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Affordable Housing Developers Get New Tool to Finance Solar Arrays in California

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As California continues to be a leader in solar energy, affordable housing developers have a new tool to help them get in the game.

The Solar on Multifamily Affordable Housing (SOMAH) program was signed into law in October 2015 under California Assembly Bill 693 to install solar arrays on existing affordable housing developments and to make energy bill savings available to low-income households.

California Public Utilities Commission, which will administer the program, issued a decision in December 2017 to create the SOMAH program. The program is expected to launch in the fourth quarter of 2018.

"The program creates an incentive for property owners to capitalize on real estate that already exists," said Michael McCloud, senior director of asset management at AMCAL Housing, a developer and operator of affordable, market-rate and student housing primarily in California, Texas and Washington. "There is a considerable amount of housing stock in the state that would benefit from renewable energy. … You've got a roof not doing anything else. It's a no-brainer."

AMCAL Housing has developed more than 65 low-income housing tax credit (LIHTC) developments (5,500 apartments) in California since the 1980s.

"This is absolutely needed. As a company that wants to be a housing leader, we are always looking for new solutions to make our housing more competitive, appealing to residents and to reduce our carbon footprint," said Milt Pratt, senior vice president of The Michaels Development Company. "We are definitely looking into the SOMAH program. … We have a large portfolio in California of multifamily, student and military housing."

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The SOMAH program is substantial.

It will do four primary things. First, it will direct up to $100 million annually from 2016 to 2026 to subsidized solar energy systems on affordable housing. The program is funded through greenhouse gas allowance auction revenues. Second, the program encourages development and installation of solar systems in California's disadvantaged communities across the state. Third, SOMAH emphasizes the goal of lowering the energy bills for affordable housing tenants. Finally, the program will develop at least 300 megawatts of installed solar generating capacity by Dec. 31, 2030.

"This is an opportunity to put solar generation as close to the end user as possible," said McCloud. AMCAL Housing identified and will submit eight developments for consideration under the SOMAH program with Promise Energy. "These are existing affordable housing developments that don't have solar on them yet. They are older projects in our portfolio. This is an opportunity for us to go back and utilize the rebate to decrease the costs of our common area [energy consumption]."

How it works

SOMAH provides fixed, upfront, capacity-based incentives for qualifying solar energy systems, based on verified solar energy system characteristics such as location, system size, shading and orientation. The amount of the rebate depends on the capacity of the installed system, the energy percentage split between tenant and common area serving-load, and the other funding resources that the project may leverage, such as the renewable energy investment tax credit (ITC) and the LIHTC.

At least 51 percent of the system's electric output must directly offset tenant energy load and be provided to tenants in the form of virtual net energy metering (VNEM) bill credits. An amount less than 50 percent will be allocated to common-area meters, which benefits affordable housing owners. The base incentive is equal to $3.20 per alternating current (AC) watt for the portion of the solar system serving tenants and $1.10 per AC watt for the portion serving common areas.

The incentive level is lower for developments that receive the federal ITC and/or LIHTC benefits. The incentive level is reduced by 30 percent if the developments receive either the ITC or the LIHTC and is reduced by 50 percent if the development receives both benefits.

SOMAH Program Incentive Rates

TAX CREDITS		$ PER AC WATT INCENTIVE	
ITC	LIHTC	TENANT	COMMON AREA
No	No	$3.20	$1.10
Yes	No	$2.25	$0.80
No	Yes	$2.25	$0.80
Yes	Yes	$1.60	$0.60

Sources: Novogradac & Company LLP, SOMAH Program

Nat Eng, partner in the Walnut Creek, Calif., office of Novogradac & Company LLP, said this program, "provides an incentive to add solar on existing affordable housing developments that would otherwise not get done." Eng said it is important that developers assess potential issues with Internal Revenue Code Section 136 when looking to use the SOMAH program.

The SOMAH incentives may cover the full cost of the portion of the photovoltaic system that offsets tenant load; however, the total SOMAH incentive payment can't exceed the full cost of the system, taking into account other non-tax-credit-based incentives the development receives.

"At $3.20, if the system is big enough it will cover the cost of the system," said Micah Spano, vice president

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of construction at Affirmed Housing, an affordable housing developer based in San Diego.

Qualifying for SOMAH

The SOMAH program can be used by existing multifamily affordable housing financed with LIHTCs; tax-exempt mortgage revenue bonds; general obligation bonds; or local, state or federal loans or grants.

To qualify for the SOMAH program, at least 80 percent of property residents must have incomes at or below 60 percent of the area median income, or be located in a disadvantaged community as identified by the California Environmental Protection Agency.

There are a number of requirements a development must meet to be eligible for the rebate program. Of the requirements, the most noteworthy include that only existing developments are eligible. Furthermore, there must be at least 10 years remaining on the term of the property's affordability restrictions. The existing property must have at least five apartments. The property must also be subject to either a deed restriction or regulatory agreement between the property owner and a financing agency under which the property is classified as affordable housing.

"There are a lot of restrictions, but we will use it when we can," said Spano.

Benefits of the Program

What makes the program unique is that tenants benefit from the rebate program–their electric bills will be reduced. This will be done through VNEM tariffs, which provide a mechanism for allocating bill credits from system generation to the residents. At least 51 percent of the system's electric output must directly offset tenant load and be provided to tenants in the form of VNEM bill credits. "Any time we can pass savings along to residents, it is a win for us," said McCloud.

Spano said this is "significant for tenants," as they will see an immediate monetary benefit from this program.

"It's a tremendous benefit for the residents. If the residents get the benefit of the solar, it gives them more disposable income to pay for things like health care, education and other necessities," Pratt. "This program takes care of residents first and real estate second. … Any program that puts money in our residents' pockets we are for."

While the primary benefits go to the tenants, owners also benefit from the program as the rebate pays to offset a development's common-area electricity. "We [owners] expect to realize a net reduction in operating expenses by virtue of on-site renewable energy solar arrays," said McCloud. "Added benefits include helping the state reach its production goals and passing savings on to residents."

Spano said this program won't work for every affordable housing development. "The monetary benefit isn't huge–especially in urban infill projects and high-rises," said Spano. "For it to work, you need large projects with a lot of common areas and a lot of places to put the solar." He added that high-rises would prove challenging because they have many units and not much roof space for solar panels. On the other hand, "for larger projects with common areas–that's something we would look at for sure." Spano added that a developer can install the solar array at little to no cost thanks to the SOMAH program.

"We have been hearing a lot of buzz about the program. … A few solar companies have approached us," said Pratt. "But the program is still in its infancy. Once the program is fully implemented, I'm sure we will get even more knocks on our door." ❖

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