School Solar Ownership Models:
Federal Funding Opens New Opportunities

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Public schools anchor entire communities. Not only are they where students spend the majority of their time outside the home, they provide jobs for more than 6 million people and serve neighborhoods in myriad ways—as polling places, sports facilities, community health clinics, and more. At the same time, due to decades of disinvestment, public school infrastructure is often outmoded and energy-inefficient.

Public schools are uniquely positioned to lead—and reap the benefits of—the green transition, from cost savings to ensuring school buildings demonstrate the possibilities of a decarbonized, healthy future. Undertaking large-scale capital projects can be challenging for most districts, and the complexity of these projects can slow down uptake at the district level. However, school administrators, organizers, and workers now have a range of options for transitioning to solar energy. The Inflation Reduction Act (IRA), passed in August 2022, provides funding and financing for solar projects as well as new opportunities to maximize the long-term economic and social benefits of decarbonization.

This is a guide to three options for financing a solar transition: (1) private ownership of solar infrastructure managed through power purchase agreements with third-party developers, (2) direct school ownership, and (3) green bank or state finance authority ownership. Although each district will have unique priorities, school districts should look beyond the status quo of power purchase agreements (PPAs) with third parties and instead embrace the benefits and incentives of the IRA, which facilitates public ownership via either direct ownership or collaboration with state financial institutions.

We recommend that:

- School districts in states with a willing and able green bank **should** pursue state financing and ownership of school solar across the school district's entire portfolio. Green bank financing reduces or eliminates the administrative and financial burden on schools, allows state institutions to develop and manage projects across the entire portfolio, and ensures favorable rates and savings for districts.
- In the absence of a state financial institution to partner with, schools should explore direct ownership of their solar power system. The Inflation Reduction Act allows school districts to be reimbursed for up to 70% of all solar project costs via direct payments from the IRS. In addition to direct pay, there are many additional federal funding and financing opportunities available because of the IRA.
- If neither of these options are feasible, schools can receive desired savings and environmental benefits through a power purchase agreement (PPA) with a third-party developer. Should a district choose this model, it is crucial that decision makers negotiate a favorable agreement that maximizes their savings.
- Finally, when requesting solar feasibility and cost assessments, school districts should ask to see an analysis that includes both cash payment and PPA options.

The Status Quo: Power Purchase Agreement with Private Developer

A solar power purchase agreement (PPA) is made with a third party—typically a private developer—who owns, operates, and maintains the solar power system. The "host" of the solar power system, in this case the school, acts as a customer and agrees to purchase energy from the third party over a predetermined period.

PROS

- No upfront capital costs to school districts
- Immediate net savings (since districts pay nothing upfront, they are likely to realize immediate savings on electric bills)
- No operational or maintenance responsibilities for the district during the agreement term
- Predetermined electricity rates for term of contract (typically about 15 to 20 years)

CONS

- More expensive in the long term relative to other options
    - Less cost savings than direct ownership because the host receives no direct pay or other incentives
    - Commitment to buy electricity from a third party
    - If net metering is allowed in the state, third party receives the revenue from energy sales
- May have to pay two utility bills if system does not meet 100% of energy needs
- Complex negotiations and potentially higher transaction costs than buying panels outright, as the school district will need to negotiate a fair agreement with the third party
- Site lease may limit ability to make changes to property that would affect photovoltaic (PV) system performance or access
- PPAs are only allowed in 30 states due to state regulation

IRA-Supported Direct Ownership by School Districts

School districts can lower administrative costs and increase cost savings by drawing from public money to finance school district solar projects.

PROS	CONS
• Public schools have full control over the assets • Public schools receive 100% of energy savings associated with solar energy installation, which can be passed on to meet other district needs over the long term • Public schools are guaranteed to receive solar renewable energy credit (SREC) income • School receives up to 70% cash reimbursement for the cost of implementing renewable energy as a tax credit from the IRS via Direct Pay • Public schools receive net metering revenue, meaning schools can generate additional revenue by selling excess solar energy back to the grid (depending on state, local, and utility context) • Can be done in all 50 states, regardless of whether or not a green bank or other state finance authority is available to backstop funding	• Upfront investment costs • Schools are responsible for maintenance and operating costs (though these expenses could be contracted out) • Schools need internal expertise and capacity to coordinate or provide oversight of development and maintenance, as well as filing with the IRS to receive direct pay

Green Bank or State Finance Authority Owns Solar

In states with willing and capable green banks or state finance authorities, the school district can hand off the task of financing and developing solar power projects to those institutions, thereby mitigating districts' financial and administrative burdens and making it easier to pursue larger-scale portfolios across multiple districts.

PROS	CONS

• Project aggregation lowers overall financing costs; school has no debt burden
• Minimal administrative and operational burden for schools, as the state handles operations and maintenance (a benefit for the lowest-wealth districts in particular)
• Green banks can standardize the rooftop solar development landscape through large project pipelines and hiring prequalified contractors, making it easier for districts to pursue projects across their entire portfolio
• Green banks can access large amounts of cheap public financing, including from the Department of Energy's Loan Program Office (LPO) and the Greenhouse Gas Reduction Fund
• Green banks can centralize administration of direct pay filings and payments from the IRS
• Schools still receive energy savings, which they can translate into free cash flow for spending on other priorities
• School ownership of energy assets still possible
	• Can only be done in states where a green bank is willing and available to partner
	  o Some green banks do not have enough cash on hand to finance solar projects without additional appropriations or grants
	  o Green bank leadership may be nervous to take on significant capital expenditure and instead may prefer to provide guarantees, credit enhancements, and technical assistance
	  o Green bank must have adequate policies in place to hire contractors and issue RFIs/RFPs as necessary
	• Project success may depend on state government buy-in, adding potential time and labor to navigate political processes across state agencies and school districts interested in participating