



PV in Existing Affordable Multifamily: Finance and Logistics



MASH 201: Affordable Housing Finance for Contractors and Consultants

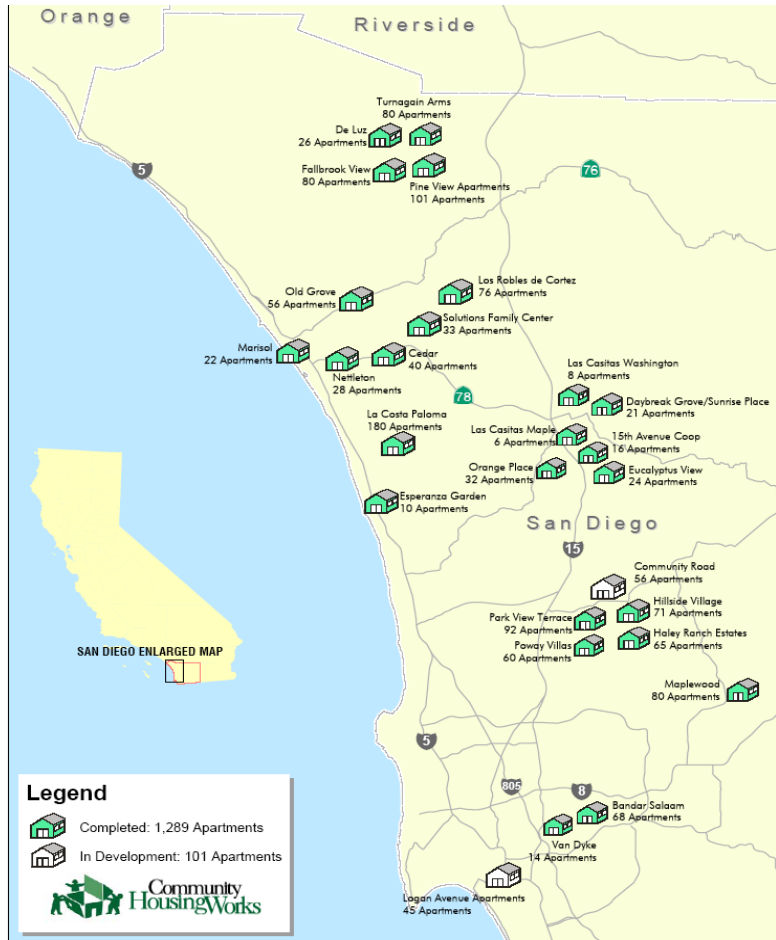
June 12, 2009



- **Introduction: Community HousingWorks**
- **Affordable Housing Finance Basics**
 - Tax Credit Financing
 - Non-Tax Credit Financing
- **Virtual Net Metering**
- **Other Sources**



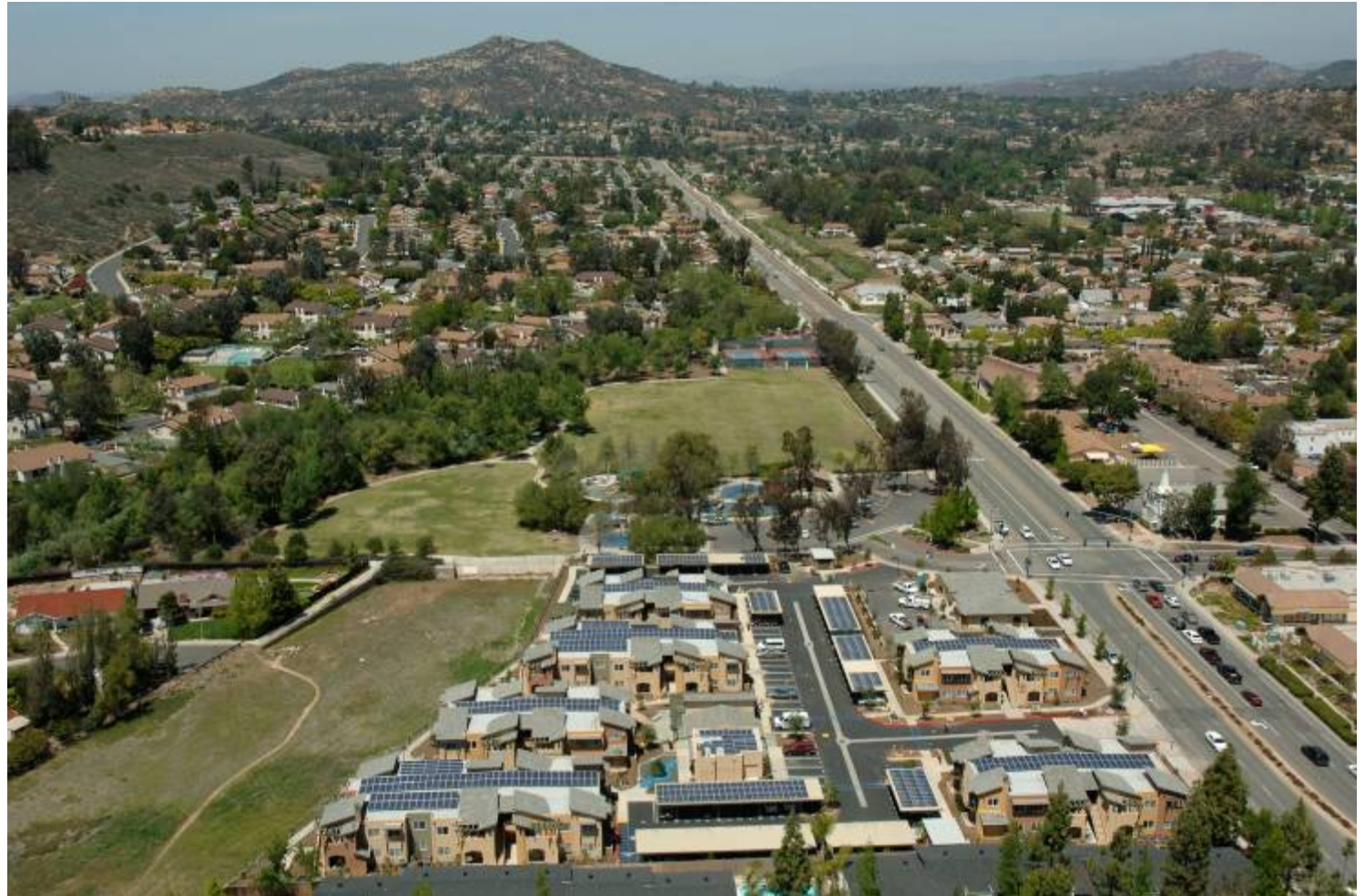
Overview: Community HousingWorks



- San Diego County
- Nonprofit, 26 years
- Over 1,600 apartment homes
- 30 apartment communities
- Part of NeighborWorks network
- National awards for design, management, Resident Services
- “Help people and neighborhoods move up in the world”



Overview: SOLARA





Overview: SOLARA

Significance of SOLARA:

- First apartment complex in CA to be fully powered by PV
- First apartment complex in CA to be a Zero Energy New Home (ZENH)
- Carbon Footprint– reduced by 95%
 - Equivalent: Planting > 5,400 trees/y
 - Equivalent: Eliminating > 300 cars/yr



Overview: SOLARA

LLI Community Catalyst Report
NUMBER 7

Environmentally Sustainable Affordable Housing

Urban Land INSTITUTE

CAREAL ESTATE JOURNAL.COM

Gold Nugget AWARDS

2008 WINNERS BOOK

AFFORDABLE HOUSING FINANCE

TOP HONORS Readers Select Best Developments

IN THIS ISSUE:
 • CAPITAL MARKETS OUTLOOK 2008
 • COMMUNITY REINVESTMENT ACT AT 30
 • REGIONAL REPORT: WEST

BEST PRACTICES DEVELOPMENT

ULI AWARD WINNING PROJECTS

United States Senate
WASHINGTON, DC 20540-0004
June 5, 2007

new US-high standard ecological goals...
 More than 50 percent of the building materials were recycled...
 Environmental Sustainability...
 URBANLAND

Best Affordable Project under 30 dollars/sq ft

By 2025, per month, people who own or parent to parent...
 The California Energy Commission calls SOLARA a model for California and U.S. developers...
 SOLARA, a new San Diego residential development...
 GRAND AWARD
 SOLARA, POWERED BY COMMUNITY HOUSING WORKS

2007 SANDEE Award Winners Announced In San Diego

Mr. Ben Reynolds
 President and Chief Executive Officer
 Community Housing Works
 6055 Miramar Avenue, Suite 550
 San Diego, California 92121

Dear Mr. Reynolds:

I am pleased to announce that you and your team have been selected as the 2007 Sandee Award Winner for Best Affordable Housing Project in San Diego.

I encourage the Community Housing Works for the excellent job you and your team have done in creating a sustainable and affordable housing project in San Diego.

Very truly yours,
 Pamela K. Patton
 Mayor
 City of San Diego





Overview: SOLARA

- 56 apartments, 2,100 sf Com Bldg
- Before LEED for Homes
- 142 kw PV
- Sharp 170, 836 panels
64 Fronius inverters
- Approx 2 miles of wire for net metering
- Approached SDGE Oct 2005 re “pooled billing”
- Total Cost = \$1.1m
Net after rebates, LIHTC and ETC approx \$50k





- Introduction: Community HousingWorks
- **Affordable Housing Finance Basics**
 - Tax Credit Financing
 - Non-Tax Credit Financing
- Virtual Net Metering
- Other Sources



Affordable Housing Finance

Why Affordable Housing?

- Sector still alive
 - Market need for affordable
 - As incomes decline, more need
- Public sector incentives for sustainability
- Builds for long run, 55+ year ownership
- Strong interest in reduced operating expenses including utilities
- Concern with “triple bottom line”– not only first costs, but “costs” to residents and environment
- Financially sophisticated industry



SOLUTIONS FAMILY CENTER
Vista, CA



HILLSIDE VILLAGE
Poway, CA

WE BUILD AND OWN BEAUTIFUL, NATIONALLY RECOGNIZED AWARD WINNING APARTMENTS.



SOLARA
Poway, CA



WE STAFF AND OPERATE COMMUNITY CENTERS FOR OUR RESIDENTS, PROVIDING RESIDENT SERVICES, EDUCATIONAL TRAINING AND PROGRAMS.



FALLBROOK VIEW VILLAGE
Fallbrook, CA

WE INCORPORATE STATE-OF-THE-ART GREEN BUILDING PRACTICES.



LA COSTA PALOMA
Carlsbad, CA



RESIDENTIAL DEVELOPMENT

CARLSBAD - SAN DIEGO NORTH COUNTY - CALIFORNIA



Affordable Housing Finance

What is Affordable Housing?

- Definitions of income vary, but for tax credits, must be 60% or under Area Median Income (AMI). Non-tax credit pegged at Low– so no more than 80% AMI.

- AMI estimated by HUD annually. 2008 San Diego County is \$72,100 (family of 4)
 - Extremely Low– 30% AMI and under
 - Very Low- 31% to 50%
 - Low- 51% to 80%
 - Moderate – 81% to 120%



Affordable Housing Finance

How are rents restricted?

- HUD study in 1950's re 30% of household income for rent/utilities
- Maximum rents are 30% of AMI (includes utilities)
- If residents pays their utility, deduct a set utility allowance
- Utility allowances set by local housing authorities, based on averages of housing stock



Affordable Housing Finance

Example Rent

- Family of 4 making \$35,000
- 48.5% AMI
- \$875/month rent including utilities
- If utility allowances are \$45/month, total rent is \$830/month
 - Assume gas and electricity
 - Can include water, trash
- CARE rates from SDG&E for utilities for some incomes



Affordable Housing Finance

Construction and Perm Finance

- Construction finance– preferential rates if tax exempt bond, or bank needs CRA credits
- Perm: Mortgage like any commercial development– but low rents restrict amount of perm loan
 - Includes Prop 1C funds– deep affordability, very low rate, long term deed restrictions of income
- Low income housing tax credits (LIHTC)- equity
- “Gap” finance- “soft loans” from City, County, state, FHLB, other– generally paid out of cash flow (except Prop 1C), low rate (3% or less)



Tax Credit Finance

What are tax credits (LIHTC)?

- Created by Tax Reform Act 1986, encourage private investment in low income housing
- IRS Code Section 42
- Tax Expenditure of Treasury- allocated benefit among states by population— 2008, \$2.30/capita.
- Qualified Allocation Plan (QAP)- rules to allocate
- In California, Tax Credit Allocation Committee (TCAC)



Tax Credit Finance

Tax Credit Requirements

- Requirements:
 - 55 year restrictions (deed restricted)
 - Minimum size units
 - If committed, amenities continue
 - Income certifications, monitoring
- Threshold basis limits – set to avoid abuses
- Incentives– basis boost of threshold basis



Tax Credit Finance

LIHTC– creation of Limited Partnership (LP)

- General Partner (GP)– sponsor/developer
 - is a non-profit, or includes a non-profit
 - Contributes 0.01% equity
- Limited Partner (LP)– tax credit investor –
 - Has tax liability to project need for tax credits
 - Contributes 99.99% equity takes advantage of tax credits
 - Has a federal tax liability to benefit from LIHTC
 - Who are investors? Financials (banks, insurance), Fannie and Freddie, oil, etc



Tax Credit Finance

LIHTC– Pricing

- 2007- could get \$1.12 for every \$1.00 tax credit
 - Strength of GP, experience, etc
 - Location of development
 - Benefits of depreciation, losses, etc
- 2009- \$0.90 is great. \$0.85 is set by TCAC. \$0.70 some investor deals
- Future?
 - Fewer investors, much choosier of markets, deals, developers
 - Congressional support by allowing LIHTC to be applied backwards



Tax Credit Finance

Example

- TPC is \$16.3m (net of land)
- Eligible basis: \$14.16m
- Exceeds Threshold Basis limits by \$2m
- So Adjusted Qualified basis is \$12.16m
- Times 9% = \$1,094,000/yr
- Times 10 years - \$10,940,000 tax credit
 - If purchased at \$1.00 = \$10.9m equity
 - If purchased at \$1.05 = \$11.49m equity
 - If purchased at \$0.85 = \$9.3m equity



Tax Credit Finance

LIHTC

9%

(capped at \$2.5m/yr for 10 years)

Competitive, usually 2 rounds/yr (in 2009, one round).

Usually new construction vs acquisition.

- unit sizes (at least 30% 3-bd to point)
- risk and windows of timing

4%

Combined w/tax exempt bonds (CDLAC)
Rolling allocation rounds annually.

Often very large development or acquisition.
Usually priced less than 9%.
Current appetite by investors low.



Tax Credit Finance

Federal Energy Tax Credits

- Investor of LIHTC can buy those as well
- Pricing may differ from LIHTC
- Complexity for separate investor





Tax Credit Finance

Relevance to PV and MASH?

- Partnerships Established and cannot refi during 15 year LP term
- Opportunity to acquire PV is at acq/rehab (9% or 4%, but usually 4% with bonds). But...
 - 4%- lower amt of equity finance
 - Currently less appetite by investors
- During the term of tax credit deal, more likely to use PPA since capital costs cannot be financed



Tax Credit Finance

Other Issues re Tax Credits

- 150 day rule for obtaining permits for TCAC (“readiness”
- CDLAC (bonds) onerous penalties if don’t close finance within 90-110 days of award. Some flexibility of starting construction
- Back-end construction completion
 - 8609- IRS form. Allows investor to obtain tax credits
 - Cost Certification, etc
 - Placed In Service (PIS) – rules, and investor requirements in the LP Agreements



Tax Credit Finance





- Introduction: Community HousingWorks
- **Affordable Housing Finance**
 - Tax Credit Financing
 - **Non-Tax Credit Financing**
- Virtual Net Metering
- Other Sources



Non-Tax Credit Financing

Other Affordable Housing

- 501c3 bonds- possible
- HUD
 - Many HUD financed apartments are not tax credit
 - New HUD program to finance “green” including renewables



ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

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

Special Attention of

All Eligible Owners
All Multifamily Housing Staff
All Office of Affordable Housing Preservation Staff
All Participating Administrative Entities

Notice H 09-02

Issued: May 13, 2009

Expires: September 30, 2012



Cross References

SUBJECT: Green Retrofit Program for Multifamily Housing (GRP)

The purpose of this Notice is to provide guidance on the Green Retrofit Program for Multifamily Housing that is described below.



- Introduction: Community HousingWorks
- Affordable Housing Finance
 - Tax Credit Financing
 - Non-Tax Credit Financing
- **Virtual Net Metering**
- Other Sources



Virtual Net Metering

Significance for PV Industry

- SOLARA- meeting with SDGE Oct 2005 re “pooled billing”
- Elimination of miles of wiring, many inverters, built out space for inverters
- Eliminates one area of reluctance for owners to use PV for apartment units vs only common area
- Affordable Housing- utility allowances still complication for use of PV in units. Project based utility allowances allowed by IRS for tax credits, will hear more for these



- Introduction: Community HousingWorks
- Affordable Housing Finance
 - Tax Credit Financing
 - Non-Tax Credit Financing
- Virtual Net Metering
- **Other Sources**



Other Sources

Involvement with Affordable Housing

- San Diego Housing Federation
 - Annual conference
 - Briefings
 - OLARA- meeting with SDGE Oct 2005 re “pooled billing”
- SCANPH – Southern California Association of Non Profit Housing-- Los Angeles, Inland Empire, OC
- Housing California- statewide
 - Involved with NSHP (CEC)
 - industry

Mary Jane Jagodzinski
MJJag@chworks.org
(619) 282-6647 Ext 5710



Building Communities. Changing Lives
. www.chworks.org