



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Special Attention of:	Notice:	H
Multifamily Hub Directors	Issued:	September 2014
Multifamily Program Center Directors	Expires:	This notice remains in effect until amended, revoked, or superseded
Rural Services (RHS) Directors		
Supervisory Housing Project Managers		
Housing Project Managers		
Contract Administrators		
Multifamily Owners and Management Agents		

Subject: Methodology for Completing a Multifamily Housing Utility Analysis

I. PURPOSE

This notice provides instruction to owners and management agents (O/As) for completing their utility analysis required at the time of the annual or special adjustment of contract rents and when utility rates result in an increase of 10 percent or more from the most recently approved utility allowance. As discussed below in section III, the notice builds upon the June 2011 memorandum titled *Clarification Utility Allowance Regulations* issued by former Deputy Assistant Secretary for Multifamily Housing Programs, Carol J. Galante.

II. APPLICABILITY

This notice is applicable for the following programs:

- A. Project-based Section 8
 - 1. New Construction
 - 2. State Agency Financed
 - 3. Substantial Rehabilitation
 - 4. Section 202/8
 - 5. Rural Housing Services (RHS) Section 515/8
 - 6. Loan Management Set-Aside (LMSA)
 - 7. Property Disposition Set-Aside (PDSA)
- B. Section 101 Rent Supplement
- C. Section 202/162 Project Assistance Contract (PAC)
- D. Section 202 Project Rental Assistance Contract (PRAC)
- E. Section 202 Senior Preservation Rental Assistance Contracts (SPRAC)
- F. Section 811 PRAC
- G. Section 236
- H. Section 236 Rental Assistance Payments (RAP)

I. Section 221(d)(3) Below Market Interest Rate (BMIR)

III. BACKGROUND

The Department of Housing and Urban Development's (HUD) Office of Multifamily Housing has been working towards streamlining the methodology for utility analyses as part of a larger effort to make energy and water conservation a priority at all HUD Multifamily properties. Currently, HUD's annual outlay for utilities is more than six billion dollars a year. HUD is exploring how to make the Multifamily portfolio more energy and water efficient, to reduce O/As' operating costs and reduce HUD outlays for utilities.

The Department is a partner in the President's Better Buildings Challenge (BBC), a voluntary leadership initiative that asks building owners, developers, and managers to make a public commitment to energy efficiency. Many BBC Multifamily Partners own HUD-affiliated properties and Multifamily Housing is providing incentives to help O/As meet the BBC goal to reduce energy consumption by 20 percent over ten years across their entire portfolio. Accurate utility data collection and analysis are integral to success in the reduction of energy and water consumption. This notice is a key step in streamlining the methodology for determining utility allowances. Additionally, it is expected that the data-centered approach will offer an opportunity for O/As to reevaluate property energy usage and make efforts to conserve where feasible.

In June 2011, then Deputy Assistant Secretary for Multifamily Housing Programs, Carol J. Galante issued a memorandum to Multifamily Hub and Program Center Directors and Contract Administrators providing clarifications to existing statutes, regulations, and policies regarding utility allowances in Multifamily Housing properties, but did not identify a methodology to be used to complete a utility analysis and determine utility allowances. The memorandum clarified the following:

- Owners of multifamily housing properties that receive subsidy assistance, and for which HUD provides a utility allowance, are required to adjust their properties' utility allowances every year at the time of the annual and special adjustments of contract rents.
- Utility adjustments must be supported by a utility analysis.
- Adjustments to the utility allowance must be made regardless of whether the utility analysis shows an increase, decrease, or no change.
- Rent adjustments must be held until the owner submits the utility analysis and all other required submissions. Once submitted, the rent adjustment will be retroactively implemented.
- Owner certifications in lieu of a utility analysis are not permitted.
- As required by 24 CFR 245.405(a) and 245.410, a minimum of 30 day notice must be provided to tenants for any utility allowance decrease.
- Tenants have the right to participate in and comment on a proposed decrease in utility allowance.

- A decrease in a tenant's utility allowance does not constitute a change in total tenant payment.
- Multiple utility allowances are permitted throughout the contract year.
- A utility allowance must be increased mid-year when utility rates increase 10 percent or more from the most recently approved utility allowance.

Since the memorandum was issued, industry partners have requested that Multifamily Housing leadership provide a national standard for an acceptable analysis which will also provide an appropriate utility allowance to their tenants. To accomplish these goals, industry leaders asked Multifamily Housing to provide helpful tools to assist them in conducting a reliable analysis. These tools, which have been included in this notice or as an attachment to this notice, include a sample tenant consent form, and a directive requiring tenants to provide utility data upon request.

IV. UTILITY ANALYSIS METHODOLOGY

Multifamily properties must establish baseline utility allowances for each of their bedroom sizes once every third year which is determined by using the baseline utility analysis outlined in Section A below. For the two years after the baseline is established, O/As have the option to perform a factor-based utility analysis, as described in Section B below.

A. Baseline Utility Analysis

A baseline utility analysis makes use of the sample size methodology detailed in Section V below. To perform a baseline analysis, the O/A must perform the following steps:

1. Request utility data from either the utility company or the tenant household for at least the amount of units determined by the sample size methodology detailed below. This must be done for each bedroom size at the property. If the property consists of multiple buildings then the sampling must be performed for each bedroom size for each building.

Note: A baseline utility analysis can use a sampling greater than the HUD approved sample size.

2. Determine the average utility cost for each bedroom size without removing any units from the analysis. For example, do not remove the highest or lowest utility cost household when determining the average.
3. Recommend this amount to the contract administrator (CA) for approval.

A sample format for utility allowance submissions, which includes built in

formulas to average utility costs for each unit size, can be found as Attachment A to this notice.

Multifamily Housing recognizes the difficulties associated with obtaining utility data from utility companies and tenant households. To assist in obtaining the required sample size, a sample release of tenant utility information is attached to the notice (Attachment B). Designating a workstation in the management office for tenants to access their utility accounts and print utility information has proven to be an effective way to obtain data.

1. Implementation - Properties with Contract Anniversary Dates Within 150 Days of Publication of this Notice

Properties that fall into this category can choose to perform their upcoming annual utility analysis using either the existing methodology or the methodology outlined in this notice. If the existing methodology is used, a baseline analysis as described above must be used at the next contract anniversary date to establish baseline utility allowances.

2. Properties with Contract Anniversary Dates 150 Days after Publication of this Notice

Properties that fall into this category must perform their upcoming utility analysis using the methodology outlined in this notice.

B. Factor-Based Utility Analysis

For the two years after a baseline utility analysis is completed, the utility allowance amounts for each bedroom size and each utility at the property can be adjusted by a state-specific increase factor, the Utility Allowance Factor (UAF), provided by HUD, in lieu of a baseline utility analysis. The UAF, which can be found on the HUDUser website, is determined by considering the state specific average retail price of electricity, natural gas, water, and oil/propane for residential customers that is published by the U.S. Energy Information Administration.

After determining the property's utility analysis under the factor-based utility analysis method, O/As should compare the adjusted utility analysis to their paid utilities over the previous twelve months. If, in the O/A's determination, the results indicate a significant disparity between the two, the O/A should complete a baseline analysis to help ensure the allowance(s) provided are accurate.

C. Utility Rate Changes Outside Of The Contract Rent Adjustment Schedule
Owners are required to submit documentation and a request for an increase in utility allowances when utility rates increase by 10 percent or more from the most recently approved utility allowance. When the Owner requests an increase in

utility allowances, the Owner must submit either of the following as evidence of the rate change:

1. Utility bills from the month prior to the utility rate change and the first month after the utility rate change; or
2. Verification of the increase from the utility provider.

The utility allowances will be adjusted by the percentage increase in rate for the given utility (e.g. if the water rate has increased by 11 percent, the water portion of the utility allowance will be increased by 11 percent). If required, the Owner must still complete a baseline utility analysis at the time of contract rent adjustment. If the Owner has already performed a baseline utility analysis the previous year, and can use a factor-based utility analysis at the time of contract rent adjustment, the utility for which the rate was raised will not be adjusted by the UAF for that utility; however, all other utilities will be adjusted by the UAF.

V. UTILITY ANALYSIS SAMPLE SIZE

The O/A must use an appropriate sample size to perform a statistically accurate utility analysis. Multifamily Housing requested assistance from HUD’s Office of Policy Development and Research (PD&R) to determine the appropriate sample size. To support this study, utility analyses were obtained from properties in California, Florida, Indiana, Massachusetts, New York, North Carolina, Ohio, and Washington, DC. PD&R’s research, which used a 12 percent margin of error and a 95 percent confidence interval, resulted in the sample size rule and formula below.

- Rule:
- If $N < 20$, sample all units
 - If $21 \leq N \leq 61$, sample 20 units
 - If $N > 61$, sample n_0 using the formula below.

Formula:

$$n_0 = (z^2) * (CV^2) / (e^2 + (z^2) * (CV^2)/N)$$

N is the number of Section 8 units of a particular bedroom size
z is the value corresponding to a 95% confidence interval = 1.96
CV is the coefficient of variation of utilities, which is set at 0.34
e is the acceptable percent margin of error, which is set at 0.1

This formula has been built into the utility allowance submission template mentioned earlier and Figure 1 below shows how it translates based on the number of units per bedroom size.

Figure 1	
Number of	Minimum

Units *	Sample
1-20	All
21-61	20
62-71	21
72-83	22
84-99	23
100-120	24
121-149	25
150-191	26
192-259	27
260-388	28
389 and above	29

* Per bedroom size. If the property consists of multiple buildings then the sampling must be performed for each bedroom size for each building.

Figure 2 below illustrates how many units would be sampled using a random representation of contract units of multiple bedroom sizes within a property.

Figure 2		
Bedroom Size	Number of Contract Units	Sampling for Utility analysis
0 Bedroom	15	15
1 Bedroom	113	24
2 Bedroom	74	22
3 Bedroom	50	20
4 Bedroom	7	7
Total Units	259	88

VI. ADMINISTRATIVE PROCEDURES

Upon completion of the utility analysis outlined above, the O/A must submit the utility analysis to the CA for review and approval. HUD will serve as a resource to O/As by providing training and technical assistance where possible.

If a property utilized an energy consumption model utility allowance calculator tool available through the Housing Finance Agency to calculate the utility allowance at the time of new construction or substantial rehabilitation and later added a Section 8 Housing Assistance Payments contract to the property that is subject to the HUD utility allowance process, the O/A may use the utility allowance calculator instead of the methodology outlined in this notice.

VII. REQUIREMENTS FOR TENANT HOUSEHOLDS

A. Utility Release Sample Form

An Owner may require a tenant to sign a release for utility data in certain circumstances. For example, a utility company may require a tenant release as a condition of providing utility data. If a tenant release is necessary, the O/A will request and the tenant household is required to sign a release under 24 CFR 5.659 and/or the HUD Model Lease for Subsidized Projects. For HUD programs, the release remains applicable for the household's term of tenancy; however there may be utility providers that require a tenant's signed release form more frequently.

B. Households are required to provide utility data and documentation if requested.

In accordance with the regulation at 24 CFR 5.659 and/or the HUD Model Lease for Subsidized Projects, households must provide utility documentation as requested by the O/A and the request does not have to correspond with a household's recertification.

C. Disclosure of Utility Assistance

Households are required to disclose whether they are receiving utility assistance from sources other than HUD. O/As must ask this question at a tenant's annual recertification of income and family composition, because these assistance payments are a source of income and are included in the determination of annual income and the calculation of total tenant payment. See 24 CFR 5.609(a) and HUD Handbook 4350.3 paragraph 5-6.G.1. Households receiving utility assistance from sources other than HUD continue to receive the baseline HUD utility allowance as determined by the most recent utility analysis. Assistance that must be reported includes cash or other assistance from utility providers or other entities. Failure to disclose this income will be considered a lease violation in accordance with annual recertification requirements.

VIII. PENALTIES FOR TENANT NONCOMPLIANCE WITH SECTION VII

Failure to comply with the requirements in Section VII above is a lease violation and may result in termination of tenancy by the owner. If an owner pursues termination of tenancy, the termination must be carried out according to the requirements detailed in Chapter 8 of HUD Handbook 4350.3, REV-1.

IX. VOLUNTARY USE OF EPA'S ENERGY STAR PORTFOLIO MANAGER

O/As of Multifamily Housing properties that both receive project-based rental assistance, and for which HUD provides a utility allowance, are encouraged to use ENERGY STAR Portfolio Manager, or an equivalent online tool, to track whole-building utility data (cost and consumption). If the O/A cannot achieve whole-building data, they can utilize Portfolio Manager and follow the sampling protocol identified in this notice. ENERGY

STAR Portfolio Manager is a no-cost, secure online resource that enables O/As to benchmark, track, and manage energy and water consumption at the property and portfolio level. O/As can use EPA's ENERGY STAR Portfolio Manager to identify under-performing buildings, set investment priorities, monitor and verify efficiency improvements, receive EPA recognition for superior energy performance, and report out on building and portfolio performance.

For more information on the use of the EPA Portfolio Manager, please contact Michael Zatz at zatz.michael@epa.gov or go to <http://www.energystar.gov/buildings/facility-owners-and-managers/existing-buildings/use-portfolio-manager>.

X. INFORMATION COLLECTION

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0352. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

XI. CONTACT

For more information on the utility analysis methodology outlined in this notice, please contact Kerry Hickman, Director, Field Asset Management and Program Administration Division, Office of Asset Management and Portfolio Oversight at 202-402-3885.

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Federal Housing Commissioner