



**Rural Development**

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TO: Multifamily Housing Stakeholders  
Multifamily Housing Owners  
Multifamily Housing Management Agents

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SUBJECT: Section 514, 515 and 521 Multi-Family Housing Program Treatment of Financial Benefits to Tenants Resulting from the Property's Participation in Solar Programs

This notice provides guidance on the treatment of financial benefits realized by Rural Development (RD) owners or tenants resulting from either participation in a community solar program or the presence of an on-site solar facility.<sup>1</sup> Specifically, it addresses whether and how such financial benefits are to be factored into the property's annual utility allowance analysis and/or tenant income calculations. It covers the following scenarios:

- A. Electricity is individually metered, and the tenant receives a financial benefit (a virtual net metering credit) that appears as a negative amount on the tenant's electricity bill.
- B. Electricity is individually metered or sub-metered, but it is administratively infeasible or not legally possible for the financial benefit to be distributed via individual discounts on tenants' electricity bills, so the owner must find another means of distributing the financial benefits.
- C. Electricity is master-metered, such that residents do not receive individual electricity bills, and the owner must find another means of distributing the financial benefits.

**Background**

Many community solar programs and on-site solar incentive programs stipulate that financial benefits must be distributed to tenants as a condition of program eligibility. For tenants of RD properties, whether they receive a direct financial benefit (i.e., a credit on their electricity bill) or an indirect financial benefit (i.e., a financial benefit distributed not via an individual meter but by an owner), the question is whether the financial benefit must be factored into the tenant's utility allowance or included in the tenant's annual income; either outcome would reduce the value of the financial benefit. Owners who wish to participate in programs that require the distribution of

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<sup>1</sup> This guidance could also apply to financial benefits resulting from other, similar programs, such as a qualified solar and wind facility as defined at 26 U.S.C. § 48(e)(2).

financial benefits to tenants must therefore be mindful about existing guidance for utility allowance analysis and income calculations.

Community solar programs provide people residing in properties that may be unsuitable for solar panels with the opportunity to subscribe to community solar arrays. Subscribers then receive credits on their utility bills that are directly attributable to the solar project's energy generation. These subscribers may be tenants who receive financial benefits directly, either through individual metering or sub-metering, or owners of master-metered properties, who must then distribute such financial benefits to tenants. With respect to on-site solar, where electricity does not pass through a meter, owners must distribute financial benefits to tenants irrespective of whether tenant units are individually metered.

Many tools made available at the federal level to finance or fund renewable energy projects at multifamily properties require that energy cost savings (i.e., financial benefits) be distributed to residents. The Inflation Reduction Act (IRA), for example, expanded or created several programs to finance solar facilities, including some targeted to affordable multifamily housing. The IRA amended the investment tax credit for energy property (ITC),<sup>2</sup> by adding the "Low-Income Communities Bonus Program," an additional allocated tax credit for certain solar and wind facilities. A facility that is part of "qualified low-income residential building project" requires that the facility's financial benefits be distributed to the participating property's residents.

In accordance with [7 CFR 3560.202\(d\)](#) and [Handbook 2-3560, 7.3](#), when tenants pay some or all of their utility costs themselves, owners must establish a utility allowance to determine the amount tenants pay toward rent. The utility allowance is deducted from the total shelter cost calculated for the tenant, and the difference is paid by the tenant as rent.

### **Terminology**

- A. "Community Solar" is any solar project or purchasing program within a geographic area in which the benefits of the project flow to customers such as individuals, businesses, and not-for-profit organizations. In most cases, customers benefit from electricity generated by solar panels at an off-site array.<sup>3</sup>
- B. "Individual Metering" is when individual households in a multifamily housing development have a unique account with their electricity provider and receive an individual electricity bill reflective of their consumption.
- C. "Master Metering" is when a single meter measures the total amount of electricity consumption for a multifamily housing development. The owner/manager of the property receives one total bill for each billing period.
- D. "Sub-metering" is when a single meter allows for the monitoring of usage on individual electricity or other costs past a Master Meter.
- E. "Net Metering" is when community solar participants receive a credit on their electricity bill. "Virtual net metering" is when the solar array is located off-site and not directly connected to the participant's home electrical system.

<sup>2</sup> See 26 U.S.C. § 48.

<sup>3</sup> For more information, visit the "Community Solar Basics" web page at <https://www.energy.gov/eere/solar/community-solar-basics>.

### **Determining the Effect to the Property's Annual Utility Allowance Analysis**

When the electricity is individually metered or sub-metered, and the tenant receives a virtual net energy metering credit as part of the community solar or on-site solar facility, the solar credits must be considered in the annual utility allowance analysis (i.e., a decrease in the tenant's monthly utility costs).

If the credit reduces the cost of energy consumption by lowering actual utility rates, then the owner is required to use the credit as a reduction in the annual utility allowance analysis. For example, if the credit amount fluctuates every month based on consumption of energy, (i.e., not based on solar output) and/or the electric bill shows a lowered utility rate per kilowatt hour, then the credit is tied to the cost of utility consumption. The owner is required to use the credit as a reduction in unit's cost during the property's annual utility allowance analysis.

If the credit is from a third-party payment (i.e., not from the electricity provider) on behalf of the tenant rather than a reduction in the cost of utilities, then the credit is not considered to reduce the cost of energy consumption. The owner is not required to use the credit as a reduction in the unit's cost during the property's annual utility allowance analysis.

A copy of the tenant's utility bill(s) may be needed to understand the effect of a community solar credit on a unit's utility allowance calculation. The solar credit will appear as a negative amount on the tenant's electricity bill.

### **Determining the Effect on Tenants Annual Income Calculations**

Some multifamily buildings are master-metered, meaning tenants do not receive an individual electric bill. In addition, electricity may be individually metered or sub-metered, but it is administratively infeasible or not legally possible to distribute financial benefits directly to the tenant. Solar programs and incentives may allow owners to distribute financial benefits to tenants through alternative delivery models such as providing direct cash benefits. In these instances, [Handbook 2-3560, Attachment 6-A](#) must be utilized to determine if the source of income (tenant financial benefit) is included or excluded in the tenant's annual income calculation.

### **Further Information**

To learn more about rooftop and community solar offerings and programs in your jurisdiction, visit the U.S. Department of Energy's website on solar energy resources for consumers at <https://www.energy.gov/eere/solar/solar-energy-resources-consumers>. You can also find more information about GRRP at <https://www.hud.gov/grp>.

For HUD-assisted tenants, further guidance is provided in the HUD Notice titled, "Treatment of Financial Benefits to HUD-Assisted Tenants Resulting from Participation in Solar Programs."

If you have questions regarding this guidance, you may contact the project's assigned servicing specialist in the MFH Field Operations Division. The assigned specialist can be found on the Agency's website at <https://www.sc.egov.usda.gov/data/MFH.html> by selecting the link under the heading **Multifamily Housing 514 & 515 Property Assignments**.