

Utility Allowance

Implications for the Rating Industry

2009 RESNET Building Performance
Conference
New Orleans, LA

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Official Ruling

- Federal Register- July 29, 2008
- Page 43863
- Department of the Treasury
- CFR Part 1
- Section 42 Utility Allowance Regulation Update
- § 1.42-10 through 12

Problem

- Some LIHTC Property Owners don't know where to go to take advantage of modeling option
- Some LIHTC Property Owners are not aware of the new rule
- State Housing Finance Agencies are unfamiliar with energy modeling
- SFA don't know how to qualify professionals
- Raters not specifically defined in regulation

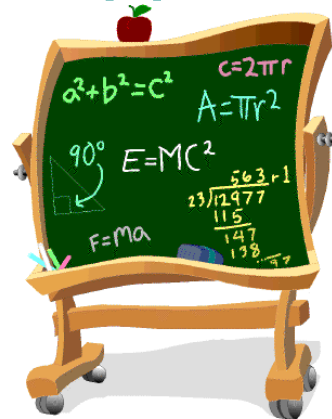
Where there are Problems...

There are opportunities...

- Both new and existing LIHTC housing is eligible
- Utility Allowances need to be recalculated every year- repeat business
- Raters have excellent qualifications
- Raters can define the process with the state housing finance agencies

Who Can Calculate Usage?

- § 1.42-10 (a)(4)(E)
- *“The utility consumption estimates must be calculated by either a properly licensed engineer or a **qualified professional approved by the Agency**”*



Housing Finance Agencies Approve Qualified Personnel

- Properly licensed engineer
- Qualified professional approved by the Agency
- The Qualified professional must not be “related” – e.g. independent third party



Licensed Engineer

- Typically referred to as a PE or a Professional Engineer
- Licensed to practice by the State
- There are many types of PE (e.g. mechanical, civil etc.)

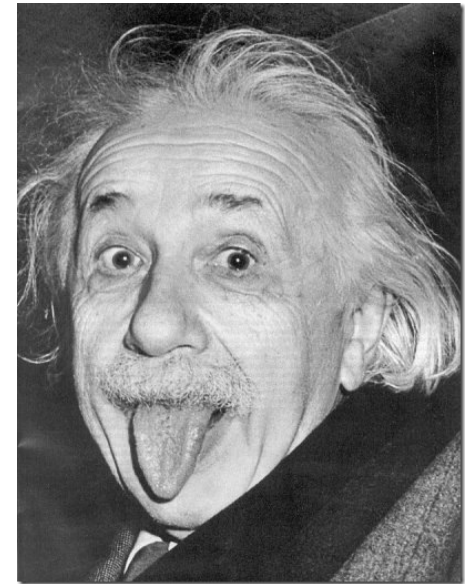


Qualified Professional

- Must be approved by the Agency
- Qualifications most likely to be approved
 - HERS Rater certified by RESNET
 - Certified Energy Manager by AEE
 - LEED Accredited Professional
 - Other certifications or experience may also be acceptable

How a Rater Can Show They are Competent?

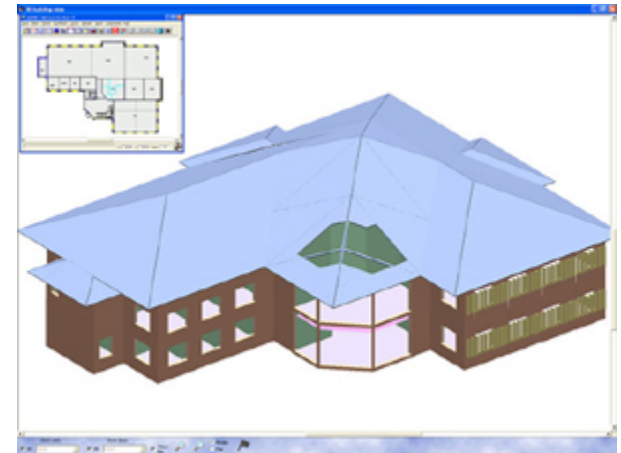
- Supply references
- Credentials
- Simulation Software
- Multi Family experience
- Equipment (e.g. Blower door, IR Camera)



Simulation Software Requirements

- Must take into account (at a minimum):
 - Unit Size
 - Building orientation
 - Design and Materials
 - Mechanical Systems
 - Building location

- Note: Water and Sewer utilities may also need to be calculated if paid for by tenants.



Simulation Software Available

- Agency has final determination on what software is permissible
- A couple applicable and reputable programs:
- REM/Rate – Energy Star, Tax Credit
- Energy Gauge- Energy Star, Tax Credit
- TREAT- Multi-Family Oriented, Wx App
- Note: This is not a complete list, merely a list of software programs that I have personally used and feel that they meet the requirements of the regulation.

Do Energy Upgrades Make Sense to Developers?

- Until this rule change, the answer was “NO”.
- Now the answer is “If it has the proper ROI”
- Developers need financing and are expected to show viability for projects in order to get a loan.



There is a Consistent Relationship Between The Price of a Multifamily Property and Rents

Rental Receipts as a Percent of Property Value		
	2-4 unit Properties	5-49 unit properties
With a Mortgage	11%	12%
Without a Mortgage	12%	12%

Source: 2001 Residential Finance Survey, U.S. Census Bureau and HUD

Do Energy Upgrades Make Sense to Developers?

- What is the proper ROI?
- Rental Receipts average about 11% of the property value.
- Equates to a (1/11) 9 year payback.
- If upgrades beyond code cost less than 9 times the annual savings, you may want to consider the improvement.



Conclusions

- New process for determining Utility Allowances
- It incentivizes low income builder/developers to construct energy efficient buildings
- Builder Developers need a resource to provide them guidance on what efficiency measures are worth while
- HFA's may need to be educated in energy modeling
- HERS Raters are well positioned to provide this service
- Annual renewals of Utility Allowances will help provide repeat business.

Any Questions?



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