

## The Dollar\$ and Sense of Utility Allowances

Utility allowances are one part of a larger effort by the federal government to address energy conservation within federally funded housing programs. Federal regulations mandate that efforts are taken to promote the adoption of energy-efficiency measures within such programs. Federal regulations, such as the ones identified below, were all implemented to address the country's energy concerns by attempting to make the affordable housing industry more energy efficient. The basic assumption that reduced energy cost would reduce operating expenses has been one of HUD's primary speaking points when attempting to get public housing authority (PHAs) and landlord buy in. Other incentive strategies like allowing housing authorities to retain 50 percent of savings for a four-year period has been less effective in persuading PHAs and landlords to become more aggressive with energy conservation efforts.

### Background

The federal government wanted low-income households to be responsible for their own utility cost. It was believed that families would have an incentive to use less energy if they paid their own utility bills (lower usage equals lower bills). The law, however, mandates that low-income families utilizing federally funded housing could not spend more than thirty percent of their income for housing cost [24 CFR 5.628](#). This created a dilemma. As a result, low-income households were given a fixed allowance that was based on average utility consumption. In theory, this allowance would off set the housing cost proportionally and prevent the household from exceeding the thirty percent threshold. Moreover, if the household's utility bills were less than the approved allowance, the family benefitted. Unfortunately, it became clear that low-income households did not and could not impact the energy efficiency of the properties in which they lived. In reality, utility allowances became a disincentive and energy conservation was not addressed.

### The Problem

In the worst scenarios, utility allowances could negatively affect both low-income households and housing developments. Less than accurate utility allowances not only affect the amount of gross rents received by the property, but it could also negatively impact the household's already limited cash flow.

For Low Income Housing Tax Credit (LIHTC) properties, the utility allowance calculation directly affects the amount of gross rents that are received. For

example, if the maximum allowable rent is \$600 per month and the tenant's estimated utility cost is \$100 per month, then the most a landlord could ask for rent would be \$500 (gross rent). Of course, market trends could impact this scenario. If a particular market could only support \$500 rents, then the gross rent would become \$500 less the \$100 utility allowance. In this case the landlord would receive \$400 in gross rents. As you can see, understanding the utility allowance calculation process is extremely important. Not only does a less than accurate utility allowance impact the amount of rent a landlord will receive, it could very well impact the tenants' ability to meet utility costs; causing yet more issues for the landlord (*non-functional utility services are non-compliance issues in some federal programs*).

### **The Road to a Solution**

When there is a problem as complex as this, a simple solution rarely exists. This problem, however, has one fundamental truth. It is in everyone's best interest to have the most accurate utility allowance possible. The first step is to understand what conditions may affect the final utility allowance.

That agency for a particular property depends on the funding received by that property. Most often, this agency is HUD or Rural Development. However, sometimes a monitoring agency sanctioned by HUD may serve in this capacity. It is important to understand that the utility allowance is set by the regulating agency. The regulating agency is the only body that can determine what the final utility allowance is. Theoretically, the agency analyzes the utility allowance report submitted by the landlord and determines the allowance based on the data.

There are two primary methods used in calculating tenant utility allowances. These are the consumption-based approach and engineering-based approach. The consumption-based approach considers actual utility usage. The best consumption-based methods consider abnormal weather conditions (i.e. extreme winters or summers), seasonal rate variations, changes in utility rates or the utility company's monthly fuel cost adjustments (on electric and gas services) and statistical anomalies (i.e. short billing periods). These are all variables that could impact the utility allowance. We should also be aware of what utilities are being used at the property and if there are any "special fees" assessed to the monthly utility bill. For example, in some communities a special monthly fee to support 911 or to purchase a new fire truck will be assessed and applied to each bill.

There are two engineering-based approaches: (1) the standard method and (2) analytical method. The standard method determines typical end-uses for similar buildings. The analytical method determines consumption using

engineering calculations for the actual building and operational characteristics. These approaches are most commonly used on new construction and recently rehabbed properties.

Extremely low numbers are often a result of new construction using energy efficient HVAC, water heaters and refrigerators, insulation with higher R values, thermal windows and weatherstripping . If tenants pay for water or sewer, installing low water use toilets and shower heads will reduce those expenses as well. Efficient water heaters will provide a significant savings over one year, especially in family complexes where there are higher numbers of people per apartment.

Although we have shown the factors which will effect the actual numbers on a utility allowance report, it is the decision of the governing agency on what the actual allowance will be. To find out more on federal regulations addressing energy conservation please review the following documents:

[965.302: Requirements for energy audits](#)

[965.304: Order of Funding](#)

[965.307: Compliance schedule](#)

[965.306: Energy conservation equipment and practices](#)

[965.401: Individually metered utilities](#)

[965.502: Establishment of utility allowances by PHAs](#)

For information on energy conservation regulations, visit [here](#).

[Energy Crisis Sparks Interest in Utility Allowances](#)

[The Effect of Utility Allowance Increases on Section 8 Housing Choice Voucher Participants](#)