

HOMEfires - Vol. 13 No. 2, May 2016

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Q. When does the utility allowance (UA) requirement established in the 2013 HOME Final Rule (HOME Rule) become effective, and what methods may a participating jurisdiction (PJ) use to establish the UA for HOME-assisted rental units?

A. PJs are required to determine UAs for HOME-assisted rental units by using either the HUD Utility Schedule Model (HUSM) or a project-

inconsistent or inaccurate allowances. In addition, PHA utility schedules are based on average consumption rates across a PHA's portfolio. Application of these standardized utility allowances may result in undercharging or overcharging of rent, particularly in projects where tenants pay utilities directly. As more projects are constructed or rehabilitated to higher energy-efficiency standards, thus enhancing affordability of units, the use of a standard utility allowance may not represent actual utility costs.

The option established in the HOME regulations to "otherwise determine the utility allowance for the project based on the type of utilities used at the project" means that, if PJs choose not to use the HUSM, the UA must be established using a project-specific methodology. A project-specific methodology is based on actual utility usage at the property or estimates an allowance based on project-specific factors such as size, orientation, building materials, mechanical systems and construction quality, as well as local climate conditions.

Responsibility for UA Determination

The HOME Rule requires the PJ to establish a UA for a HOME-assisted unit. However, a PJ may require property owners to complete initial UA calculations and submit their calculations for review and approval of the PJ prior to implementation. The staff cost of determining UAs can be charged as an administrative cost under 24 CFR 92.207(a). In addition, the staff cost of determining the initial UA, prior to project completion, can be charged as a project-related soft cost for projects to which HOME funds were committed on or after August 23, 2013 under 24 CFR 92.206(d).

PJs may establish local policies and procedures for determining and annually updating UAs for each HOME-assisted rental project. Specifically, PJs may:

- Directly calculate the UA for each project based on any of the acceptable methods outlined below using its own qualified staff or by contracting with qualified professionals;
- Require property owners to use a specific method or choose from any of the acceptable methods outlined below to prepare (or employ a qualified third-party professional to prepare) and submit a UA determination for the PJ's review and approval; or
- Accept a UA approved by another funder (state tax credit allocator, federal agency, etc.) provided the UA is calculated using a method acceptable under the HOME Program. In such cases, the PJ is ultimately responsible for ensuring that the UA meets HOME requirements.

1. **HUD Utility Schedule Model:** The HUSM enables users to calculate utility schedules by housing type after entering utility rate information (tariffs). This model is based on climate and survey information from the U. S. Energy Information Administration of the Department of Energy and it incorporates energy efficiency and Energy Star data. This model is allowed for LIHTC projects per IRS regulations at 26 CFR 1.42-10(b)(4)(D).

The HUSM and use instructions can be accessed on HUD User at <https://www.huduser.gov/portal/resources/utilallowance.html>. The HUSM is available as either a spreadsheet model in MS EXCEL or a web-based model on HUD User at <https://www.huduser.gov/portal/datasets/husm/uam.html>. During {2016?}, HUD will deliver a web-based training on the use of the HUSM and post the recording on the HUD Resource Exchange as an additional resource for PJs.

2. **Multifamily Housing Utility Analysis:** In 2015, HUD published [Multifamily Notice H-2015-4](#) to provide instructions to owners and management agents for completing the required utility analysis. This analysis is also used for the USDA Rural Housing Service program and allowed for LIHTC projects per IRS regulations at 26 CFR 1.42-10(b)(3). HOME PJs may use the methodology from the notice, including the required baseline utility analysis; the optional factor-based utility analysis; and, the utility analysis sample size which are described in [Attachment 1](#) to this HOMEfires.
3. **Utility Company Estimate ([26 CFR 1.42-10\(b\)\(4\)\(B\)](#))** – A PJ may establish or approve a UA based on estimates obtained from a local utility company for each of the utilities used in the project. IRS regulations state that the estimate must be obtained in writing and must be based on the estimated cost of that utility for a unit of similar size and construction for the geographic area in which the building containing the unit is located.
4. **LIHTC Agency Estimate ([26 CFR 1.42-10\(b\)\(4\)\(C\)](#))** – Under IRS regulations, the tax credit allocating agency estimate entails two options: 1) an agency estimate that is a prospective projection of utility costs based on site and building characteristics, and 2) an actual usage methodology. If a project is receiving both HOME and LIHTC funding, a PJ may coordinate with the LIHTC agency to obtain a project-specific agency estimate or may accept a UA approved by the LIHTC agency based on its actual usage methodology.
5. **Energy Consumption Model (Engineer Model) ([26 CFR 1.42-10\(b\)\(4\)\(E\)](#))** – A PJ may establish or approve a UA based on an energy and water and sewage consumption and analysis model (energy consumption model) prepared by a properly licensed engineer or a qualified professional. IRS regulations require that such professionals be independent from the property owner and they specify the building factors that must be included in the model.

