

Utility Allowance Energy Consumption Modeling for Low-Income Housing: Implications for the Rating Industry

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Background on the LIHTC Program

Why Energy Consumption Estimates are Important

New 2008 Regulation: Consumption Model Allowed

Factors that Make LIHTC Business Challenging to Raters

Factors that Make LIHTC Business Attractive to Raters

Contacts

The LIHTC Program

“Low-Income Housing Tax Credit”

Created in the Tax Reform Act of 1986

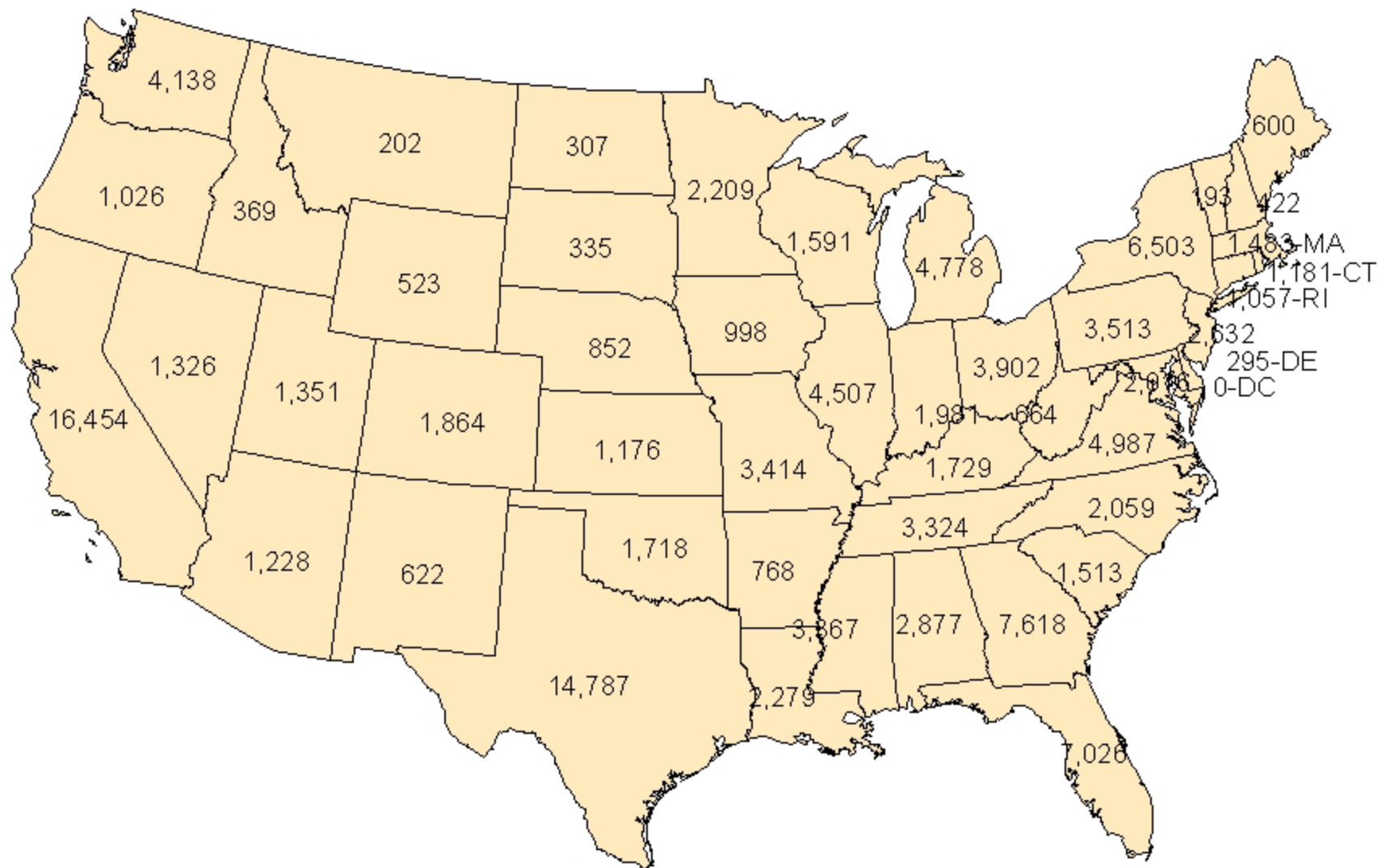
Now dominant way federal government subsidizes
affordable rental housing

State Housing Finance Agencies decide which projects
receive subsidies

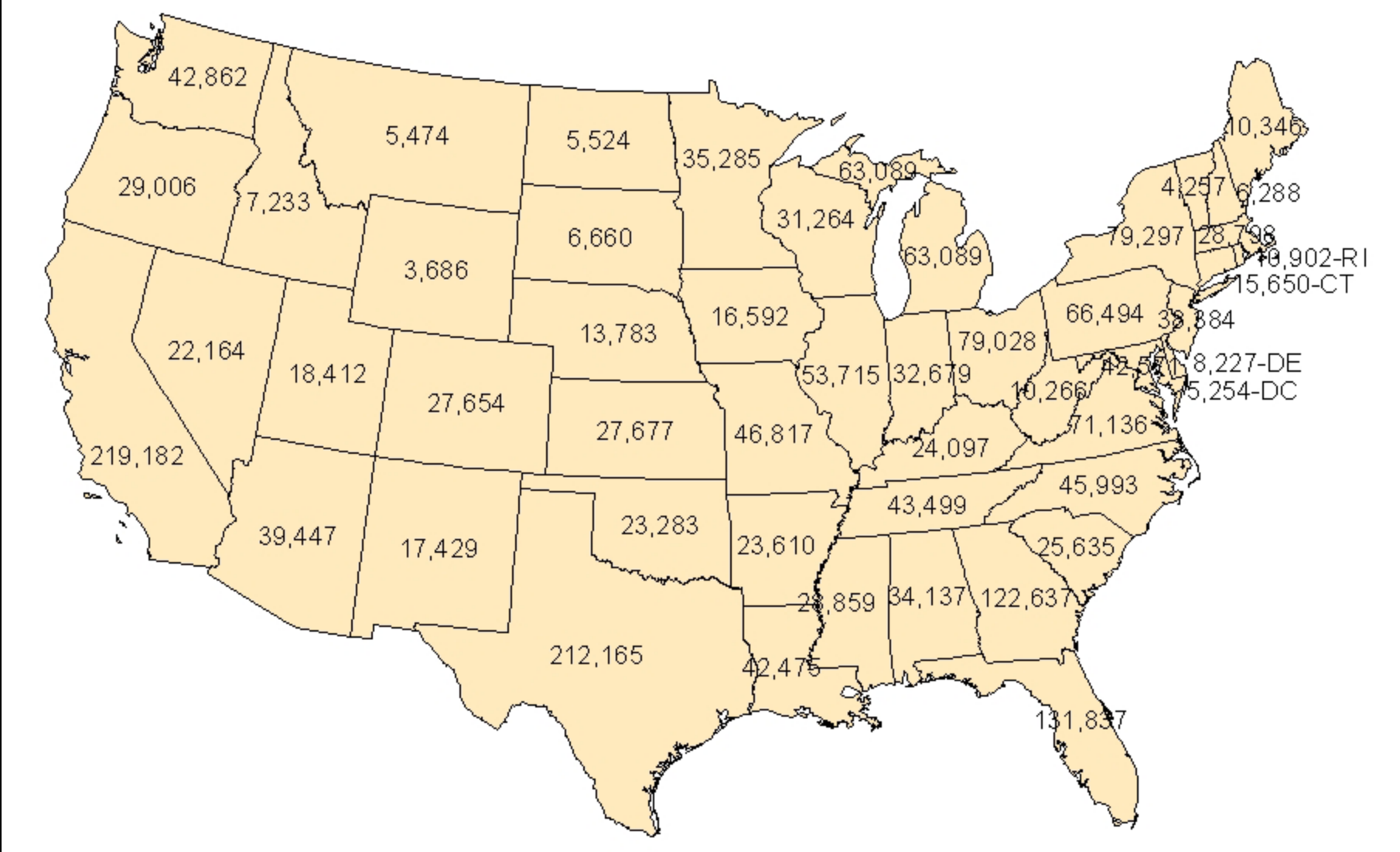
Syndication: investors who supply equity must be owners

Very complicated, but has proven to work over time

In 2006, the LIHTC Program Subsidized 131,704 Affordable Rental Housing Units



Cumulatively, the LIHTC Program Has Subsidized 2,020,017 Affordable Rental Housing Units



Energy Consumption Estimates Are Important

In all LIHTC properties where tenants pay energy utility bills (the typical case)

LIHTC program caps gross rents (including utilities)

When tenants pay utility directly a “utility allowance” must be subtracted from payment to property owners

Thus, estimate of how much a tenant would pay for energy is needed

Form 52667 and Computations

Allowances for

Garden and high rise apartments



Tenant-Furnished Utilities

and Urban Development

and Other Services

Office of Public and Indian Housing

Locality

Unit Type

Date (mm/dd/yyyy)

Garden and high rise apartments

2/18/2009

Utility or Service

Monthly Dollar Allowances

0 BR

1 BR

2 BR

3 BR

4 BR

5 BR

Heating

a. Natural Gas

b. Bottle Gas

c. Electric

d. Oil / Coal / Other

Cooking

a. Natural Gas

b. Bottle Gas

c. Electric

d. Other

Other Electric

Air Conditioning

Water Heating

a. Natural Gas

b. Bottle Gas

c. Electric

d. Oil / Coal / Other

Water

Utility Allowance Example

Houston TX in 2007:

Rent on a 2-bedroom LIHTC unit	686
Utility allowance	132
Rent payment to property owner	554

If UA too low—tenant pays excessive housing costs

If UA too high—reduced rental income for property
(o.k. if in moderation, but not if economic viability of
project threatened)

If UA doesn't incorporate savings, no incentive to make
properties energy efficient (all cost; no benefit)

History

- 2003—IRS recognizes problem with existing methods for estimating utility costs, meets with NAHB & industry partners
- April 2005—Industry coalition recommends changes
- June 2007—IRS proposed reg—allows more methods, but not energy consumption software model
- September 2007—IRS hearings, NAHB testifies in favor of model
- July 2008—Final regulation published

Final Utility Allowance Regulation

Effective January 2009

Added one option:

Energy Consumption Model. Owners may calculate utility allowances using an energy consumption model. The utility consumption estimates must be calculated by either a properly licensed engineer or a qualified professional approved by the agency.

Implication:

Potential new source of business for energy raters

LIHTC Utility Allowances: Other Methods Allowed

- Obtained from local Public Housing Authorities (original method)
- Obtained from utility company
- Computed by HUD spreadsheet model
- Any method approved by the State Housing Finance Agency
- As subset of above, HFAs may use actual consumption data

Factors That Make LIHTC Business Challenging to Energy Raters

Requires expertise in multifamily

Requires a \$ cost estimate, therefore complete billing rate information

Requires output in an unfamiliar format that the State Housing Finance Agency can easily process

Competition from alternate methods for computing utility allowances

Need to persuade State Housing Finance Agency to accept you as a qualified professional

Factors That Make LIHTC Business Attractive to Energy Raters

Stable source of repeat business: 2 million units need UAs computed every year, under conditions binding in the long term under Federal and State law

Prospect for growth: federal government provides subsidies for new units every year

Weak economy and unstable energy prices increase pressure to obtain accurate estimates

Other methods don't accurately reward energy efficiency improvements, especially for new construction

Property owners may help persuade State Housing Finance Agency that a rater is a qualified professional

Contacts

To ask about LIHTC owners/developers in a particular area:

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Web sites for Housing Finance Agencies in each state:

<http://www.ncsha.org/section.cfm/4/39/187>

HUD database with addresses & contact info for 24,000 properties:

<http://www.huduser.org/datasets/lihtc.html>

For masochists who want to talk to an economist:

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