

Volume XXIII
No. 1
October 2007

KEY POST

**Sunsational Schools:
Harnessing Financing to Go Solar**

How to LEED with Green

SBA Reaches Pinnacle

GO FOR THE GREEN!

FUNDING SCHOOL DISTRICT SOLAR PROJECTS

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School districts are always on the lookout for extra money to build into their already strained budgets. For a few forward-thinking districts, that “green” has come in the form of solar energy. As unpredictable increases in utility costs can wreak havoc on a district’s budget, many school districts are taking a proactive approach and investing in solar projects.

Some districts start small and place solar panels on a single school to keep utility costs under control. Others have undertaken large-scale projects, such as the Toms River Regional School District. The largest solar project in New Jersey, Toms River has completed seven schools and hopes to have each of their 20 school and administration buildings operating under the sun’s power.

In either case, it is in a district’s best interest to explore the untapped resource. With the funding available to offset the cost of the solar project along with the energy cost savings going forward, the opportunity to have cutting-edge technology and a “green” project as a focal point in the school’s curriculum is a win-win situation for the school district.

FINANCING ALTERNATIVES

Solar projects can be financed by: (1) negotiating a lease-purchase; (2) entering into a power purchase agreement with a solar provider; and (3) long-term financing of a school construction project through school district bonds.

1. Lease-Purchase

When a district wants to fund a smaller solar project, the lease-purchase option may provide the best alternative. The primary benefits of the lease-purchase agreement are that the district can avoid a down payment and still secure the project without having to go out for voter approval. While lease-purchase agreements are generally limited to five years, there is pending legislation that advocates hope will extend the term of the lease for up to 15 years. County improvement authorities hosting pooled



Solar panels installed on the roof of the Hooper Avenue Elementary School in the Toms River Regional School District provide an alternative energy source to power the building.

loans are another way to minimize costs of issuance for leasing.

2. Power Purchase Agreements

A power purchase agreement is a negotiated contract with a solar provider to have solar panels placed on the roof of a school building, but the provider retains ownership of the equipment. In essence, the district is leasing the space on the school roof to the vendor in return for discounted energy bills from the power generated. Like a lease-purchase, power purchase agreements are generally constrained by a five-year term. Benefits from rebates and revenues from the sale of excess energy credits are typically retained by the owner of the solar equipment.

3. School District Bonds

Financing a larger project may warrant issuing school district bonds. A benefit of financing through bonds is the ability to spread the debt service payments out over the life of the project. Typically solar panels have a useful life of 25 to 30 years. Once plans for the solar project are approved by the district, the New Jersey Department of Education will determine its eligible costs. As a school construction project, it may be approved for up to 40% state funding. Since the days of receiving upfront grants from the State/SCC may

have passed, the district can expect to receive up to 40% in debt service aid (or the corresponding percentage of eligible costs approved). In order to issue bonds, a school district needs voter approval. Bonds are issued for the total cost of the project. The annual debt service aid pays the debt service payments on the bonds, which is roughly the same net effect as having received it as a grant.

NJBPU REBATES AND SOLAR RENEWAL ENERGY CREDITS (SRECs)

The availability of rebates and credits are instrumental to school districts embarking on a solar project. Many school districts have taken advantage of the rebates offered through the New Jersey Board of Public Utilities (NJBPU) Clean Energy Program. There is a “cap” on the amount of rebates which can range from \$500,000 to \$5 million based on the size of the district. Advocates for school districts are lobbying for caps to be raised further so that every school district in the state can reap the financial, educational and environmental benefits of a solar project for its students.

Solar Renewal Energy Credits (SRECs) are certificates issued by utility companies when a solar project produces excess energy that is sold back to be used by other consumers, also known as “reverse metering”. SRECs received by the school districts depend on how many kilowatts of energy are generated beyond what the schools need. SRECs can provide an additional revenue source that will not only help to pay off the project or fund additional school solar projects, but will increase a district’s revenue base.

SAMPLE FUNDING CALCULATION

\$10 million project (i.e., solar panels for 4-6 schools:)

Issuance of Bonds:	\$10,000,000
Debt Service Aid	(4,000,000)
Rebates from NJBPU	<u>(500,000)</u>
Initial Costs	\$5,500,000
SRECs sold annually (\$500,000/yr x 5yrs)	(2,500,000)
Energy Savings (\$200,000/yr x 5yrs)	<u>(1,000,000)</u>
	\$2,000,000

In just five years, a district could potentially fund 80% of the project outside of their budget.

Note: Assumptions regarding debt service aid received, rebates available, average price of SRECs and energy costs are estimates and will vary with each district’s project. Bonds must be gross-funded for the total amount of the project.

OTHER INCENTIVES

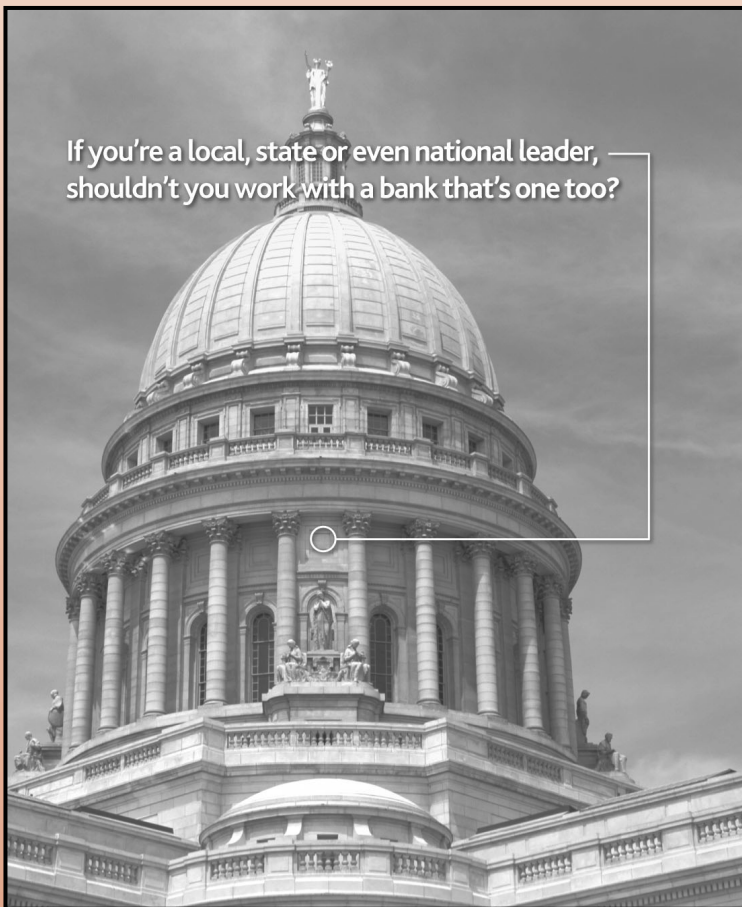
In 2005, the Federal Energy Act authorized a federal program for interest-free bonds with the issuance of Clean Renewable Energy Bonds (CREBs). The IRS has approved a few New Jersey school district projects under this program, though none have issued CREBs to date. It is not certain how long this program will be available, but districts that are interested in long-term financing should consider applying if there is a 2008 program. CREBs can potentially offer districts another option for financing.

GREEN PROJECTS IN THE SCHOOL CURRICULUM

Integrating the solar project into a school’s curriculum certainly boosts a “hands-on” science department. Students witness first-

hand the effects of the sun’s energy, the technology monitoring the flow of energy from the circuits and the fluctuations based on weather conditions. In the Toms River schools, kiosks are centrally located so that students can read each day how many kilowatts of energy the solar panels are generating at any given time. The kiosks also report on how many thousands of homes could be powered by the solar energy generated by their school. They also measure the volume of pollutants relative to carbon dioxide and sulfur that is eliminated in the air by the reduction of electric energy.

Environmentally-conscious projects put school districts on the cutting-edge of technology while demonstrating that the school administration is doing all they can both financially and environmentally for its students. Investing in a project that will ultimately pay for itself and incur substantial savings in future energy bills exemplifies that the district is conscientious and is exploring every avenue to save taxpayer dollars. It’s simply a matter of sitting down and working out the numbers to see if a solar project works for your district.



Governments are faced with choices and challenges: funding mandates; priorities for budgets; constituent demands; legislative surprises – it’s never been easy to help improve our communities, but we can help make it easier.

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