
# Utility Allowances in LIHTC: Choosing the Right Method for the Right Property

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For LIHTC owners and compliance professionals, utility allowances are more than a line item on a rent schedule. They directly affect gross rent, resident affordability, underwriting, asset performance, and compliance risk. Under Treasury Regulation §1.42-10, when a tenant pays utilities directly, the applicable utility allowance is included in gross rent for LIHTC purposes. In practical terms, every dollar of utility allowance generally reduces the maximum rent an owner may charge. An example that illustrates the impact clearly: if a three-bedroom rent limit is $825 and the utility allowance is $100, the owner may charge $725 in tenant rent; if the allowance increases to $125 at a 100-unit property, the annual income loss can be $30,000.

The federal regulation provides several utility allowance paths, but the right method depends on the property, the program layers, the residents, the state agency's policies, and the owner's operational goals. The seven methods commonly discussed in LIHTC utility allowance are Rural Housing Service, HUD, Public Housing Authority, Written Local Estimate, HUD Utility Schedule Model, Energy Consumption Model, and Actual Use/Agency Estimate.

1. Rural Housing Service utility allowance. If a building is RHS-assisted, the applicable utility allowance is the RHS-prescribed allowance for the building, even if the property also has other federal or state assistance. The same priority generally applies when a tenant in the building receives RHS rental assistance. In short, if RHS applies, RHS usually controls.

2. HUD-regulated building utility allowance. If the building is HUD-regulated and RHS does not apply, the applicable utility allowance is the HUD utility allowance for the building. This is especially important for layered properties, because LIHTC practitioners may be comfortable with Section 42 rules but less familiar with how HUD program rules drive utility allowances. The key point is that the funding and regulatory structure may determine the method before the owner ever gets to choose an alternative.

3. Public Housing Authority schedule. For many LIHTC properties, the PHA schedule is the default method. It is often quick, easy to obtain, and administratively familiar. It typically requires little site staff involvement and no resident-level data collection. The downside is that it is not property-specific and may reflect aging housing stock or broad local assumptions rather than the actual building. For newer, rehabilitated, or energy-efficient properties, the PHA allowance may be higher than the property's expected utility usage, which can unnecessarily reduce collectible


rent. PHA allowances are relatively quick and low-burden, but often not property-specific and may be among the highest utility allowance options.

4. Written Local Estimate / Local Utility Company Estimate. This method uses an estimate from the local utility provider for units of similar size and construction in the geographic area. It may be useful when a utility provider is willing and able to produce the estimate, but many providers do not offer this service, the process can be slow, and some states do not accept the method. The method can also become cumbersome if resident signatures or consultant assistance are needed.

5. HUD Utility Schedule Model. The HUD Utility Schedule Model, or HUSM, is a federally recognized LIHTC option. It can be attractive because it is publicly available, can be completed without resident involvement, and can be done internally with the right training. The challenge is that the model is only as good as the inputs. Tariffs can be difficult to locate and interpret, and users must understand unit type, unit size, utility type, location, and the correct rate schedule for each utility. The HUSM relies on outdated or defunct data not carefully reviewed since it was last designed in 2016. Under §1.42-10, utility rates used for the HUSM must be no older than the rates in place 60 days before the start of the 90-day implementation period.

6. State Agency Estimate / Actual Use approach. A state housing credit agency may provide an estimate if it agrees to do so. This method can be less expensive than some other alternatives, but the timing and process vary significantly by state. The agency estimate must account for factors such as local utility rates, property type, climate and degree-day variables, taxes and fees, building materials, and mechanical systems. The agency may also use actual utility company usage data and rates for the building, which is why this approach is often discussed alongside “actual use” concepts.

7. Energy Consumption Model. The ECM is often the most property-specific option and can be the best method for rewarding energy efficiency. The regulation describes it as an energy, water, and sewage consumption and analysis model. At a minimum, it must consider unit size, building orientation, design and materials, mechanical systems, appliances, characteristics of the building location, and available historical data. It must be calculated by a properly licensed engineer or other qualified professional, and the state agency may approve, disapprove, or require more information before allowing its use.

For owners, the ECM can be particularly valuable for new construction, substantial rehabilitation, green retrofits, high-efficiency HVAC systems, improved building envelopes, solar, and properties where the PHA schedule simply does not reflect how the building performs. The ECM is very tied to the actual site and systems, often requiring little resident involvement, and providing the best reward for energy efficiency. The ECM can come with important drawbacks: cost, lack of


architectural drawings, significant information needs, state HFA assumptions, and wide variation among engineers' models.

That last point is worth emphasizing. "Energy Consumption Model" is a term of art with meaningful latitude. The federal rule sets minimum required factors, but it does not make every ECM the same. One consultant may build a basic model around the minimum regulatory inputs, while another may dig deeply into building design, actual utility history, resident demographics, appliance performance, mechanical specifications, local climate assumptions, property operations, and prior studies. Both may call the final product an ECM, but the results can be very different.

That does not mean the goal is simply to obtain the lowest possible allowance. The goal is to obtain a defensible allowance that reflects the property, the residents, the utilities being paid, and the way the building actually performs. A strong ECM can support a lower and more favorable utility allowance for the owner, allowing more rent to be charged within LIHTC limits, while still aligning the allowance with what residents are actually likely to pay and encouraging energy-efficient design and operations.

Owners should also remember that not all methods are accepted in all states. Not every method is acceptable in every state, and you should check every state HFA's policies well before implementing. In addition, voucher households may require separate treatment because the PHA utility allowance applies to rent-restricted units occupied by tenants receiving HUD rental assistance.

Finally, be careful when outsourcing utility allowance work. Consultants and contractors are not interchangeable. Before hiring a provider, ask for referrals from other owners, management companies, syndicators, and housing credit agencies. Ask how the consultant builds the model, what data points are used, whether the work is engineer-led, how tariffs are verified, how actual usage is incorporated, how assumptions are documented, and how the final report will stand up during state agency review, investor due diligence, or an IRS compliance question.

Utility allowances sit at the intersection of compliance, resident affordability, and property economics. Choosing the right method is not just a technical exercise. It is an asset management decision, a compliance decision, and, increasingly, an energy-efficiency strategy.