout the year.

Finally, GAO noted that "month-to-month fluctuations in utility bills can also create payment problems for assisted households, particularly when utilities are individually metered."[9] According to GAO:

> The difficulty arises because allowances remain the same each month, while utility bills vary. As a result, households have to budget so that they will have sufficient funds to pay utility bills in high consumption months when utility expenses exceed allowance amounts. This budgeting may be difficult for lower-income households because, by definition, they have less income to pay for living expenses than higher-income households.[10]

GAO reported that notwithstanding the federal law which limits Section 8 shelter costs -including utility bills—to 30 percent of household income, "approximately 60 percent of these [Section 81] households never met the 30-percent amount for any 1 month during our 12 month review period, and fully 93 percent of the households had 3 or fewer months in which the burden equaled 30 percent."[11] Less than one percent of the Section 8 households had rent burdens of 30 percent for 10 or more months of the year.

The Legal Services Client Coalition submits that HUD should consider these inadequate utility allowances within its process of setting Fair Market Rents. Indeed, a large part of the reason for inadequate utility allowances, in the first instance, lies in the inadequacy of FMRs. Given FMR ceilings, it is often impossible for Local Housing Authorities to set utility allowances equal to utility bills and still retain sufficient dollars of the FMR to provide for contract rents to area property owners sufficiently reasonable to attract rental units to the Section 8 market.

Inadequate utility allowances and Fair Market Rents, in other words, are not separate or unrelated issues. They are inextricably tied one to the other.

PART 3: FMRS VS. UTILITY BILLS: THE METHODOLOGY

These comments are not based on a rental survey within the particular localities for which changes in FMRs are recommended. Indeed, a rental survey would not address the issue that the Client Coalition seeks to address in these comments. Nonetheless, these comments provide compelling data indicating that HUD-established Fair Market Rents (FMRs) for Fiscal Year 1995 are seriously inadequate to cover gross rent. "Gross rent," in this context, is meant to incorporate total shelter costs, including contract rents plus all

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utility bill, the utility bill should add no further burden to the household. However, if the household bears a "rent burden" of 35 percent, that means that the excess utility bill over the utility allowance equals rive percent of the household's income.

[9] Id, at 28.

[10] Id.

[11] Id., at 30.

costs of utilities (excluding telephone service).[12] More particularly, the “utility” costs incorporated into the calculations below include:

- 0 Winter natural gas costs, defining “winter” as the months of December, January and February.
- 0 Electric costs;
- 0 Water costs; and
- 0 Sewer costs.

Average annual winter natural gas costs were taken from actual data on typical space heating bills reported by each local natural gas distribution utility to the National Association of Regulatory Utility Commissioners (NARUC) for the 1992 - 1993 winter heating season. Winter electric costs were taken from actual data for 750 kWh of monthly usage reported by each local distribution electric utility to the National Association of Regulatory Utility Commissioners (NARUC) for the 1992 - 1993 winter heating season. This actual data was updated to FY 1995 by application of natural gas and electric CPI-U factors for piped natural gas and electricity respectively. The CPI-U was disaggregated and applied on a Census region basis.

Data was initially obtained for 117 different communities. Communities relying upon either municipal natural gas or municipal electric systems were then omitted from the process. Natural gas, electric, and combined water/sewer bills were thus available for 100 communities. Of the 17 communities omitted, ten were from the states of Florida, Washington and Tennessee, all of whom have a high incidence of municipal electric service. Data was evaluated for cities in 38 states and the District of Columbia.

Water and sewer bills were taken from actual data reported annually by Ernst and Young for 7,000 gallons of consumption, the average consumption for a family of four. Ernst and Young data for 1992 was the most recent data available. This data, too, was updated to FY 1995 by application of the CPI-U on a regional basis.

Utility bills for the winter months were then summed and divided by three winter months to obtain an average monthly utility bill for the three winter months of December, January and February. Again, the “utility bills” included natural gas, electricity, water and sewer.

Finally, the resulting summed average utility bill was compared to FMRs for two bedroom units for each of the respective communities to obtain a measure of FMR adequacy from a utility perspective. The measure of “adequacy” used was the percentage of the FMR that would be devoted to utility payments, absent garbage and solid waste pick-up fees, should utility allowances be set equal to actual utility bills.

The results of this national survey are presented below.

[12] In addition, garbage and/or solid waste pick-up fees were excluded, since there was no basis to make a city-specific determination of costs for such services.

PART 4: FMRS VS. UTILITY BILLS: THE EMPIRICAL DATA

The data collected for the final 100 communities around the country are set forth in Attachment A. This explicit consideration of utility bills reveals that the FMRs proposed for FY 1995 are inadequate in at least 38 of the 100 communities studiedl.[13]

The measure of FMR adequacy involves the percent of the Fair Market Rent that would be devoted to payment of utility bills. The higher the percentage of gross rent which is consumed by utility costs, the less likely it is that rent and utilities can both be reasonably paid given the proposed FMRs. In these circumstances, FMRs should be raised to allow contract rents and utility costs to be reasonably covered.

The inadequacy of FMRs vis a vis utility costs is a national phenomenon. As set forth in Attachment B, utility costs represent 30 percent, 40 percent and more of FMRs. A summary distribution of the proportion of FMRs taken by utility costs is set forth below:

[13] Remember, that in addition to these 100 communities, 17 were not included in the final analysis due to their reliance upon municipal natural gas or municipal electric systems. Those 17 are also listed in Attachment A.

Summary Distribution:

Percent of Proposed FY 95 FMRs Devoted to Utility Bills

100 Selected U.S. Cities

Percent of FMR	No. of Cities
10 percent and less	0
10.1 - 20 percent	8
20.1 - 30 percent	26
30.1 - 40 percent	47
40.1- percent	12
50.1 percent and more	7

Of the 100 communities studied, utility costs represented more than 50 percent of FMRs in seven, more than 40 percent in 19, more than 30 percent in 66, and more than 20 percent in 92. In only eight communities was the proportion of FMRs devoted to utility bills at or below 20 percent.

Of these latter communities, seven represented high cost rental markets such as San Francisco, Honolulu, San Jose and the like. The low proportion of FMRs devoted to utilities in the locales, in other words, indicates more about the area contract rents than it does about whether energy costs were adequately considered in setting FMRs.

It is difficult to establish a benchmark to use in measuring the proportion of total shelter costs that should be represented by utility expenses. No work is readily available that discusses what that relationship should be. Regional data was thus developed for purposes of these comments. Data was studied for 42 cities.[14] Rental burdens were established by taking mean rents as a percentage of mean renter income for each city. Cities within the same Census regions were then aggregated and a regional simple average was calculated. Utility burdens were established by taking the utility costs developed for these comments as a percentage of mean renter income.

[14] 1991 data was taken from the Center on Budget and Policy Priorities and escalated to 1994 dollars using regional CPl-U data on inflation. Data was limited to the 42 cities for which rent, renter income, and utility data were available.

Ratio of Low-Income Utility Burden to Rental Burden				
	Bill as Percent of Income		Ratio:	Percent Utility
Census Region	Utility Burden	Rental Burden	Utility to Rent	is of Rent
Northeast	15%	29%	1:2	53%
South	8%	28%	2:7	31%
North Central	12%	28%	3:7	41%
West	8%	30%	4:15	27%
National	11%	28%	3:7	38%

In making these comparisons, the actual burden is not so important as the relationship indicated between energy and contract rents. Importing that relationship to the FMR analysis seems reasonable. If, in other words, the ratio of energy costs to rental costs is generally 1:5, energy costs cannot comprise 30 percent or more of HUD-established FMRs (a ratio of 1:3) and expect the FMR to be adequate to allow reasonable contract rents plus utility allowances.

Making qualitative adjustments to the energy-to-rent ratios reported above to account for the fact that "utility" costs should include garbage/solid waste as well, and that energy costs are reported for winter natural gas bills, we conclude that the ratios of utility costs to contract rents set forth on a regional basis above are reasonable.[15]

The significance of this observation for purposes of a review of HUD's proposed FMRs is that utility costs should not represent more than the designated percentage of the total FMR set by HUD. If actual utility costs for the various communities do exceed these regional ratios, and assuming that the contract rents underlying the proposed FMRs are valid, the FMR should be increased to cap the utility-to-contract rent ratio for each respective community at the respective regional ratio.

Using these ratios as our benchmarks, within the 100 cities studied for these comments, the FMRs were inadequate to fully cover contract rents plus utility costs in 38 cities.

[15] The data presented would clearly be stronger if gas and electric bills could be developed on an annual basis. That information, at this point, is not available

PART 5: REMEDIES TO BE PURSUED BY HUD

The data presented above reveals how seriously inadequate HUD's proposed FMRs are when utility bills—particularly seasonal utility bills—are explicitly considered using actual utility company data. HUD programs, including Section 8 specifically, at least purport to recognize that shelter made unaffordable by high utility costs is just as objectionable as shelter made unaffordable by high contract rents. HUD seems to systematically ignore that doctrine, however, in setting FMRs.

Two genres of remedy are necessary at this point. First, HUD must amend its FMR process to more adequately, and explicitly, consider the utility component of FMRs. Second, HUD should directly address shelter unaffordability by making appropriate adjustments to the Fiscal Year 1995 FMRs for particular communities.

Explicit Consideration

HUD should modify its FMR process to allow for a more thorough consideration of the impact of utility bills on the adequacy of the proposed FMR levels. There are four actions which the Client Coalition requests:

First, in publishing proposed and final FMRs, HUD should separately set forth the specific contract rent and utility bill that is inherent within each respective local FMR. These two separate components—utilities on the one hand and contract rents on the other—would not serve as separate and independent caps. Instead, the total FMR would remain the cap for contract rents plus utility allowances summed. They would allow for a more direct and authoritative review of whether FMRs accurately reflect local conditions as to rent and utilities.

Hence, for example, if the FMR for Joliet is $100, HUD would publish:

Joliet FMR:	$100
Contract rent	$ 80
Utilities:	$ 20

Second, in the process of calculating FMRs, HUD should prepare a distribution of actual utility bills for two bedroom units and ensure that the utility bill implicit within the FMR is sufficient to cover the actual utility bills for Section 8 residents as revealed by this distribution. Implicit utility bills that are insufficient to cover Section 8 tenant consumption should be increased, with a corresponding increase in final FMRs.

Third, HUD should publish, and make explicit, its methodology for calculating the utility component of FMRs. At present, in the entire discussion of the FMR methodology in the Federal Register, no discussion is devoted to how the utility costs implicit within "gross rents" are developed or determined.

Finally, interested parties should be able to comment on the utility component of FMRs separately from the overall level of FMRs. In addition to this opportunity, such commenters, should have available an accepted methodology, in much the same fashion that commenters on FMRs as a whole now have available for contract rents, an approved methodology that they know HUD will accept data from. At present, while there is a polling methodology with regard to rents, there is no mechanism available which relates to determination and presentation of utility bill data.

Immediate Relief

HUD should provide immediate and substantive relief from proposed Fiscal Year 1995 FMRs that do not accurately reflect actual utility costs. HUD should adjust each FMR upward so as to cap the ratio of contract rents to utility costs at the respective regional ratios. In this fashion, HUD would ensure that utility costs would comprise no more than a reasonable percentage of any Fair Market Rent[16]

This cap should remain in effect until such time as HUD makes the process-oriented changes recommended above that would allow for an independent, explicit and separate review of the utility component of FMRs published each year.

Since FMRs are based around a calculated FMR for two bedroom units, the specific FMR adjustments proposed by the Legal Services Client Coalition for two bedroom units for specific communities are set forth in Attachment C to these comments. The appropriate adjustments to other sized units, based upon these two bedroom recommendations, should be made as well.

SUMMARY AND CONCLUSIONS

The failure of HUD to adequately consider actual utility costs in setting Fair Market Rents results in proposed FMRs that are seriously inadequate. Low-income tenants who participate in the Section 8 rental program are to have total shelter costs, including contract rents plus utility costs (excepting telephones) limited to 30 percent of income. National data reveals that this limitation does not even come close to being observed. One reason for this is that utility allowances by Local Housing Authorities throughout the country are routinely inadequate to cover actual utility costs incurred by Section 8 tenants.

The reason for this failure lays, in large part, with the adoption of insufficient FMRs to permit LHAs to adopt reasonable utility allowances, while at the same time leaving funds within the FMR to permit reasonable contract rents sufficient to attract rental units to the Section 8 market. As the review of 100 different communities above shows, when actual

[16] Some utility costs, of course, will represent a much lower percentage of the total FMR

utility costs are disaggregated and considered apart from the FMR as a whole, the FMRs proposed by HUD are inadequate in 38 different cities.

Two types of remedies are appropriate. First, specific adjustments must be made to the FMRs proposed for Fiscal Year 1995. Those adjusted FMRs are set forth in Attachment C.

Second, modifications must be made to the process of establishing FMRs. These modifications will allow the utility costs implicit within each respective community's FMR to be separately and independently reviewed and considered in the same fashion that total FMRs are now subject to review and comment.

Appendices are omitted.

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