

Federal Government to Reimburse Schools for up to 50% for Clean Energy Projects

Building healthier schools is within reach. Up to half the cost of a clean energy project at your school could be refunded to the district under the federal Inflation Reduction Act. Tax-exempt entities such as public schools can receive “direct pay” (also known as “elective pay”). In simple terms, direct pay lets school districts recoup a significant portion of a clean energy project’s

cost as a cash payment from the U.S. Internal Revenue Service (IRS). Historically, it wasn’t possible for schools and other tax-exempt entities to take advantage of clean energy tax credits. Now, thanks to direct pay, these entities can receive the full value of the tax credit as cash payment once a project is placed in service.

Benefits of Clean Energy Projects

- Save energy and money;
- Reduce carbon emissions meeting local and national climate goals;
- Create climate resilient hubs and emergency shelters as we face more extreme weather due to climate change;
- Clean up our air, reduce asthma and save money with EV charging and clean school buses;
- Make our learning environments healthier; and
- Improve staff retention, student test scores, and educational outcomes.

Relevant Projects Eligible for Direct Pay Tax Credits

- Solar
- Geothermal
- Battery storage
- EV charging
- Clean school buses



How it Works: Up to 50% Reimbursement for Clean Energy Projects

An eligible project can receive up to 30% of a clean energy project’s cost as a base credit. The location of the project will determine if it qualifies for an “energy communities” bonus credit that is an additional 10% and/or a bonus credit for solar or wind projects, which is worth an additional 10%.

Energy communities have had a significant job loss in the fossil fuel economy. This includes the closure of a coal mine or coal-fired power plant or having a brownfield site.

Low-income communities are those census tracts with a poverty rate of at least 20 percent or those that are located on federally recognized Tribal lands.

Lastly, projects can qualify for a domestic content bonus credit if they procure materials (like solar panel components, for example) that are made in the U.S. This domestic content bonus is also a 10% credit that stacks with the base and any additional bonus credit. Importantly, projects over 1 megawatt in generation must ensure they meet the domestic content standards to qualify for direct pay, but most schools will be under this threshold.

30% base credit + 10% qualifying community credit + 10% domestic content = 50%

Timing

Once a clean energy project is complete and operational a reimbursement can be processed. For example, if a school pre-registered the project, got the registration number from the IRS for the project,

and then completed the clean energy project in 2023, it will receive the payment in 2024 (Figure 1). Essentially, the IRS will treat it like the school is entitled to a tax refund.

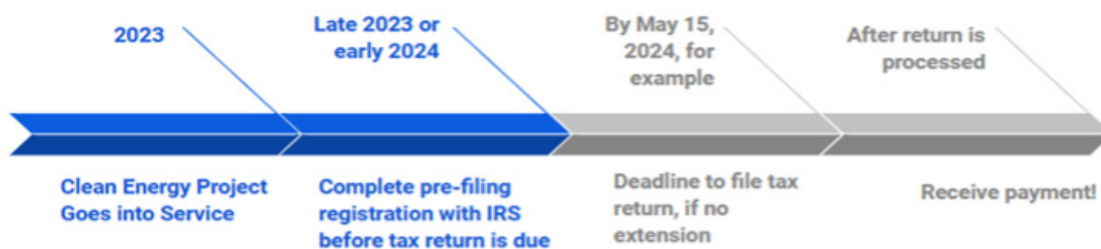


Figure 1: Example Timeline – School Clean Energy Project Placed into Service in 2023

Case Study: Solar to Salaries

Schools across the country are looking into how solar and other forms of clean energy can save on monthly costs. In Arkansas, a school district that paired solar installation with energy efficiency upgrades—including improved lighting, windows, heating and cooling—and

went from a \$250k budget deficit to \$1.8 million surplus in just three years. These energy cost savings are now being put towards increasing teacher salaries by \$3,000 and are inspiring 20 other school districts to follow suit.¹

Next Steps

- 1. Build your support network:** Reach out to your state energy office, state education agency, local sustainability office, utility representative, or school construction authority to learn about additional available funds, incentives, lessons learned, and for technical assistance.
- 2. Identify other green needs:** This may include efficient lighting, windows and doors, improved insulation or updated HVAC as part of a holistic retrofit that will ensure deeper energy savings, complement the clean energy project and will be eligible for additional funding streams such as:
 - a. Green banks, Community Development Finance Institutions (CDFI);
 - b. State energy programs and revolving funds;
 - c. Energy Savings Companies (ESCOs), companies that manage holistic retrofits for schools and others; and/or
 - d. Federal Grants like the U.S. Department of Energy Renew America's Schools Grants and Elementary and Secondary School Emergency Relief Fund (ESSER III).
- 3. Develop comprehensive upgrade plans:** Work with your community to create a comprehensive plan for upgrading school buildings that will meet the academic and health needs of students and staff, increase energy savings for the district, and improve climate resilience to use this once-in-a-generation federal funding.

Additional Resources

BlueGreen Alliance's [Direct Pay User Guide](#) for Schools and Nonprofits gives more details on qualifying for clean energy project reimbursements.

BlueGreen Alliance's [Public Buildings Roadmap](#) examines additional federal funding available for schools.

BlueGreen Alliance's [Domestic Content User Guide](#) shows you how to meet the requirements to qualify for direct pay.

1 Vote Solar, It's time to fund resilient Florida schools. Available online: <https://votesolar.org/bipartisan-solutions-for-resilient-florida-schools/>