Commercial Solar Financing: Leasing vs Owning

One of the biggest concerns of anyone going solar is the upfront cost and/or how to finance it. With commercial solar systems, you basically have four main options:

- Purchase with Cash or a Loan
- Solar Lease
- Solar Power Purchase Agreement (Solar PPA)
- Commercial Property Assessed Clean Energy (PACE)

Purchase with Cash or a Loan

If you have the capital, paying for a commercial solar system with cash is the most cost-effective way to go solar. RBS Solar's commercial financial analysis tools can give you specific numbers, but it's not uncommon to achieve payback in 5 to 7 years. After that, you'll be decreasing your operating costs with free solar power for the remaining life of your solar installation. Since solar PV systems last 25 years or longer, those savings could be significant.

The other advantages of a cash purchase:

- You receive the Federal Investment Tax Credit (ITC), which reduces your system cost by 26%.
- You'll get another IRS tax deduction in the form of Modified Accelerated Cost Recovery System (MACRS), which accelerates the depreciation of the solar installation over a 5-year period.
- You'll receive any available state or utility rebates or tax credits.
- You'll collect the proceeds from the sale of any available Solar Renewable Energy Credits (SRECs) generated by the solar system.

These same advantages apply for a business loan, although the payback will be slower due to interest charges. However, with today's low interest rates, your ROI and IRR should still be substantial.

Aside from the upfront cost, the only real down side of the cash purchase is the fact that your business is responsible for operations and maintenance (O & M). The good news is that solar maintenance costs are minimal, requiring occasional cleaning of the solar panels and replacing the inverter every 12 to 15 years. If you'd rather not handle these issues, you can always contract with RBS Solar for O & M services.

Solar Lease

There are two common types of commercial solar leases. The first, a Capital Lease (aka Finance/Non-Tax/Buyout), is like a long-term loan with a small buyout payment, typically $1, at the end of the term. The second type, an Operating Lease (aka Tax/True/FMV), is the most common type, so we'll focus on that:

The Operating Lease's biggest advantages are that there are no or very little upfront costs for installing the system and the client does not need tax appetite. Therefore, your business cash flow will stay fluid, and you can use your capital for other investments. On top of that, you'll still save 10% to 15% off your electric bill with a solar lease. Other advantages:

- Off balance sheet accounting treatment and lease payments can be deducted as an operating expense.
- Faster path to system ownership and greater long-term savings than a Solar PPA, typical lease terms are 7-9 years in length.

A solar lease is a great deal if you want to save working capital or don't have the necessary tax appetite to take advantage of the ITC and depreciation. However, there are some caveats:

- Over time, you'll save less with a solar lease than you would with a cash purchase.
- Since you don't own the system, the solar leasing company will receive all the tax incentives.
- The leasing payment is fixed during the term; however Operating Leases require an end of term buyout, typically 20% of the principal balance.

Solar Power Purchase Agreement (Solar PPA)

Other differences between a solar PPA and a Lease are the length of term and service. While solar lease terms range between 7-10 years, PPA's are often 20-25 years with Performance Guarantees and O&M Contracts included in the price. As a simple example, if your utility is charging you an average of $.25 per kWh for its power, the solar PPA Company may charge you a rate of just $.20 per kWh, saving you 20% of your electric bill for the next 20 years.

As with solar leases, commercial solar PPA structures can vary widely and are negotiable. Some may have a flat kWh rate for 20 years, while others may have an escalator.

PACE – Property Assessed Clean Energy

PACE legislation allows lenders to collect loan payments through a special tax assessment on the business's property. Because it's a special tax assessment, the solar loan is extremely secure, since tax assessments must always be paid, regardless of bankruptcy. The advantages for businesses include:

- No upfront costs. Just like a commercial solar PPA or a solar lease, your business gets to go solar and save money on electricity without any upfront costs.

- Easier credit. Because PACE is secured through a special tax assessment, it's much easier for your business to be approved for a PACE loan than an unsecured loan.

- You own the solar system. With a solar PPA or lease, you're only renting the solar system for 15 to 20 years. You do save on your electricity bill with solar PPAs, but not as much as when you own the system. Plus, when you own the solar installation, you get to keep it running for as long as it lasts—typically 25 to 30 years, or even longer.

- You get to keep the rebates and tax incentives. With a solar PPA or lease, the company owns the system, so it keeps the tax incentives, rebates, and any other incentives.

- The special tax assessment is transferrable. What if you sell your business or want to move your business to another location? The special tax assessment will be transferred to the new property owner, who will continue to make any remaining payments through the special tax assessment—and continue to receive the free electricity through the solar panels. In short, the solar system always stays with the original PACE property until the loan is paid in full.

Not sure if PACE or a solar PPA/lease is right for your business? Contact RBS Solar and we'll go over the available commercial PACE programs in your area and discuss whether PACE or a solar PPA or a solar lease is the best option for you.