

Financing Considerations for Condo Community Solar Installations

Use the following information to understand tax impacts, system ownership structure, payback methods and other considerations that are dependent on investor type and financing method.

I. Investor Types

A. Multiple Owner Investors – Individual condo owners make financial contributions to pay for the system

- Tax credits may be available to owner-occupant investors.
- In this model, a project could be funded by some, or all, of the unit owners in a community.
- Solar percentage allocations should be aligned with the funding percentage contribution by each owner.
- If funding a project with cash or loan, a document should be developed defining the ownership structure.
- A multi-investor lease or PPA contract is not something that is prevalent in the market. Ask your contractor if they can accommodate this, otherwise you may need to designate a single person or entity who will enter into the lease or PPA contract. Internal agreement(s) between the owners and contract-signing responsible party should be formed to share liability.

B. HOA Nonprofit Investment – HOA (homeowners association) contributes funds to pay for the system

- An HOA could consider a loan to fund a system used for common-area and/or tenant loads.
- The loan can be repaid via common-area utility savings, as a portion of the HOA dues.
- A special assessment could be considered to fund a system for the entire community.
- If the system is designed to include tenant offsets, the loan will be repaid through HOA dues. If all residents pay equal HOA dues, then each resident should receive an equal allocation of the solar, regardless of the size of their unit or electrical load. If HOA dues vary on unit size, the solar percent allocations should align with those ratios. Please note that Civil Code Section 5510(b) limits reserve spending to only repair, restoration, replacement or maintenance of, or litigation involving the repair, restoration or replacement of major components that the association is obligated to repair, restore, replace or maintain. Any expenditure outside these limits is a violation of the code.

II. Financing Methods

A. Cash - Cash purchases from a condo community may be made using funds acquired through an HOA loan or from upfront capital, loan funds or funds acquired from residents through a special assessment. The investment will be recouped, and loan repaid, through utility bill savings.

B. Lease - A lease agreement entails a fixed monthly payment, ideally less than the monthly electricity bill of the condo resident or common area.

C. Power Purchase Agreement (PPA) - A PPA entails a contracted price/kWh over a duration of time. To maximize savings, the PPA price/kWh should be less than what is charged by the utility. This monthly fee may be covered by a prepaid PPA, a community loan, a special assessment or by individual resident investors.

| | CASH – Multiple Owner Investors | LEASE – Multiple Owner Investors | PPA – Multiple Owner Investors |
|--|--|--|---|
| System Ownership | Condo owners: joint ownership | Leasing company | PPA provider |
| Access to Federal Investment Tax Credit* | Yes – condo owner-occupants have access to the 30% ITC for their portion of the system cost | No | No |
| Payment Arrangements | Each owner responsible for personal loan terms, if applicable | Fixed monthly lease payments, where each owner’s portion of the lease payment amount is correlated with their assigned percentage allocation of the PV system | Monthly PPA payments, where each owner’s total will correlate with amount of kWhs allocated to their account and will vary each month |
| Additional Options | <ul style="list-style-type: none"> • Solar and energy efficiency loans • HELOC loan • PACE loan | Prepaid lease may be an option | Prepaid PPAs may be an option |
| Other Considerations O&M = operation and maintenance | <ul style="list-style-type: none"> • Can use upfront capital or loan • System owner(s) responsible for O&M • Increased property value | <ul style="list-style-type: none"> • 20-year lease duration • No upfront costs • System owner(s) responsible for O&M • Possible performance guarantees | <ul style="list-style-type: none"> • 20-year PPA duration • System owner(s) responsible for O&M • Performance guarantees |

* Internal Revenue Code 26 USC § 25D can be found at www.gpo.gov. This is a nonrefundable tax credit, meaning a filer will not get a tax refund for the amount of the tax credit that exceeds their tax liability. However, a portion of the unused tax credit may be carried over to the next tax year, if needed.

** Consult HOA rules and bylaws to determine how reserves are structured and costs are allocated.