HOME Program -Utility Allowance Methodology

Under the HOME Rule, PJs are no longer permitted to use the utility allowance established by the local Public Housing Authority (PHA) for HOME-assisted rental projects for which HOME funds were committed on or after August 23, 2013. Projects to which HOME funds were committed before the effective date of the 2013 HOME Rule may continue to use the PHA utility schedule. 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.

Acceptable Methods for Calculating UAs

The following five methodologies used in other Federal housing programs will meet the HOME regulatory requirement that the utility allowance for a specific project be based upon the utilities used at the project. A PJ may adopt one or more of these options across its HOME rental program or may limit their use to a single method. However, a PJ must use the same UA methodology for all HOME units within a single project. HUD encourages PJs to align with other funders, to the extent feasible, when determining the UA for a project with multiple funding sources. The acceptable methods include, but are not limited to:

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. Additional information can be found on the HUD Exchange website.

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.

3. Utility Company Estimate (26 CFR 1.42-10(b)(4)(B)) – A PJ may 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 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 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.