

# Utility Allowance Basics

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Jim Grow  
NATIONAL HOUSING LAW PROJECT  
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## What We'll Cover

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- What are UAs and Why We Care
- Methodologies for Establishing UAs
- How UAs Relate to Financing Energy Improvements While Protecting Tenants
- Brief Glimpse of the Policy Landscape

## Utility Allowances: What & Why

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- **What is a UA:**
  - o An amount which affordable housing owners must subtract from a tenant's total rent contribution
  - o Part of the total rent stream
  - o Applies ONLY where some or all basic utilities are tenant-metered
  - o Should cover "costs of reasonable consumption" of necessary tenant-metered utilities
    - x Program variations
  - o Must be adjusted for significant rate changes & often consumption
- **Why?:** ensures compliance with statutory rent limits, since T's contribution must cover both rent & reasonable utilities
  - o Rent limit is usually 30% of income (HUD-RD) or a formula rent (LIHTC)

## Why Care About UAs?

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- UA \$\$ = portion of rent stream provides potential resource to support E-E improvements & renewables yielding energy cost savings to both Ts & subsidy program
- Can augment State PUC-req'd L-I energy savings progs, which may not adequately serve the affordable MF rental sector:
  - \$\$ limited; allowable measures; other barriers, incl. split incentives (O vs T)
- Absent improvements, many Tenants are stuck paying high bills in inefficient units, often > UA: most Ts and subsidy providers can't get E-E savings or other benefits unless improvements are paid for or financeable by Os
- Every energy improvement implicates possible UA adjustments

## UA Basics

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- Only necessary utilities: elec. & gas/oil, water & sewer
- Each affordable housing program has different rules re UA methodologies
- Each property in same area may have a different UA
- Depending on applicable program rules, UA may be:
  - o an estimate from a schedule or
  - o a property-specific calculation

## UA Example-HUD Assisted

Total tenant payment (limited to 30%) = rent to O + UA

HUD Project-based Section 8	
Contract rent	\$900
Utility allowance	\$100
Assume TTP is 30% of tenant's income	\$300
Tenant's "rent" to O (\$300 – UA \$100)	\$200
Tenant's UA = reasonable utility costs	\$100
HUD subsidy to owner	\$700

## UA Example-LIHTC

Total tenant payment (limited to LIHTC max.) = rent to O + UA; assumes no ongoing operating subsidy

Low Income Housing Tax Credit (LIHTC)	
LIHTC rent	\$700
Utility allowance	\$60
Tenant's "rent" to owner	\$640
Tenant's UA = reasonable utility costs	\$60

## Current UA methodologies

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- **Estimates from Schedules**
  - o Easy, cheap, often very inaccurate (e.g., PHA voucher UA schedule)
  - o Not specific to actual or estimated consumption at the property, only community-wide norms at best
  - o If too high → misallocation of rental subsidies or rental income
  - o If too low → tenants paying too much for rent & reas. Utilities
  - o Energy improvements don't affect schedule at all (unless EEBUA schedule)
- OR
- **Project-specific UAs:**
  - o based upon **actual consumption & rates** (data access issues, cost of procuring & calculating) [Now required HUD PBS8 methodology]
  - o **Energy Consumption Models (ECMs)** (can be accurate, but high initial cost)

## Sample PHA UA Schedule

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Category	Description	Monthly Cost Allocation				
		0 BR	1 BR	2 BR	3 BR	4 BR
Heating	A. Natural Gas	\$0.00	\$9.00	\$10.00	\$11.00	\$14.00
	B. Electric	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	C. Oil / Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	D. Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cooling	A. Natural Gas	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	B. Electric	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	C. Oil / Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	D. Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Electric	A. Natural Gas	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	B. Electric	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	C. Oil / Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	D. Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Water Heating	A. Natural Gas	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	B. Electric	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	C. Oil / Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	D. Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Water	A. Natural Gas	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	B. Electric	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	C. Oil / Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	D. Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Trash Collection	A. Natural Gas	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	B. Electric	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	C. Oil / Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	D. Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Sewer	A. Natural Gas	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	B. Electric	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	C. Oil / Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	D. Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Telephone	A. Natural Gas	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	B. Electric	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	C. Oil / Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	D. Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Miscellaneous	A. Natural Gas	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	B. Electric	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	C. Oil / Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	D. Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Monthly Electric Fee \$11.00		\$11.00	\$11.00	\$11.00	\$11.00	\$11.00

## Project-specific: Actual Consumption

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- Requires T consumption from meters or actual billing data:
  - o data access and format issues
- Clear, easily administrable agency-required methodology?
  - o e.g., sample size, what is reasonable consumption? (average, X% of average, median, X %ile, etc.)
- Time lags between end of data collection for normalized period and UA → financing problem for energy improvements
- Possible “takeback” problem in estimating post-retrofit savings
- Actuals are commonly used in HUD & RD properties with rental assistance or in some public housing (less common in LIHTC)

## Project-specific: Energy Consumption Model

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- Engineering model, NOT using actual property consumption data
- Reasonable energy consumption for space cooling & heating, & H2O heating calculated for each unit type, using approved building energy performance software
- Averaged across all similar unit types (e.g., all 2-bdrm units) through a weighted means calculation
- Algorithms to estimate appliance, plug load and lighting energy consumption, plus typical water use
- Sum of all end-use energy (net of renewables), @ applicable utility rates = UA for each unit type

## Energy Consumption Models

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- Affordable housing program rules may allow EC Model
  - o LIHTC explicitly allows (post-2008)
    - Both new construction & subst'l rehab & possibly existing LIHTC projects
    - Owner choice, but state agency rules may constrain or influence choice
    - CA CUAC permissible for NC, gut rehab, or certain existing if MASH Solar PV
  - o Uptake currently limited: initial high costs and lack of accessible good model
    - Currently limited use for other existing properties & affordable programs (e.g. HUD renovations w/refinancing, HOME projects, RD new construction)
  - o PROs: accuracy of proper model; projections available without delay of actuals, thus good for financing; easier updating – just input new tariffs
  - o CONS: initial cost → must have good model, incl. verification; user qualifications; QC; updating to improve algorithms; not yet web accessible

## Key Distinction Between Programs

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- Rental Assistance Programs vs. those without (e.g. LIHTC)
  - can O easily adj. UA & access energy cost savings?
- RA programs have “triple-split” incentive (O/T/agency):
  - o no O access to cost savings, without agency policy or initiative
  - o EI → savings to T → UA reduction based on actuals → T rent up, subsidy down
  - o Agency (subsidy provider) benefits, not O (contrast Public Housing)
- Programs without RA (e.g., straight LIHTC):
  - o O direct access to cost savings
  - o EI → savings to T → UA reduction based on actuals or ECM → T rent up. O benefits directly: no “triple-split” incentive

## UAs Post-E-E Retrofit

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HUD or RD Rental Assistance		LIHTC	
HUD Contract rent	\$900	LIHTC Rent	\$700
New lower Utility allowance	\$80	New lower Utility Allowance	\$40
Assume TTP is 30% of tenant's income	\$300	Tenant's "rent" to Owner (increases)	\$660
Tenant's "rent" to O (\$300 – UA \$80) (increases)	\$220	(Owner gains \$20 in rental income)	
Tenant's UA = reasonable utility costs	\$80		
HUD subsidy to owner (reduced)	\$680		
HUD gains \$20; Owner gains no cash flow)			

## Summary of Current Thinking re UAs

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- Primary opportunities for improvements in UA policy:
  - o LIHTC: both NC & existing inventory
  - o HUD & RD @ refi/recap window offering reset
  - o PH EPCs & RAD
  - o PBVs (EEBUA schedule better than PHA Voucher schedule)
- NOT stand-alone retrofits of ex'g HUD or RD properties: shared savings barrier
  - Exceptions: HUD BBC & new Pay for Success Demonstration

## UA Policy Improvements

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- 1) Encourage/require project-specific methods to set UA
- 2) Must allow for a reduction in UA to reflect the reduction in energy use from the E-E upgrades or in cost from the renewable installation
  - o Renewables don't reduce consumption, but reduce cost & add a provider
- 3) Must allow properties/Os to capture some or all the increase to property's cash flow resulting from reduced UA
- 4) UA reduction should not adversely affect the tenant by increasing total cost burden for housing + utilities

## UA: Transition Issues

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- In some cases, where prior UAs are high and not currently project-specific (actuals or good ECM), shift to proper UA will cause rent increase beyond energy cost savings
  - Due to change in methodology alone (e.g. schedule to project-specific)
  - Hard to convince Ts re E-E benefits if their rent is increasing more than energy cost savings
- Where prior UA too low (schedule, poor baseline or outdated rates), if no RA, owners lack incentive to change; if RA program, would increase subsidy cost
- Right-sizing required/possible prior to improvements?
- Need more evaluation of impact and transition policies:
  - ✦ in CA CSI Solar PVs (but cushioned by direct T benefit of policy)
  - ✦ In implementation of forthcoming HUD UA policy for PBRAs
  - ✦ Any situations where UA method is changing

## Looking Ahead

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- Outreach and education re ECMs or actuals for LIHTC: all state HFAs and Os
- Improve practice: improve ease & accuracy of using actuals or ECM: cost, staff time, results
- Policy: IRS rules or HFA policy changes needed?
  - Disadvantage bad practices for new units (?? for existing Us)
- Policy: HUD & RD RA programs: what's needed to share savings?
  - FY '16 approved 20,000 unit Energy Conservation Demo (HUD PFS contracts with entities who would raise K and work with ESCOs etc. to make upgrades); also HUD's BBC
- Policy: Solar PV & UA adjs: who gets benefits of publicly supported systems?
- Policy: HUD and state agency transition strategies

## More Resources/Info

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- Join NEWHAB sessions and working groups
- CHPC/NHLP Owner's Guide to UAs:
  - [http://chpc.net/wp-content/uploads/2016/04/UA-Guide\\_April-2016Web.pdf](http://chpc.net/wp-content/uploads/2016/04/UA-Guide_April-2016Web.pdf)
- Enterprise Green Communities UA Guide (2012):
  - <http://www.enterprisecommunity.com/resources/ResourceDetails?ID=67588.pdf>
- Contacts:
  - Jim Grow, Senior Attorney, NHLP, 415.546.7000 x3104  
[jgrow@nhlp.org](mailto:jgrow@nhlp.org)
  - Dana Bartolomei, National Housing Trust, [DBartolomei@nhtinc.org](mailto:DBartolomei@nhtinc.org)