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Solar Energy System Financing Mechanisms

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Since the upfront installation costs of solar energy systems can be daunting but interest in solar is growing, two methods to finance these systems are becoming popular: solar power purchase agreements (PPAs) and solar financing districts (SFDs).

A PPA is basically a long-term leasing agreement between a building owner and solar energy company. The solar company will finance, install and maintain a solar energy system on a structure and the owner of that structure will then purchase its power from the solar company over a period of 15 to 20 years. At the end of that period, the building owner can purchase the energy system from the company at fair market value.

While PPAs looked to be the primary financing mechanism until this year, the city of Berkeley's recent introduction of an SFD mechanism and the groundswell of interest it engendered may soon cause SFDs to eclipse PPAs as the primary method to finance a solar energy system. An SFD provides installation financing via public bonds issued by a city or county. The bonds are repaid via a special solar tax district that permits any property owner to opt-in and agree to an assessment lien on its property (with a corresponding line-item on its property tax bill) that is payable annually over a period of 15 to 20 years, and which will "run with the land."

Interest in SFDs as a financing mechanism has been extraordinary. Many cities are looking to follow in the footsteps of Berkeley, and the California Legislature is helping them on their way. The SFD option was available only to charter cities until the Legislature enacted A.B. 811, effective July 21, 2008, which allows all cities and counties to issue bonds and levy assessments to finance renewable energy improvements. Renewable Funding LLC, a new company formed by some of the creators of the Berkeley program, has created a streamlined process for cities to create SFDs (see renewfund.com).

The authors have been working with various private developers and cities to allow new commercial and mixed-use developments to be included in SFDs now being formed, along with structuring PPAs in appropriate circumstances. For more information contact Rafael F. Muilenburg at rmuilenburg@sheppardmullin.com or 858-720-8908, or Misti M. Schmidt at mschmidt@sheppardmullin.com or 415-774-3104.

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