

Much Ado About Utility Allowances

-Introduction

April 29, 2007

Nehemiah Stone

Content

- Wayne Waite, U.S. Housing and Urban Development
Federal Update – HUD Tools, IRS Rules
- Julieann Summerford, Heschong Mahone Group
Energy Efficiency Based Utility Allowance
Schedules
- Nehemiah Stone, KEMA Services Inc.
Project Specific Utility Allowance Calculation Tool

Why Aren't Affordable Housing Developers Investing More in Energy Efficiency and Solar?

- The allowable monthly rents for two potential designs – one efficient, one not, but otherwise equivalent – are currently **exactly the same**.
- My guess is that if you were *not allowed* to recoup your investment in something, you probably wouldn't invest either!

Public Policy

- Tenants should pay **about 30% of their monthly income for “housing burden”**
- Housing Burden = Rent + Utilities
- From a developers’ point of view:
Allowable Rent = Housing Burden
minus the estimated tenant utility bills

PSUA Background

- Per IRS rules, Utility Cost Estimates for use with TCAC applications must*:
 1. Be those used by the local PHA, or
 2. Be provided by the serving utility company
- How well has that worked for the affordable housing industry?

** Wayne will cover the new HUD tool PHAs can use, and an IRS rule-making open to allow other options.*

Typically, the PHAs' Utility Allowance Schedules:

1. Are based on existing housing stock **with an average age of ~28 years**, and that are Not energy efficient.
 - In fact, are not even up to current standard practice
2. Rely on HUD's Utility Allowance Guidelines **from 1998**.

Path 1: PHAs' Utility Allowance Schedules:

- For those reasons, standard UAs from the PHAs:
 - a. Cannot account for energy efficiency upgrades or PV
 - b. Over-estimate tenants' utility costs
 - c. Artificially lower developers' net monthly income
 - d. And therefore, act as a disincentive for developers to invest in EE or PV

How Much Would Developers Invest on EE and PV?

- ...if they could get, say, another \$180 per year, per apartment in return on their investments?
- ...if the TCAC pro-forma let them account for the \$180/apt•year?
- ...if they knew that it would make their tenants more comfortable?

How Much Would Developers Invest in EE and PV?

Simple Answer:

More than they are investing now!

New Options for Utility Cost Estimates

1. IRS is in the process of adopting new regulations (uncertain decision date)
2. HUD is developing new rules
3. EEBUA (Now at some PHAs)
4. SGUA (Now at some PHAs)
5. PSUA (under development)

***All three PowerPoint Presentations
will be available at:***

<http://www.h-m-g.com/multifamily/AHEEA>