Costs, Incentives & Financial Basics

A guidebook for property owners to help learn about SOMAH installation expenses and available options.

SOMAH

Solar on Multifamily Affordable Housing

The nation's largest investment in clean energy for affordable housing, SOMAH was created by the California Legislature to help reduce energy bills for low-income residents.

Welcome to SOMAH

California's Solar on Multifamily Affordable Housing (SOMAH) Program makes it easier and more affordable for property owners to go solar and integrate energy storage into their projects.

To help property owners, SOMAH provides complimentary whole-building Technical Assistance and Support Services (TASS) that focuses on individualized needs and makes the process as simple as possible.

This guidebook is designed to assist property owners with understanding and navigating project financing.

Motivations for going solar

- Lower operating costs for your property
- Provide solar and storage access to tenants
- Reduce energy costs for tenants
- Increase property value and appeal

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I. Program Overview

Funded through California greenhouse gas allowance auction proceeds, SOMAH has a program budget of up to $100 million annually and an overall target to install 300 megawatts of generating capacity by 2032.

SOMAH projects may only receive incentives from the investor-owned utility (IOU) in which the project is located:

- Pacific Gas and Electric Company (PG&E)
- Southern California Edison Company (SCE)
- San Diego Gas & Electric (SDG&E)
- Liberty Utilities Company
- Pacific Power

II. Property Eligibility Requirements

A multifamily affordable housing property is eligible for SOMAH if it meets the following program requirements.

- At least five (5) units.
- Deed-restricted low-income residential rental housing with at least 10 years remaining on the property's affordability restrictions, including but not limited to manufactured and mobile home properties.
- Separately metered units (master metered properties are not eligible).
- Existing housing property or undergoing retrofit.
- Satisfy one of the following:
  - 66% of property residents have incomes at or below 80% of the area median income (AMI).

  OR

  - Property is in a defined disadvantaged community (DAC that scores in the top 25% of census tracts statewide in the **CalEnviroScreen** including property that is **located on tribal land and is federally recognized**.

  OR

  - The property is owned by a California Native American tribe.

  OR

  - The property is rental housing property owned by a public housing authority or public housing agency.

III. System Costs: Getting Started

The cost of solar PV on multifamily housing varies greatly due to the many factors involved – system size and components, roof configuration and condition, type of ownership, available incentives and other site-specific factors. For integrated energy storage, the cost is calculated by multiplying the capacity of the system by the incentive rate.

The SOMAH Technical Assistance and Support Services team can help break down what to expect generally for project costs, but most important is to understand the cost and contract options provided by your chosen solar contractor.

SOMAH provides capacity-based, fixed incentives dependent on how large the solar system is and the amount of energy split between common area and tenant loads. Incentives for storage are determined by a flat rate applied to the system's energy capacity, regardless of the tenant or common area allocations.

You can anticipate that 55-100% of your solar or solar plus storage system costs will be subsidized by SOMAH depending on factors of your energy system.

After your system is installed, you and your tenants can expect lower and stabilized electricity costs for common areas and tenant units.

Cost is measured in dollars per watt

SOMAH solar incentives are determined primarily by total system size and tenant and common area energy allocations. This means a 100-kilowatt system for a 100-unit apartment complex with high tenant allocation may receive an incentive of about $285,000.

The SOMAH energy storage incentive rate is $1.10 per watt-hour times the energy capacity of the system. This means a 100-kWh could receive a $110,000 incentive.

IV. SOMAH Incentive Rates

Solar incentives rates vary based on:

- The capacity of the installed system.
- Percentage split of energy allocated between tenant and common area loads for solar.
  - A minimum of 51% must be allocated to tenants.
  - Incentives are higher for the tenant allocated portion.
- Other funding sources may lower incentive amounts
  - Federal Investment Tax Credit (ITC).*
  - Low-Income Housing Tax Credit (LIHTC).
  - Bonus credits may be available through the ITC that could reduce the eligible SOMAH incentive accordingly.

Visit our **Incentive & Finance** page to view our current rates.

*Federal clean energy ITC for solar is phasing out during 2025-26 and for energy storage beginning in 2032.

Solar incentive rate by tax credit funding and tenant/common area allocation

Tax Credits		$ per AC Watt Incentive	
ITC	LIHTC	Tenant	Common
No	No	$3.50	$1.19
Yes	No	$2.45	$0.87
No	Yes	$2.45	$0.87
Yes	Yes	$1.75	$0.65

Energy storage incentive calculation:

Energy capacity (Wh) x ($1.10/Wh) = storage incentive ($)

V. Tax Credits (ITC + LIHTC)

Your purchase of a solar PV system may be eligible for the federal investment tax credit ("ITC"), additional bonus credits enabled by the Inflation Reduction Act ("IRA") and/or the Low-Income Housing Tax Credit ("LIHTC").

If you decide to purchase a solar PV system, you may use one or a combination of options: cash, loans, and/or credits. While using credits lowers your solar PV system's out of pocket purchase costs, it will also reduce your SOMAH incentive amount.

The ITC provides a 30% baseline credit for projects under one megawatt capacity. Systems placed in service before December 31, 2027 may receive the full ITC.

- Solar projects that begin construction before July 4, 2026, are eligible to receive the ITC. Current guidance from the IRS states that projects have four years to complete the project and claim the tax credit.
- Projects that begin construction after July 4, 2026, are still eligible for the ITC if those projects complete construction and are operational by December 31, 2027.
- Storage projects can continue to access the full ITC with credits beginning to phase out for projects that have not yet started construction by January 1, 2032.

Beginning of construction guidance

Projects typically are considered to have begun construction when either 1) significant physical work begins, subject to the "physical work test" or 2) five percent or more of the project has been paid for following the "five percent safe harbor" standard.

Updated guidance from the Treasury Department removes the "five percent safe harbor" for solar projects that are larger than 1.5 megawatts.

It is recommended to work with a tax professional to monetize the ITC. If you are looking for a directory of tax professionals who have expertise in the multifamily space specific to the ITC, please connect with the SOMAH Technical Assistance (TA) team at TechAssist@CalSOMAH.org or submit a TA request form at CalSOMAH.org/TA-Request.

For more information, visit our resource ITC Changes Explained.

IV. Tax Credits (cont.)

It is also common to use a power purchase agreement ("PPA") or solar lease. This allows a third-party owner to claim the tax credits and offset a portion of the system cost for the property owner.

The ITC is based on a percentage of the total solar PV system cost. As of 2022, **nonprofits** and other tax-exempt entities may be eligible to receive the ITC as an "**elective pay" reimbursement**.

The **LIHTC** is a one-time federal tax credit for the rehabilitation of low-income affordable rental housing and can be used to offset a portion of solar PV system costs.

Please speak with a tax professional for further information on if you are eligible to benefit from these tax credits and adders.

VI. Purchase or Lease?

The SOMAH incentive may not cover the full cost of your system, and gaps can remain in funding a project. It is important to be aware of all upfront expenses, operation and maintenance costs, costs to meet energy efficiency requirements, and other charges that support installation.

You can finance the cost your project beyond the SOMAH incentive two ways. You can purchase it outright with cash or through loans, making you the system owner. Or you can obtain a lease or power purchase agreement (PPA) held by a third-party owner.

If the property owner has sufficient capital, equity, or access to affordable loans, then using such resources can close the gap. However, many choose to enter a third-party ownership (TPO) agreement. Often, TPO agreements designate the system owner to receive the SOMAH incentives overtime, which lowers the property owner's monthly payments on the PV system.

Third-Party Ownership Options

Solar Lease

- Property owner pays a fixed monthly cost.

Power Purchase Agreement (PPA)

- Property owner pays per kilowatt-hour of energy produced monthly.

Prepaid Solar PPA/Lease

- Similar to purchasing, nonprofit property owners can get loans to pay upfront and share in tax attributes.

VI. Purchase or Lease? (cont.)

What are the advantages and disadvantages of purchased vs. third-party owned system?

	Purchased	Third-Party Owned
What you are buying?	An asset	A service, usually with an option to purchase
What is included in the purchase?	Generally will not include inverter replacement, operation and maintenance or insurance, may include monitoring	Generally includes operation and maintenance, inverter replacement, insurance and monitoring
What are the tax implications?	Need to have the tax liability to make use of the federal investment tax credit (ITC); a home equity loan may be eligible for a tax deduction	Solar services provider has the tax liability for the 30% ITC and can make use of commercial depreciation tax benefits
What are the risks?	Responsible for operation and maintenance	Longevity of the solar services provider
What are the financial benefits?	Responsible for operation and maintenance	Little or no upfront cost, usually cash positive or neutral in first year

VII. Progress Payment Pathway

Sometimes it's difficult for a property owner or the solar contractor to carry the cost of an installation to project completion.

The **Progress Payment Pathway** is an additional payment option that allows for a partial incentive payment at an earlier milestone as opposed to SOMAH's standard single payment upon project completion.

This two-payment structure pays 60% of the total approved incentive upon proof of installation and mechanical completion, with the remainder of the approved incentive once the system has received permission to operate by the utility and approval of the Incentive Claim Milestone for the SOMAH application.

Progress Payment Requirements

- Have approved Proof of Project Milestone
- Be more than two months away from Incentive Claim Milestone due date
- Complete a virtual walkthrough
- Achieve mechanical completion – all solar PV equipment installed
- Can apply via PowerClerk
- Forms: Progress Payment Request & Affidavit Ensuring Tenant Education

VIII. Success Story

This case study represents how installation goals may be revised in the planning stage.

Pre-design Option 1

System size: **189.5 kW CEC AC**
Common area allocation: **28%**
Tenant area allocation: **72%**
Estimated SOMAH incentive: **$501,054**
Estimated net purchase cost: **$334.782**

- Rooftop space was inadequate to house a system capable of offsetting 100% of the total load.
- Three carport PV systems were proposed to meet the total system size.

Pre-design Option 2

System size: **120.5 kW CEC AC**
Common area allocation: **28%**
Tenant area allocation: **72%**
Estimated SOMAH incentive: **$314,746**
Estimated net purchase cost: **$51,567**

- To lower costs, the three carports were removed, thus resulting in a smaller system size.
- The common area and tenant allocations remained the same.

Location: Pacific Gas and Electric (PG&E) Service Territory
Built: 1979
Units: 101 one-bedrooms

VII. Success Story (cont.)

Pre-design Option 3 (Chosen)

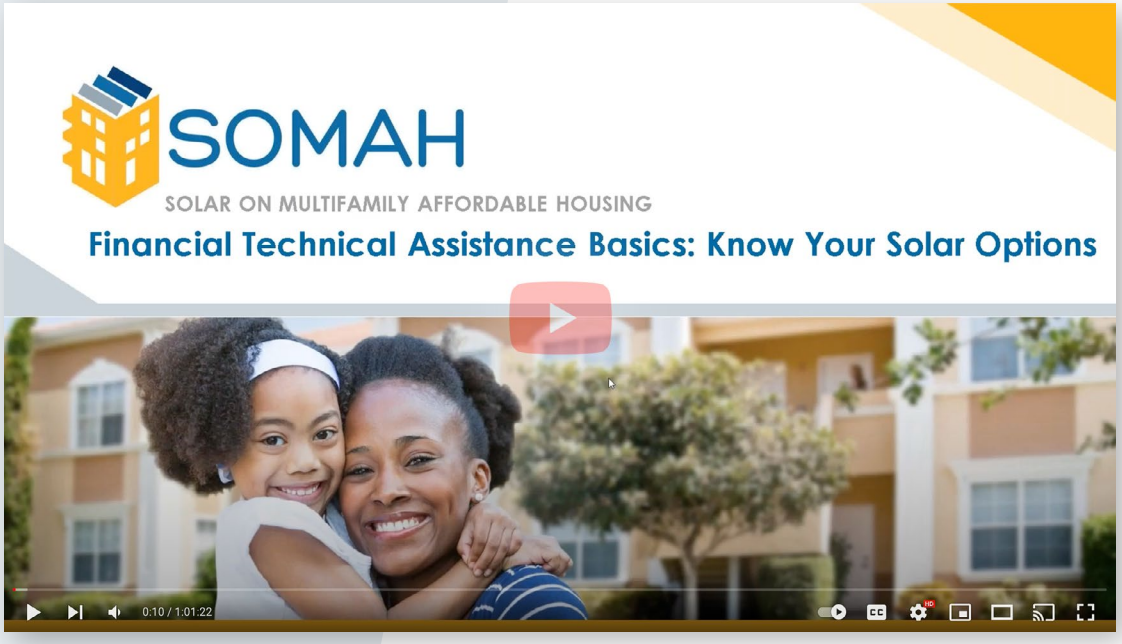
System size: **132.5 kW CEC AC**
Common area allocation: **0%**
Tenant area allocation: **100%**
Estimated SOMAH incentive: **$403,376**
Estimated net purchase cost: **$19,494**

- To achieve a lower net cost required the system to be resized and the allocations changed. The larger tenant allocation significantly increased the SOMAH incentive amount.
- The property owner was satisfied with a system plan capable of offsetting nearly 100% of the resident usage at an affordable price.

IX. Additional Resources

Check out the SOMAH resources available online:

- Watch the Financial Technical Assistance Basics: Know Your Solar Options Webinar.
- Find out what incentive your property may qualify for through SOMAH's Incentive Estimator tool.
- Want to get started on your application? Let us help! Breeze through the Upfront Technical Assistance Explained guidebook for help throughout the entire application process.



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Apply for a SOMAH incentive at
CalSOMAH.org/apply

858-244-1177 ext. 5
contact@CalSOMAH.org