

## WHY CHOOSE SOLAR?

### ECONOMICS

Solar power can be a less expensive solution than grid power. Solar arrays have become price effective with cost reductions of 75% over the last five years. Power generated from on-site solar is generally less costly than grid purchased power over the life of the array.

### HEDGE ELECTRICITY PRICES

On-site solar allows for 20 – 30 year price certainty creating a long line of sight into electrical utility costs. How many utilities will lock in their electric rates for 25 years?

### ENVIRONMENTAL

On-site solar is one of the cleanest forms of power generation. The fuel input (sunlight) is free. Using solar can reduce greenhouse gas emissions more than any other energy option to greatly improve sustainability planning.



## WHAT FINANCE OPTIONS ARE AVAILABLE?

**The decision is made to have an on-site solar array. What is the best way to finance the array? Ask us for guidance on the best solution for your business.**

### LEASE

**This structure allows the solar array to be built using no upfront capital.** Next to self-ownership, lease structures are the lowest cost solution on the market. Leases allow for the construction of a solar array with no up front capital needed. Leases can be on the books or off the books (on balance sheet versus off balance sheet). By not having to deploy any capital for the solar investment, money can be saved for core business expenses and capital improvements, and still allow for immediate operational cost savings. [Lessee = Host; Lessor = Bank]

#### Choose a lease option if:

- Host wants third party money for funding solar array.
- Host wants utility electric cost savings.
- Host would like to take advantage of incentive and over production benefits.
- Host may or may not want to utilize tax benefits.
- Lower cost of funds/earlier ownership of solar asset.

There are two types of leases:

### OPERATING LEASE

**This option allows for off balance sheet financing.** Due to the tax benefits the interest rate on this structure could be a negative interest rate allowing for essentially zero percent interest financing. Depreciation and tax benefits are retained by the financier. There is also an end of lease buyout at fair market value.

**Choose an operating lease if:**

- Lessor holds title to solar equipment (on bank balance sheet).
- Lessor retains tax and depreciation benefits and passes on to lessee in form of lower lease payments.
- Lessor can deduct 'full' amount of lease payments as a business expense during the year they occur.
- Fair Market Value (FMV) establishes the end of term purchase amount set by Internal Revenue Service (IRS) and Financial Accounting Standards Board (FASB) requirements..

### CAPITAL LEASE

**Typically this is a low interest note a 7 to 10 year term.** After the last monthly payment the solar array is owned by the host. Equipment depreciation and tax benefits are retained by the system host.

**Choose a capital lease if:**

- Host desires to hold title to solar equipment (on owner's balance sheet).
- Host desires to retain tax benefits and depreciation.
- Host may be able to deduct interest portion of lease payments.
- No end of term buyout is required after the last lease payment is made. Ownership transfers to the host.



## POWER PURCHASE AGREEMENT

Using a PPA structure allows you to take advantage of less costly power on day one with no capital investment. A third party investor builds the solar array and a host simply buys the power that the array produces. PPAs are like power bills you pay monthly for only the power that is delivered to you. Savings will increase over time as the grid power costs go up and your solar power costs are locked in.

### Choose the PPA option if:

- Owner wants third party money for ownership of solar array.
- Owner wants utility electric cost savings.
- Owner wants third party to assume tax benefits/incentives over production benefits. Will owner have continued tax basis and be able to use depreciation in future years?
- Owner has long line-of-sight into power/operations cost; hedge against future cost increases.



## WHAT DO I NEED TO CONSIDER BEFORE DECIDING?

How long are you going to stay in the existing location? Typically agreements last for 10 to 20 years. Solar can add a lot of value and marketability to the property. Are you comfortable assuming the tax benefits? Can you use them? Or does it make sense to pass them along to a third party and indirectly realize them through cheaper power costs?

- 1** Incentives. Are you comfortable assuming the state incentives? Or are you more comfortable having a third party take them and pass them on indirectly through cheaper power costs?
- 2** Operations and Maintenance (O&M). Generally, under a PPA structure, the host only pays for the power that is delivered to them. Outages and O&M are the responsibility of by the third party investor. Under a lease model, the host assumes O&M responsibilities.
- 3** Who are the parties involved in the transaction?
- 4** Can the involved parties fulfill their obligations through the term of the project?
- 5** What are the transaction costs associated with either financing structure?

## WHAT ARE THE NEXT STEPS?

### STEP 1

Customer signs indicative term sheet with outline of offer parameters.

### STEP 2

Due Diligence:

1. Budgets
2. Analysis
3. 12 months of power bills
4. Incentive applications

### STEP 3

Update budget and assumptions.  
Customer makes go/no go decision.