

Ralph M. Perrey, Executive Director



## THDA UTILITY ALLOWANCE POLICY FOR THE HOUSING CREDIT PROGRAM

### General Information

The Internal Revenue Service (IRS) requires that utility allowances be determined according to [Treasury Regulation 1.42-10](#) effective May 2, 1994, and amended July 29, 2008, as well as the [Final and Temporary Utility Allowance Regulations 1.42-10T](#) issued March 3, 2016.

There are nine methodologies owners can use to calculate a utility allowance:

1. Buildings Assisted by the Rural Housing Service (RHS)
2. Buildings Assisted with Rural Housing Assisted Residents
3. Buildings Regulated by Housing and Urban Development (HUD)
4. Residents Receiving HUD Rental Assistance

Methods 1-4 are mandatory if applicable to the building/resident. If none of the above apply, the following options are available:

5. Public Housing Authority (PHA) Utility Allowance Estimate
6. Local Utility Company Estimate
7. THDA Approved Estimate (actual or comparative)
8. HUD Utility Schedule Model
9. Energy Consumption Model

Properties are allowed to switch between available utility allowances methodologies from year to year, but is not recommended.

If your property utilizes the Utility Company Estimate, Agency Estimate, or Energy Consumption Model options, approval must be obtained **PRIOR** to implementing this methodology at the property.

**Please note, ALL final utility allowance estimates should be rounded up to the next whole dollar.** For example if your utility allowance is less than a whole dollar amount, such as \$65.09, you would round up to \$66.

### Buildings Assisted by the Rural Housing Service (RHS)

Developments financed by or receiving rental assistance from RHS must utilize the RHS-approved utility allowance methodology for all units. Copies of the RHS approved utility allowance must be uploaded into THDA's Tennessee Housing Online Management and Application System (THOMAS) during the application process and annually. These also may be requested during monitoring reviews.

**Buildings Assisted with Rural Housing Assisted Residents**

If any resident in a building receives RHS rental assistance payments, the applicable utility allowance for all rent-restricted units in the building (including any units occupied by residents receiving rental assistance payments from HUD) is the applicable RHS utility allowance.

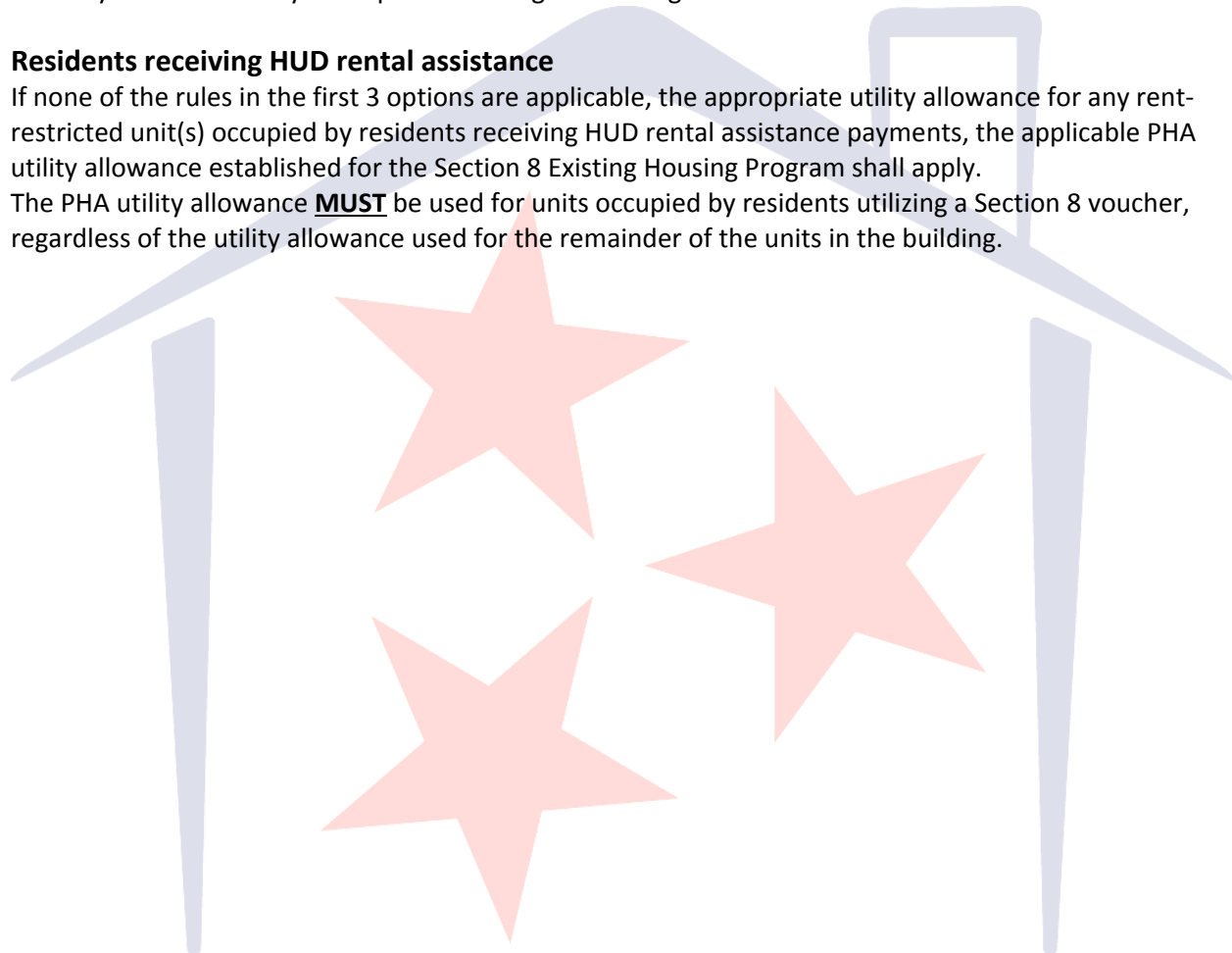
**Buildings Regulated by HUD**

Developments with property-based rental assistance where the rents and utility allowance are reviewed by HUD each year must use the applicable HUD utility allowance for all units in the building. Copies of the HUD approved utility allowance must be uploaded into THOMAS during the application process and annually. These also may be requested during monitoring reviews.

**Residents receiving HUD rental assistance**

If none of the rules in the first 3 options are applicable, the appropriate utility allowance for any rent-restricted unit(s) occupied by residents receiving HUD rental assistance payments, the applicable PHA utility allowance established for the Section 8 Existing Housing Program shall apply.

The PHA utility allowance **MUST** be used for units occupied by residents utilizing a Section 8 voucher, regardless of the utility allowance used for the remainder of the units in the building.



If none of the above are applicable, the following options are available:

### **PHA Methodology**

A PHA utility allowance from the local housing authority administering Section 8 vouchers for the area in which the property is located. Copies of the PHA utility allowance must be uploaded into THDA's Tennessee Housing Online Administration System (THOMAS) during the application process and annually. These also may be requested during monitoring reviews.

**NOTE: If THDA is the PHA, the HUD Utility Schedule Model is the method utilized to calculate the estimates and can be found on [THDA's website](#).**

### **Utility Company Estimate Methodology**

To use this option you must receive, in writing, from a local utility company (including combined rate charges from multiple companies), the estimated cost of the utilities for a similar sized unit and construction for the geographic area in which the building containing the unit is located. In cases where the residents of the building can choose between various utility providers, you only need to get rates from one of the providers. For example, if two solid waste companies serve the building and residents could choose either one of them, you only need an estimate from one of them.

Utility estimates must:

- a. Come from the local utility company.
- b. Be based on a unit of similar size and construction and not be generic information. For example, the estimate cannot base a one-bedroom apartment allowance for electric on an average residential charge that does not take into account bedroom size or the fact that it is an apartment and not a house.
- c. Take into account taxes and fees on the utilities that the resident must pay.
- d. Not be adjusted after being provided by the utility company. If an unadjusted estimate from the utility company is not usable, then another utility allowance option must be used.

When using this option you must submit to THDA:

- a. A fee of \$10.00 per unit to cover the administrative review.
- b. A cover letter that identifies the property, project identification number and states that this method is being chosen for the appropriate utilities.
- c. List of the types of units (apartment, townhome, etc.), bedroom sizes (1br, 2br, etc.), square footages of the units and what the calculated rates are for those units.
- d. A copy of all estimates provided by the local utilities companies and any supporting documentation they provided. Some sort of documentation must be provided indicating that the estimates were based upon the required information as described above.
- e. A list of all utilities the resident is responsible for paying and the utility allowance option that is being chosen for each one. This list should be broken out in the following categories:
  - i. Electric

- ii. Gas
- iii. Water
- iv. Sewer
- v. Trash collection

**All required documents and support documentation should be sent to [TNCompliance@thda.org](mailto:TNCompliance@thda.org).**

### **Agency Estimate Methodology**

All allowances provided under this method are based upon information submitted by the Owner Agent. Therefore, the owner assumes full responsibility and accepts the consequences if the information is later determined to be inaccurate.

#### **1. Property with 12 or more months of occupancy**

All properties that have been sufficiently occupied for a period of 12 or more months must provide actual expenses for the property. The request must include:

- a. A fee of \$150 to cover the administrative review.
- b. A cover letter identifying the property name, project identification number, proposed notification date and states these method for the appropriate utilities. It must also show number of units broken out by:
  - i. Type (apartment, duplex, house, etc.)
  - ii. Bedroom size (1br, 2br, etc.)
  - iii. Square footage (should be broken out if there is a difference of more than 15 percent within any category. For example, if a property has 24 two bedroom units but half are 800 square feet and half are 1,000 square feet, these units need to be shown as two separate groups and the final utility allowance for that bedroom size should include equal numbers of each of the square footage sizes).
  - iv. Proposed utility allowance for each type/bedroom size.
- c. A copy of the building status report that has been completed to coincide with the term of consumption data. For example, if the consumption data is from September 2017 through August 2018, the building status report should be completed to cover the same dates.
- d. A list of all utilities that the resident is responsible for paying and the utility allowance option that is being chosen for each one. This list should be broken out in the following categories:
  - i. Electric
  - ii. Gas
  - iii. Water

- iv. Sewer
- v. Trash collection
- e. A completed **THDA Utility Allowance Certification and Utility Worksheet** for each of the utilities utilized at the property.
- f. Documentation from the utility company detailing the rates charged, fees and taxes. If no figures are listed for fees or taxes, the documentation from the utility company must clearly indicate there are no additional fees or taxes charged to the resident. Please remember that the rates, fees, and taxes must be collected and be effective during the 60-day data compilation phase as described in a later section of this policy.
- g. 12 months of consumption data (gallons of water, kilowatts of electricity, etc.). It is assumed that trash collection will have a flat charge and not be based on volume but consumption data should be provided if the fee is based on volume. All consumption data must be 12 consecutive months for the current resident. Please see the timeline requirements as described in a later section of this policy. You cannot use information on any unit that was unoccupied for any amount of time during the year. If this is not possible due to unique circumstances, please contact THDA.
- h. A spreadsheet showing us your math (includes the formulas used to calculate the allowances). This should be a step-by-step outline of the utility allowance calculations used. Please note, all final utility allowance figures should be rounded up to the next whole dollar.

**All required documents and support documentation should be sent to [TNCompliance@thda.org](mailto:TNCompliance@thda.org).**

In determining the minimum number of units that you must submit usage data on, use this percentage for each bedroom size and type. Please show the bedroom size and type on all data submitted.

10 units or less = at least 40%

11 units or more = at least 25%

Companies generally require a release from the resident before providing utility information. The HUD Occupancy Handbook 4350.3 contains a sample form that may be used or a property may choose to draft a form.

## 2. Property without 12 consecutive months of occupancy

New properties that do not yet have an actual consumption history may request THDA provide an estimate based upon other acceptable information provided by the owner. This request must include:

- a. A fee of \$150 to cover the administrative review.
- b. A cover letter identifying the property name, project identification number, reason for a lack of 12 months consumption data, proposed notification date and states these method for the appropriate utilities. It must also show number of units broken out by:
  - i. Type (apartment, duplex, house, etc.)
  - ii. Bedroom size (1br, 2br, etc.)
  - iii. Square footage (should be broken out if there is a difference of more than 15 percent within any category. For example, if a property has 24 two bedroom units but half are 800 square feet and half are 1,000 square feet, these units need to be shown as two separate groups and the final utility allowance for that bedroom size should include equal numbers of each of the square footage sizes).
  - iv. Proposed utility allowance for each type/bedroom size.
- c. Two completed **THDA Utility Allowance Certification and Utility Worksheet** for each of the utilities utilized at the property.
  - i. One **THDA Utility Allowance Certification and Utility Worksheet** should show consumption information for similar units in the same general areas of the state (give basic information on the comparative property, name, location, age, square footage, etc.) The rate, fee and tax information should be for the subject property, not the comparative property. The utility allowance computed by this comparative spreadsheet will be the proposed utility allowance. THDA will examine the other information that was submitted to see if it should be adjusted.

All consumption data for the subject property, if any exists, should be shown on the other THDA Utility Allowance Certification and Utility along with the appropriate rates, taxes, and fees.
- d. Documentation from the utility company detailing the rates charged, fees and taxes. If no figures are listed for fees or taxes, the documentation from the utility company must clearly indicate there are no additional fees or taxes charged to the resident. Please remember that the rates, fees, and taxes must be collected and be effective during the 60-day data compilation phase as described in a later section of this policy.
- e. 12 months of consumption data on the comparative property (gallons of water, kilowatts of electricity, etc.). It is assumed that trash collection will have a flat charge and not be based on volume but consumption data should be provided if the fee is based on volume. All consumption data must be 12 consecutive months for the current resident. Please see the timeline requirements as described in a later section of this policy. You cannot use information on any unit that was unoccupied for any amount of

time during the year. If this is not possible due to unique circumstances, please contact THDA.

- f. A spreadsheet showing us your math (includes the formulas used to calculate the allowances). This should be a step-by-step outline of the utility allowance calculations used. Please note, all final utility allowance figures should be rounded up to the next whole dollar.

**All required documents and support documentation should be sent to [TNCompliance@thda.org](mailto:TNCompliance@thda.org).**

In addition to the consumption data listed above for the comparative property, available consumption data for the subject property should be submitted.

In determining the minimum number of units that you must submit usage data on, use this percentage for each bedroom size and type. Please show the bedroom size and type on all data submitted.

10 units or less = at least 40%

11 units or more = at least 25%

Companies generally require a release from the resident before providing utility information. The HUD Occupancy Handbook 4350.3 contains a sample form that may be used or a property may choose to draft a form.

## HUD Utility Schedule Model Methodology

THDA's uses the HUD Utility Schedule Model when calculating the utility allowance estimates for those areas where THDA is considered the PHA.

THDA provides estimates for five different unit types.

- a. Single Family - Also known as single family detached, this means the home is a stand-alone structure with its own lot intended for one family.
- b. Manufactured Homes – Homes built as dwelling units of at least 320 square feet in size with a permanent chassis to assure the initial and continued transportability of the home.
- c. Low Rise Apartment 2-4 Units – A multi-unit building with less than 4 units and smaller than 4 stories.
- d. Larger Apartment Buildings 5+ Units – A multi-unit building consisting of 5 or more units regardless of number of stories.
- e. Larger Apartment Buildings 5+ Units Energy Star Certified – A multi-unit building consisting of 5 or more units regardless of number of stories that is eligible to use the Energy Star Certified allowances

To be eligible to use the Larger Apartment Buildings 5+ Units ENERGY STAR Certified Utility Allowance, the following must be submitted to THDA:

- a. At Placed In Service: Documentation as submitted to the EPA by the EPA approved Licensed Professional along with copies of the Qualified New Home Certification given by ENERGY STAR.
- b. Active Properties: Annually, during the Owner's Annual Certification submission, provide copies of the ENERGY STAR certification for each building that supports the resident information submitted as part of the Owner's Annual Certification. ENERGY STAR Certifications are given on an annual basis, so a building must maintain high performance to be certified each year and eligible to continue the use of the ENERGY STAR Utility Allowance.

NOTE: If documentation to support the ENERGY STAR Utility Allowance as listed above is not submitted this will trigger non-compliance and THDA will take any necessary actions needed.

NOTE: If you received points for ENERGY STAR appliances or are required to have ENERGY STAR appliances, you are NOT automatically eligible to use the ENERGY STAR Utility Allowance.



## Energy Consumption Model Methodology

A building owner may calculate utility estimates using an energy and water and sewage consumption and analysis model (energy consumption model). The energy consumption model must, at a minimum, take into account specific factors including, but not limited to, unit size, building orientation, design and materials, mechanical systems, appliances and characteristics of the building location.

The utility consumption estimates must be calculated by either a properly licensed mechanical engineer or qualified organization. The building owner and the engineer/architect must not be related within the meanings of Section 267(b) or 707(b) of the appropriate IRS regulations.

The first year a particular energy consumption model is used on a building, the accuracy of the model must be verified using actual consumption information from the building.

Once every ten years the energy consumption model must be re-verified/calibrated with actual consumption information as described in the paragraph above. However, the owner must submit the updated utility allowance information every 12 months as described in the timeline section.

In the case of newly constructed or renovated buildings with less than 12 months of consumption data, the engineer/architect may use consumption data for the 12 month period of units of similar size and construction in the geographic area (general region of the state) in which the building containing the units is located.

However, at the next utility update when 12 months of data for the specific building are available, the energy consumption model must be verified as described above using the consumption data for that specific building. For example, a building that is being placed in service on July 1, 2019, would have a utility allowance notification date of April 2, 2019 (90 days before the implementation date). On April 2, 2020, the owner will need to submit a new utility allowance packet to THDA (for the rates to be implemented on July 1, 2020). But, the property will still not have 12 full months of consumption data for the specific building. Therefore, the energy consumption model will not be verified with the actual buildings consumption data until the owner submits a utility allowance packet on April 2, 2019. Every 12 months thereafter the property will need to complete the process of requesting an updated utility allowance but verification/calibration with actual consumption data will not be required again until 2029.

In order to use this method you must submit to THDA:

- a. A fee of \$250 to cover the administrative review.
- b. A cover letter that identifies the property, project identification number, proposed notification date and states the option choice of 8 for the appropriate utilities.
- c. List of the types of units (apartment, townhome, etc.), bedroom sizes (1br, 2br, etc.), square footages of the units and what the calculated rates are for those units.
- d. Letter from the mechanical engineer/qualified professional stating that they are not related to the owner within the meanings of Section 267(b) or 707(b) of the appropriate IRS regulations and a statement stating they are qualified under IRS regulations to conduct the study.
- e. Copies of licenses and/or certifications from the mechanical engineer/qualified professional.

- f. A complete copy of the energy consumption model projection. This should show the steps of the process, the projected consumptions, as well as the dollar amounts including taxes and fees.
- g. Copies of all supporting documentation such as letters from the utility companies showing the rates, taxes and fees.
- h. If this is the first year, or the first year of verification with actual building consumption or a re-evaluation year, please include all information associated with the verification process as described above.
- i. A list of all utilities the resident is responsible for paying and the utility allowance option that is being chosen for each one. This list should be broken out in the following categories:
  - a. Electric
  - b. Gas
  - c. Water
  - d. Sewer
  - e. Trash collection
- j. A completed **THDA Energy Consumption Certification**.

**All required documents and support documentation should be sent to [TNCompliance@thda.org](mailto:TNCompliance@thda.org).**

## Fees

All requests for approval of utility allowance under Utility Company Estimate, Agency Estimate, or Energy Consumption Model options require a fee which must be submitted at the time of the request.

***THDA will not begin the review process until fees have been received.***

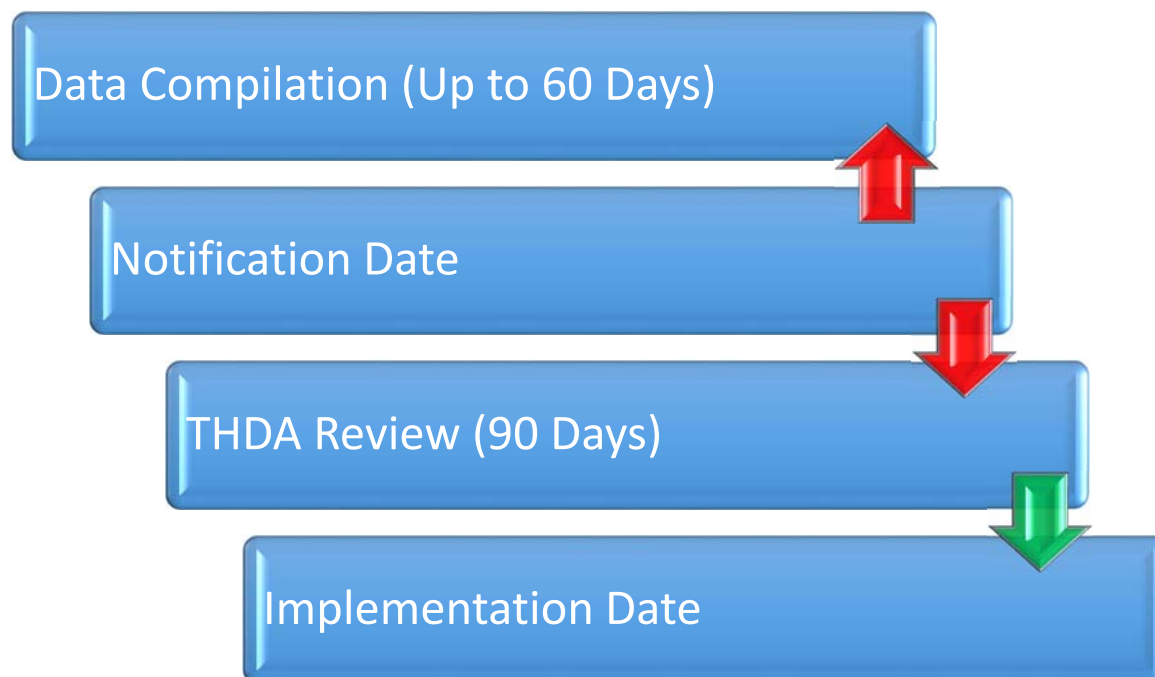
**All fees should be in the form of an electronic wire.**

Bank:	US Bank
ABA:	064000059
BNF:	THDA Clearing Account
BNF A/C:	151203673398
BNF ADDRESS:	502 Deaderick Street Andrew Jackson Bldg., 3 <sup>rd</sup> Floor Nashville, TN 37243
OBI:	Utility Allowance Fees + TN ID Number(s) noting the Utility Allowance Method

Owner Agents are encouraged to send the wire confirmation to [TNCompliance@thda.org](mailto:TNCompliance@thda.org).

## Timeline Requirements for Utility Company Estimate, Agency Estimate, and Energy Consumption Model Methods

After placing in service, Utility Company Estimate, Agency Estimate, or Energy Consumption Model options must be renewed at least once every 12 months and must be timed so that the implementation date (see explanations below) of the proposed utility allowance is 12 months or less since the implementation of the previous year's utility allowance. In general, an owner will need to start the utility allowance request process 150 days prior to the proposed implementation date (see diagram below).



### **Data Compilation Phase**

The Owner Agent must compile data and calculate the utility allowance within the 60 day time frame before the notification date (date of submitting the information to THDA and notifying the residents). The critical issue to keep in mind during this phase is that the most recent data used must be no older than 60 days prior to the notification date. This means that any utility rates used must have been collected and have an effective date during the 60 day period. For consumption information, the data must be for a 12 month period ending no earlier than 60 days prior to the notification date.



**Notification Date**

On the notification date, the Owner Agent must have sent the proposed utility allowance and all supporting documentation to THDA.

The cover letter from the owner must identify the proposed notification date, which must be on or after the date the information is received by THDA. The owner must also make the estimates available to all residents on the notification date.

**THDA Review Phase**

The notification date is day 1 of this 90 day phase. During this time frame, THDA will review the proposed utility allowance and the supporting documentation, as well as confirm that the applicable fee has been paid. THDA may ask for additional information or require that the utility allowance be recalculated in order to address shortcomings. This review does not provide the owner an assurance that the calculations were done appropriately. If deficiencies are identified, they must be resolved before implementation. Once THDA has completed a satisfactory review, an approval email will be sent indicating that it is ok to proceed with implementation.

**Implementation Date**

This is the first day after the end of the 90 day agency review phase (day 91) at which time the new utility allowance must be used to compute gross rents. **The utility allowance cannot be implemented prior to the end of the 90 day period even if the owner receives a satisfactory review notice from THDA before that time. The proposed utility allowance cannot be implemented if a satisfactory review notice is not received from THDA.**

If there are issues that prevent THDA from issuing a satisfactory review notice prior to the implementation date, the utility allowance will default to the appropriate PHA utility allowance. The PHA utility allowance would need to be used to compute gross rent until issues are resolved and THDA is able to issue a satisfactory review letter. One exception to this would be a case where a request was made earlier than necessary so that at the end of the THDA review period it is still less than 12 months since the implementation of the previous year's approved utility allowance. In that case, the previous year's utility allowance may continue to be used until it expires (12 months from implementation).

If the implementation date falls in between rent due dates, the new utility allowance must be used to calculate gross rent for the next due date for current residents. For example, if the implementation date is February 15, 2016, but rent is due on the first of the month, then the new utility allowance will not be used to calculate gross rents for current residents until March 1, 2016. However, households that are new renters as of or after the implementation date should have their gross rent calculated using the new utility allowance even if the lease signing occurs in the middle of the month. For example, if the implementation date is February 15 and on that date you have a new household rent an apartment, the gross rent should be calculated using the new utility allowance even though it will not be used for current residents until March 1.

### Proposed Utility Allowance Request Examples

1. On June 15, 2016, the owner obtains information from the appropriate utilities to calculate the utility allowance. The rates are effective as of the collection date (June 15). The consumption data is for the 12 months from May 16, 2015, to May 15, 2016. The utility allowance is calculated and information is submitted to THDA and made available to the residents on July 31, 2016. This would be unacceptable because the consumption data ended prior to 60 days before the notification date.
2. On June 15, 2016, the owner obtains information from the appropriate utilities to calculate the utility allowance. The rates are effective as of the collection date (June 15). The consumption data is for the 12 months from June 6, 2015, to June 5, 2016. The utility allowance is calculated and information is submitted to THDA and made available to the residents on July 31, 2016. During the review, THDA identifies significant issues or has questions that are not addressed in time for THDA to issue an approval prior to October 30, 2016 (implementation date). The proposed utility allowance is unacceptable and the appropriate PHA utility chart must be implemented on October 30, 2016.
3. During 2015, a property had an approved utility allowance with an implementation date of October 30, 2015. The property failed to submit a request for a new utility allowance within an appropriate time frame to get a new utility allowance implementation date on or before October 31, 2016. The property's applicable utility allowance, as of October 31, 2016, will be the appropriate PHA utility allowance until the property is able to receive an approved utility allowance through one of the other options
4. An example of an acceptable utility allowance process - On June 15, 2016, the owner obtains information from the appropriate utilities to calculate the utility allowance. The rates are effective as of the collection date (June 15). The consumption data is for the 12 months from June 6, 2015, to June 5, 2016. The utility allowance is calculated and information is submitted to THDA and made available to the residents on July 31, 2016. THDA does not identify any significant issues or questions about the utility allowance. THDA sends a notification email to the owner/manager of the acceptable review. The owner implements the new utility allowance on October 30, 2016 (first day after the 90 day THDA review period). On November 1, 2016, the new utility allowance is used to calculate gross rent for the current residents.