AFT Climate Action

BLUEGREEN ALLIANCE

Direct Pay: Supporting Decarbonization of Our Public Schools

What is Direct Pay?

Through the Inflation Reduction Act of 2022, clean energy tax credits for technologies such as solar panels, geothermal heat pumps and battery storage are now accessible to public schools and other tax-exempt entities. This is possible through a mechanism known as direct pay (also known as elective pay), where public schools and other tax-exempt entities can get reimbursed up to 50 percent for the cost of clean energy projects, by the U.S. Internal Revenue Service, once projects are placed in service. Recent changes under the One Big Beautiful Bill Act, passed in July 2025, have modified the availability and terms of these credits, which is reflected in the information below.

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 Investment Tax Credit (ITC 48E/48) because of the value of the credit (up to 50 percent of a project reimbursed) but also because tax credits for EV charging stations and for EV school buses are negatively impacted by the shorter timelines due to OBBBA (see table below).

School-relevant tax credit	Updated availability (from OBBBA changes)
Solar panels (48E)	Terminates Dec. 31, 2027 (unless construction begins by July 4, 2026)
Battery storage (48E)	Available through Dec. 31, 2035
Thermal energy storage (48E)	Available through Dec. 31, 2035
Geothermal heat pump (48)	Available through Dec. 31, 2034
EV charging stations (30C)	Terminates June 30, 2026
EV school buses (45W)	Terminated as of Sept. 30, 2025

HVAC sidenote: Recognizing that many public schools are in need of HVAC replacements, it is worth noting that geothermal heat pump systems (also known as ground source heat pumps) would serve as replacements of 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, which has been shown to improve both student health and performance.[ii]

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.[iii]
- Clean and healthy school environments are key to employee satisfaction, well-being and retention.[iv]
- 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.

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.[v]

Recommended Next Steps

1. If you already have a planned solar project, commencing construction before July 4, 2026, will help ensure qualifying for the 48E tax credit for solar before it expires.

2. 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.

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

Additional Resources

- BlueGreen Alliance: Making Clean Energy Tax Credits Deliver for the Public
- UndauntedK12: Tax Credits for Schools Hub
- Lawyers for Good Government: Elective Pay & IRA Tax Incentives Resources Page

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

Maryanne Salm, deputy director at the AFT, at msalm@aft.org.

Harley Stokes, senior federal policy manager at the BlueGreen Alliance, at hstokes@bluegreenalliance.org.

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.epa.gov/iaq-schools/how-does-indoor-air-quality-impact-student-health-and-academic-performance
iv. www.centerforgreenschools.org/about/green-school-buildings-better-for-teachers-students
v. https://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