AFT Climate Action

BLUEGREEN ALLIANCE

Direct Pay: Supporting Decarbonization of Our Public Schools

Through the Inflation Reduction Act of 2022, clean energy tax credits for technologies such as solar, geothermal and EV charging are now accessible to public schools and other tax-exempt entities. This is possible through what is known as direct pay, where public schools and other tax-exempt entities can get reimbursed up to 50 percent for the cost of clean energy projects once projects are completed.

What Is Direct Pay?

In simple terms, direct pay (also known as elective pay) is a mechanism that lets tax-exempt entities, including school districts, to recoup a significant portion of the cost of a clean energy project as a reimbursement from the IRS. Historically, it wasn't possible for schools and other tax-exempt entities to take advantage of clean energy tax credits. Now, thanks to the Inflation Reduction Act and the novel inclusion of direct pay, public (and other tax-exempt) schools can receive the full value of a clean energy tax credit as cash payment once a project is placed in service.

What Qualifies for Direct Pay?

There are a total of 12 clean energy tax credits where direct pay is applicable. However, the clean energy tax credit most relevant to school buildings is the Clean Electricity Investment Tax Credit (48E/48), while 30C for EV charging stations and 45W for EV school buses are also relevant for schools.

- Solar panels (48E)
- Battery storage (48E)
- Thermal energy storage (48E)
- Geothermal heat pumps (48)
- EV charging stations (30C)
- EV school buses (45W)

HVAC sidenote: Recognizing that many public schools are in need of HVAC replacements, it is worth noting that geothermal heat pump systems (also referred to as ground source heat pumps) would serve as replacements for traditional HVAC systems and can cut energy bills by up to 65 percent.[i] In addition, heat pumps can provide improved indoor air quality and provide better temperature control.

The Payoffs

- Direct pay reimbursements can be reinvested back into the school district to help cover expenses such as operational, maintenance, capital and staffing costs.
- Additional money coming from annual energy savings from installing clean energy technologies can also be used toward budgetary deficits.
- Improvements in indoor air quality and better indoor temperature control can reduce indoor contaminants, boosting student performance and reducing sick days.[ii]
- Clean and healthy school environments are key to employee satisfaction, well-being and retention.[iii]

- Schools powered by renewable energy and battery storage can double as climate-resilient emergency shelters as we face more extreme weather due to climate change.
- Upgrading school buildings will create good jobs and job training opportunities (including career and technical education) for our communities.

Recommended Next Steps

1. Build your support network: Reach out to your state energy office, state education agency, local sustainability office and/or school construction authority to learn about additional available funds, see local examples and get technical assistance.

2. Identify upfront financing: This may include state grant programs (e.g., Pennsylvania's Solar for Schools grant), utility rebates, state green banks, credit unions, community development finance institutions and energy service companies.

Energy cost savings can be reinvested in staff salaries. For example, a school district in Batesville, Ark., was able to raise teacher salaries by up to 30 percent because of electricity bill savings from its solar array.[iv]

Additional Resources

- BlueGreen Alliance: Making Clean Energy Tax Credits Deliver for the Public
- UndauntedK12: Schools and Elective Pay
- Lawyers for Good Government: Clean Energy Tax Navigator

Additional Considerations

With the shifting priorities of a new administration, the clean energy tax credits may become a target. Here's what we know: Since the passage of the Inflation Reduction Act, many schools have taken advantage of direct pay, and as recently as late January 2025 have received reimbursement checks from the IRS. Additionally, because these clean energy tax credits are the law of the land, any attempt to challenge these credits must be done by passing a new law through Congress and not through executive orders. To stay to up date on the continued availability of direct pay, go here.

For questions or to learn more about direct pay, contact:

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[i] www.energy.gov/eere/articles/5-things-you-should-know-about-geothermal-heat-pumps
[ii] www.epa.gov/iaq-schools/how-does-indoor-air-quality-impact-student-health-and-academic-performance
[iii] www.centerforgreenschools.org/about/green-school-buildings-better-for-teachers-students
[iv] www.kristv.com/news/local-news/solar-panel-saves-arkansas-school-enough-for-teachers-get-up-to-15k-in-raises#:~:text=In%20Batesville%2C%20by%20simply%20installing%20around%201%2C500,Clean%20energy%20does%20indeed%20pay%20it%20seems.