



Utility Allowances – Sources and Options

Treasury Regulation Section 1.42-10 and IRS Notice 89-6 set forth the IRS required procedures for determining Utility Allowances.

1. **RD** - Buildings that receive RD assistance **MUST** use the applicable utility allowance provided by RD for all rent restricted units - even those units rent restricted with RD and HUD.

2. **HUD** - Buildings where rents and utility allowances are reviewed on an annual basis or that receive HUD rental assistance **MUST** use the utility allowance provided HUD for all rent restricted units. The applicable utility allowance is the HUD utility allowance. **Except those units rent restricted with RD and HUD.

3. **Local PHA** - Most buildings that are not regulated by HUD and RD, usually use the published utility estimate chart which is provided by PHAs, because it is ready and easy to use. Most LIHTC properties use this means of an estimate but the calculations are sometimes higher for energy efficient units.

4. **Utility Provider Estimate** - The owner or resident may obtain an estimate in writing from the local utility company that offers services to the building that residents are responsible for paying. This estimate must be submitted to MHDC for approval of implementation.

5. **Energy Consumption Model** - Therefore, the final regulations also include a new option allowing building owners to retain the services of a qualified professional to calculate utility allowances based on an energy consumption model.

Energy consumption model requirements:

- a. Properly licensed engineer.
- b. Qualified professional with prior approval by MHDC.
(NOTE: qualified professional and building owner **must not be related** - Complete IOI (Exhibit V).
- c. Building owner must furnish copies of all estimates derived from the energy model.
- d. Building owner must pay all costs incurred to obtain the utility estimate.
- e. The model must take into account factors including unit size, building orientation, design and materials, mechanical systems, appliances, and building location.

6. **HUD Utility Schedule Model** - For use by properties with HOME units that received HOME financing after August 23, 2013. The Owner or tenant may obtain a local utility company estimate for a unit from the HUD Utility Schedule Model found at www.huduser.org/datasets/lihtc.html.

- a. Unit of similar size and construction for the geographic area
- b. In the case of deregulated utility services, requirement to obtain an estimate from only one utility company - even if multiple companies can provide the same utility service to a unit. The utility company furnishing the estimate must offer service to the building in order for that utility provider to use their rates in calculating utility allowances and should include all component charges for providing the utility service.

c. The building owner must pay all cost incurred to obtain the HUD utility schedule model.

d. The model must take into account factors including unit size, building orientation, design and materials, mechanical systems, appliances, and building location.