



## CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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**DATE:** August 27, 2014 **REVISED**  
**TO:** Low Income Housing Tax Credit Owners Participating in Multifamily Affordable Solar Housing (MASH) and Interested Stakeholders  
**FROM:** William J. Pavão, Executive Director  
**SUBJECT:** CUAC Utility Allowance Approval for Tax Credit Projects with Photovoltaic (PV) Installation through the MASH Program

This guidance is currently limited to tax credit projects with PV system installation through the California Solar Initiative MASH Program (established in 2008 and including the program's extension with Assembly Bill 217), with systems installed that offset tenant area loads.

The California Tax Credit Allocation Committee (TCAC) has received requests from owners of existing affordable housing funded with Low Income Housing Tax Credits (project owners) to use a tenant utility allowance calculated based on the California Utility Allowance Calculator (CUAC), an energy consumption model. Projects funded with Low Income Housing Tax Credits (tax credits) are required to deduct from tenant rent an allowance for utilities paid directly by tenants (Internal Revenue Code Section 42(g)(2)(B)(ii)). Treasury regulations (26 CFR 1.42-10) permit a number of options for utility allowance estimates, including an energy consumption model. Currently the CUAC is available only to new construction and adaptive reuse housing projects. Upon request, TCAC staff met with a set of stakeholders to consider guidelines for CUAC utility allowance use by existing tax credit projects.

### Submittal Requirements

Project owners will submit the following to TCAC:

- A written request to utilize the CUAC utility allowance, including a summary of the PV system installations and the benefits accruing to the project and tenants;
- The CUAC model for the project, reviewed by a quality control firm (see Review Process below). If the quality control review is not completed at the time of submittal, it must be prior to TCAC approval;

- The project’s audited financial statements for the period since the PV installation or, if not available, the most recent audited financial statements (TCAC staff understands that the most recent financial statements could be pre-PV system installation);
- MASH Incentive Claim Form and MASH award letter;
- Documentation that the PV system offsets tenant area loads (unit loads);
- Executed two-page summary CUAC report with Quality Control documentation (see below); and
- The projected tenant rent increases resulting from the use of CUAC utility allowances. TCAC urges caution to project owners considering a general rent increase in combination with a CUAC utility allowance decrease. This combination could create tenant economic distress and should be avoided. TCAC will provide a spreadsheet to document tenant rent information (MASH CUAC Project – Tenant Rents).

Project owners must also implement a tenant notification process that includes the following, with a copy submitted to TCAC:

- An informative summary notice about the proposed allowances under the CUAC, the current utility allowance and method, and the impact on tenant rent payments. This must be provided to tenants at least 90 days prior to the effective date (Treas. Reg. 1.42-10) and include notice of the amount of the tenant rent increase;
- Supporting documentation should be available to tenants or their representatives upon request at an easily accessible location.

An annual update of the CUAC is required (Treas. Reg. 1.42-10(c)(2)) and should be submitted to TCAC. Please refer to Frequently Asked Questions for CUAC, page 3 for instructions: <http://www.treasurer.ca.gov/ctcac/2009/cuac/faq.pdf>. **The first year’s update submittal must also include a MASH CUAC Project – Tenant Rents update.**

### Review Process

1. Project owners asking to use CUAC modeled utility allowances must have a project’s CUAC verified by a quality control (QC) firm. Ideally this firm is not in the business of performing CUAC modeling (to avoid any appearance of a conflict).<sup>1</sup> When the CUAC modeling is complete, the project owner will submit the CUAC to the QC firm along with payment for services. Once this review is complete the QC firm will provide written documentation of the accuracy of the CUAC report.
2. In addition to confirming the accuracy of the CUAC modeling, TCAC staff will review project financial statements. Projects must meet the following cash flow limitations:

**Project has cash flow of 15.0% or less of residential income and a 1.50 or less debt service coverage (DCR) ratio.**

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<sup>1</sup> TCAC has procured QC services of a similar nature. If you have questions related to QC firms, please contact TCAC analyst Gina Ferguson: [gferguson@sto.ca.gov](mailto:gferguson@sto.ca.gov) or (916) 651-7707.

The project's audited financial statements should support the above cash flow limitations. Please include the calculations demonstrating this requirement.

**Cash flow** is defined per TCAC Regulation Section 10327(f): Revenue less operating expenses, property taxes, service amenity expenses borne by the project, replacement reserves, and debt service. For purposes of this calculation, "revenue" is net residential revenue and includes actual rent collected plus laundry/other revenue but does not include any income the project receives from a commercial or retail tenant. Debt service includes hard debt only, and excludes public soft debt or any debt payable from residual receipts. Operating expenses are consistent with the line items included in the TCAC application and do not include depreciation expense. Please contact TCAC staff with any questions about the financial criteria and terms used above.

Once the TCAC review is completed and the documentation approved, written confirmation will be sent to the project owner.