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Investing in solar: A look at the financial options

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You've probably seen a lot of news recently about solar PV (photovoltaic) installations by businesses and organizations across Massachusetts. Maybe you're even wondering "How did they pay for that?" Like other investments, solar systems do sometimes have upfront costs, but with today's state and federal incentives, coupled with some creative lending options, the return on investment (ROI) can often be recouped in the first few years of ownership - a real boon, because the lifespan of solar PV systems is usually around 25 years. Even better, for non-profit organizations and institutions, solar can be installed for zero upfront costs, while at the same time saving the organization thousands of dollars annually on energy bills.

Let's look at some of the ways solar systems are being financed in Massachusetts:

- 1: Business or property owner purchases the solar PV system outright using capital funds. Capital funds refers to money that the business has set aside for the purchase of capital/fixed assets, such as land, buildings or manufacturing equipment. As an investment in infrastructure, solar is a capital expenditure and funds set aside for this purpose can be used for the installation of solar PV systems.
- 2: Business or property owner finances the system via a traditional bank loan, a capital lease or operating lease. These financing methods are quite common for businesses that do not have capital funds readily available. Because of the success of solar projects to date in Massachusetts, and the solidity of and confidence in the state's SREC (Solar Renewable Energy Certificates) and upcoming SREC II programs, third-party loans can be secured -- and not just from traditional bank sources. Third-party financing companies have emerged and are working with businesses both to secure loans and as partners in Power Purchase Agreements (PPAs), explained below.
- 3: Organization enters a financial agreement -- called a PPA -- with a third-party financier under which the financier leases the roof or ground space from the business or organization, owns and maintains the system, and sells the electricity generated at a reduced rate. This format is generally utilized when a non-profit organization (church, municipality, school, college or other non-profit) is interested in deploying solar but does not have access to capital and is ineligible for federal investment tax credits (ITCs) or for a company that has decided to deploy its capital or credit elsewhere.

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