



Clean Energy Investment Tax Credit Series:

Low Income Communities Bonus
(EJ Solar 20% Bonus Adder)
Category 3: Residential Building Projects

Application Tips: Developing a Draft Benefits Sharing Statement



Multifamily Housing - June 2024

Presenters

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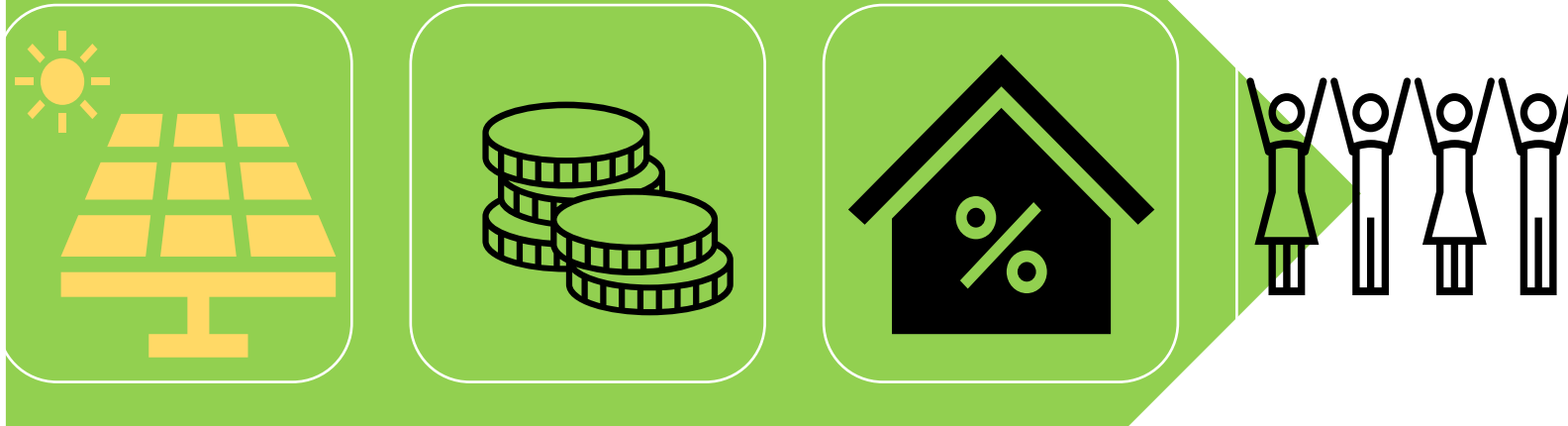
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- This presentation provides information on certain components of the Low-Income Communities Bonus Credit Program. This presentation will not cover all aspects of the Program.
- This presentation represents the views of those participating in the presentation only (HUD and certain stakeholders) and no other Federal entities.
- Please refer to the official IRS guidance (Revenue Procedure 2024-19 and Treasury Regulations 1.48(e)-1) for complete information on eligibility requirements and the application process.
- The information provided in this presentation should not be considered tax advice or tax filing support. Please consult a tax professional, accountant, or attorney if you need tax-related assistance.

Draft Benefits Sharing Agreement

- Describes how the financial benefits resulting from energy produced by solar system (over its useful life) will be 'shared' with occupants/residents of the property.
- At least 50% of financial benefits must be shared with residents
- Financial benefits do NOT have to be distributed directly to residents for them to *share* in the benefits.



Key Resource: Treasury Regulation §1.48(e)-1(e)(6) describes the requirements

Draft Benefits Sharing Agreement



Housing Notice 2023-09: Treatment of Financial Benefits to HUD-Assisted Tenants Resulting from Participation in Solar Programs

Two Example Ways to Share Benefits from HUD Guidance:

Additional support staff	Hiring of additional staff to serve residents and/or building needs. Examples include resident services staff, building security guards, leasing specialists, maintenance staff, etc.	This benefit is not annual income. Additional staff being hired to support the residents and/or building are not included in the income calculation for determining family rent or eligibility for HUD assistance.
Facility upgrades	Improvements to the building and/or its grounds. Examples include energy efficiency upgrades, playgrounds, community gardens, renovation, bike racks, etc.	This benefit is not annual income. Facility upgrades, including new building amenities, are not included in the annual income calculation for determining family rent or eligibility for HUD assistance.

Quick Tip!

Benefit has to be prospective!

For example, if you are performing roof repairs (which are part of your proposed benefit to residents), then do not undertake those repairs until you have received approval.

Draft Benefits Sharing Agreement

Financial value defined as the greater of:

- 25% of the gross financial value of the annual energy produced by the facility calculated OR
- the net financial value of the annual energy produced by the facility

Gross financial benefits are accrued from annual operational (utility cost) savings and from sale of solar renewable certificates

Net financial benefits should account for costs of financing the system as well as projected maintenance costs

Key Resource: Guidance in Question #45 in DOE's
[Program FAQs](#)

Draft Benefits Sharing Agreement



Two Projects:

- **25-unit property with a HUD Section 811 PRAC**

- [Example 1]**

- Solar Project across 8 properties (6 HUD-assisted, 2 USDA properties)
 - Shared benefit: a new service coordinator across multiple properties



- **92-unit property with a HUD Section 8 PBRA Contract [Example 2]**

- Assisted property being acquired/redeveloped through a LIHTC transaction (plus HUD GRRP award)
 - Shared benefit: substantial rehabilitation/facility upgrades

Overview of Draft Benefits Sharing Agreement

Steps:

- 1) Calculate gross financial value of annual energy produced by facility.
- 2) Calculate the net financial value of annual energy produced by the facility.
- 3) Calculate the financial value required to be allocated to building occupants.
- 4) Describe the mean through which the required financial value will be distributed to building occupants.

Quick Tip!

Treat this like it's your math homework.

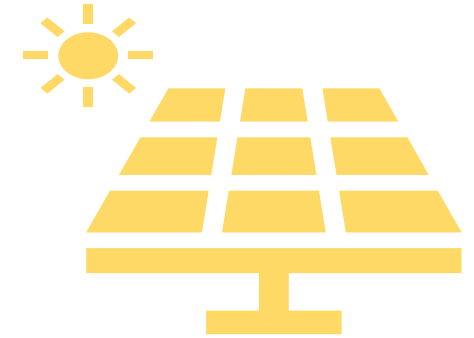
SHOW YOUR WORK!

Draft Benefits Sharing Agreement – Example 1



Projected Annual Energy Production of Solar Facility: 97,878 kWh

- *Estimated using [PV Watts](#) or another tool; Solar contractor will typically provide.*



Property's metered price of electricity: \$0.1061 per kWh

- *Utility company may list “retail electricity rate” directly on bill OR you can request this from them.*
- *Can look at last 12 months of electric bills to determine total cost of electricity, then subtract fixed charges and demand (kW) charges from total cost and divide by usage number.*

Projected electricity to be exported: \$0

- *Most roof-top multifamily solar systems are unlikely to produce electricity that exceed a property's own consumption needs.*

Projected Annual Income from Sale of Solar Renewable Energy Certificates (SRECs), if applicable: \$4,920

- *Solar contractor will be able to estimate in geographies where applicable.*

Draft Benefits Sharing Agreement – Example 1

Estimated Useful Life of Solar Facility: 25 years

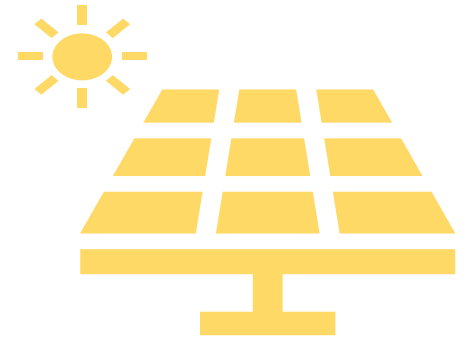
- *Industry Standard*

Projected Financing Cost of Solar Installation and System (aka 'Construction Costs'): \$298,690

- *Total Principal + Interest paid on loan over 25 years, base on useful life of facility*

Reserve for maintenance costs (including one-time inverter replacement cost): \$80,604

- Develop estimate of these costs (solar contractor can help with these)

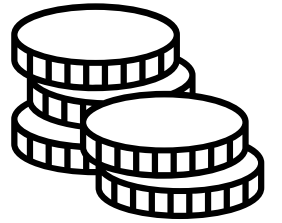


Draft Benefits Sharing Agreement – Example 1



Step 1) Calculating the gross financial value.

*SHOW YOUR MATH,
STEP-BY-STEP!*

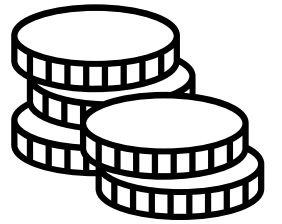


1. The Facility will generate 97,878 self-consumed kWh annually.
2. The building's metered price of electricity is \$0.1061 per kWh.
3. The Facility will generate 0 exported kWh annually.
4. The building's export compensation rate of electricity is \$0.00 per kWh.
5. The sale of SREC attributes separate from the metered electricity rate will occur in the annual amount of \$4,920.
6. **The gross financial value is $(97,878 \text{ kWh} \times \$0.1061 \text{ per kWh self-consumed}) + (0 \text{ kWh} \times \$0 \text{ per kWh exported}) + \$4,920 \text{ sale of any attributes} = \$15,300$**

Draft Benefits Sharing Agreement – Example 1

Step 2) Calculating the net financial value.

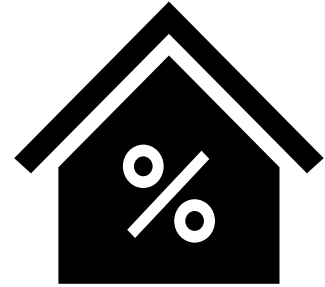
1. The useful life of the Facility is 25 years.
2. To pay for the construction of the Facility, a loan has been taken out which will have a total debt service (repayment of principal plus interest) of \$298,690.
3. The Facility Owner will also establish a reserve of \$80,604 for maintenance costs and an expected inverter replacement during the life of the Facility.
4. The annual average (or levelized) cost of the Facility is $(\$298,690 + \$80,604) / 25 = \$15,172$.
5. The net financial value is $\$15,300 - \$15,172 = \$126$



Draft Benefits Sharing Agreement – Example 1

Step 3): Calculating the financial value required to be allocated to building occupants.

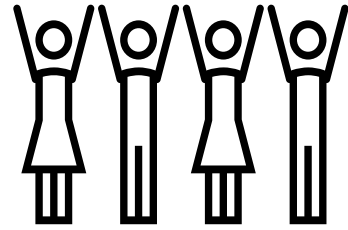
1. 25 percent of gross financial value is $\$15,300 \times 0.25 = \$3,825$
2. The net financial value is \$126
3. The financial value is the greater of 25% of gross financial value OR the net financial value, which is \$3,825
4. 50 percent of the financial value which is required to be allocated to building occupants is $\$3,825 \times 0.50 = \$1,913$



Draft Benefits Sharing Agreement – Example 1

Step 4) Describing the means through which the required financial value will be distributed to building occupants.

- The financial value of \$1,913 will not be distributed via utility bill savings.
- The Facility Owner plans to distribute the financial value by the hiring of an additional service coordinator to support residents.
- Qualified Residential Property owner is responsible for the distribution of these benefits.



Tip! Describe benefit in more narrative detail as well

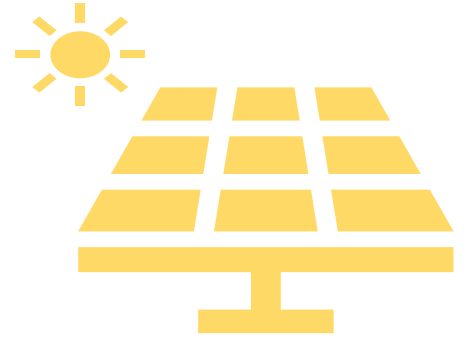
Draft Benefits Sharing Agreement – Example 2

Projected Annual Energy Production of Solar Facility: 726,300 kWh

Property's metered price of electricity: \$0.1175 per kWh

Projected electricity to be exported: \$0

Estimated Useful Life of Solar Facility: 25 years



Draft Benefits Sharing Agreement – Example 2

The gross financial value of the annual solar production is: $\$726,300 \times \$0.1175 = \$85,340/\text{year}$.

The financial benefit to the residents must be the greater of 25% of the gross solar benefit or 50% of the net solar benefit.

The **gross solar benefit** is calculated as follows: $\$85,340 \times 25\% = \$21,335/\text{year}$

The net solar benefit is calculation as follows:

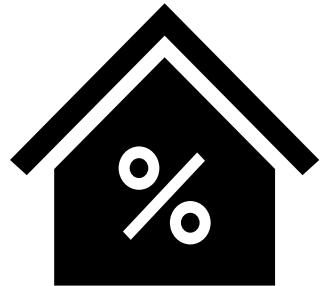
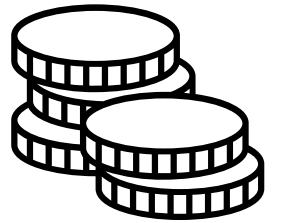
Total solar installation cost: $\$2,289,360$

Financing terms: 6.65% over 35 years = $\$168,815/\text{year}$ debt service.

The total P&I payments over the expected useful life of the system is $\$168,815 * 25 = \$2,532,225$. Annualized, this equals $\$168,815/\text{yr}$.

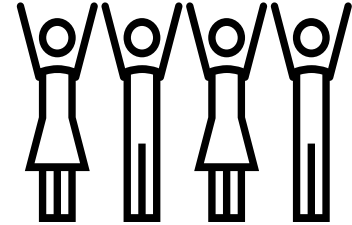
Therefore, the **net solar benefit** is: $\$85,340 - \$168,815 = (\$83,475)/\text{year}$.

Because the net solar benefit is negative, the gross benefit is the larger of the two, or $\$21,335/\text{yr}$, which is what will be used to determine resident benefits.



Draft Benefits Sharing Agreement – Example 2

Per the HUD Memo: “Treatment of Solar Benefits for Residents in Master-metered Buildings”, there are a number of ways to pass the financial benefit of the solar to the residents. Financially, the solar will power new air-sourced heat pumps that are *not* connected to resident’s private meters, yet will still provide heating/cooling to the residents at no cost. Because the previous HVAC system—electric resistive baseboard heat, was paid for by the tenants, the new system will reduce private tenant overall utility bills. However, because the tenants also receive a utility allowance equal to the average of all tenant bills, the reduced bill cost will also reduce the utility allowance by the same amount, and therefore will be financially neutral to the tenants.



The HUD memo also describes non-financial means to provide benefits to the residents including facility upgrades and increasing reserve accounts. Subtracting the cost of the solar, there are \$11,637,449 of non-solar project hard costs that will directly benefit the residents. These non-solar improvements include fully remodeled private units, new HVAC, new roofs, new common areas and so forth. If we assume a 30-year average lifespan for these improvements, this will result in $\$11,637,449 / 30 = \$387,915/\text{yr}$ in benefits for the residents. This is 18X greater than the required \$21,335/yr of resident benefits, and therefore shows the residents will receive far more financial benefit from the project than the minimum 25% of the gross solar benefit, that is required.

Application Checklist

Category 3 – Qualified Low-Income Residential Building Project

- Final executed interconnection agreement, if applicable* (FTM or BTM** >1 MW-AC).
- An executed contract for the installation of the facility owned by the applicant, an executed contract to lease the facility between the applicant (as the lessor) and the lessee, or an executed power purchase agreement (PPA) for the generation by the facility between the applicant and the offtaker of the electricity (all BTM** facilities). Please see [Rev. Proc 2024-19](#).
- If applying under Additional Selection Criteria Ownership Criteria, documentation demonstrating applicant meets Ownership Criteria. Please see [Rev. Proc 2024-19](#).
- Documentation demonstrating property will be installed on an eligible residential building.
- A Benefits Sharing Statement. Please see [Rev. Proc. 2024-19](#).

Quick tip!

*FTM= Front of the Meter
BTM= Behind the Meter*

Most residential projects are behind the meter (BTM) so this first item does not apply.

Resource:

[Application Checklist \(2024 Program Year\)](#)

Thank you!



Questions:

- If you have questions for the Office of Multifamily Housing Programs team working on solar, please send an email to AssetManagementPolicy@hud.gov with the word “**Solar**” in the Subject Line.
- If you have a question related to other HUD-supported properties or communities and their eligibility for this bonus program, we will do our best to get you to the right place as well.

Additional Program Resources:

- [2024 Program Year DOE and Treasury Webinar](#)

Solar Resources:

- [Renewable Energy Resources](#) on HUDEXchange
- [HUD Guide for Solar Energy](#)