

NASEO Summary of Barriers for Increasing QECB Activity at the State and Local Levels

November 2011 | Updated February 2012

Statement of Need/Urgency

Of the \$3.2 billion authorized for state and local QECBs, only \$637 million have been issued to date, leaving close to \$2.6 billion (or around 80%) of QECBs unused.¹ Because QECBs do not sunset and are highly flexible across energy efficiency and renewable energy projects and programs, they present a unique way for state and local governments to finance projects and programs that meet their distinct needs. However, as federal funding for energy efficiency and renewable energy comes under heavy scrutiny, this underutilized financing mechanism faces the risk of deauthorization, which would deny state and local governments much-needed longer-term funding to sustain their energy programs following the conclusion of the Recovery Act funding.

Summary of Barriers

State Inaction to Suballocate to Locals

Several financing technical assistance providers have cited state inaction to define a process either through legislation or executive order to suballocate QECBs to their large local governments.² Based on research by the Energy Programs Consortium (EPC) and NASEO, it appears that three to seven states still need to make local suballocations.

Lack of Understanding at the State and Local Levels

Traditional bonding agencies may lack understanding of energy projects. According to EPC, only 23 SEOs are the state agencies charged with implementing QECBs. In some instances, the bonding authority may be unclear about eligibility of projects, methodologies for measuring 20% savings, or be unwilling to try innovative green communities programs. In other instances, where the SEO is the designated agency, the SEO may not have bonding experience or may not have established working relationships with bond professionals. In short, increased coordination across state agencies would facilitate implementation. At the local level, uncertainty about who the responsible local administering agency and/or a lack of understanding of energy projects may be even more pronounced.

Debt Aversion at the State and Local Levels

Some state and local governments are unwilling to take on more debt in the current economic climate. Some jurisdictions also have statutory debt volume caps, which may decrease their motivation to “spend” their volume cap on QECBs versus other types of bonds. In these instances, QECBs and energy efficiency projects may not rank high enough on the state or local government’s overall set of priorities for bond issuances. Furthermore, some states have cited concerns over public perception; in a time when states may be cutting other areas such as education and health care to reduce budget deficits, spending resources on new solar panels may be poorly received.

High Transaction Costs and Small Allocation Size

Local governments may be uninterested in issuing QECBs if their allocations are relatively small. In these instances, the cost of issuance as a proportion of the bond volume may be too high to be an attractive financing mechanism. Moreover, if a state has many local governments with populations greater than 100,000, this necessitates dividing up the total resource into many small pieces and also creates greater administrative burdens and implementation delays. Other jurisdictions may simply be

¹ Based on data collected by Energy Programs Consortium and NASEO.

² Cited by Glenn Barnes from the UNC Environmental Finance Center and Lori Collins from Abundant Power.

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too busy or lack authority to take advantage of conduit authorities (for those who want to use that model for private sector QECB projects). In all instances, there is an opportunity for states to try and aggregate unused local allocations for use at the state level, which has been demonstrated to be able to overcome the problem of too-small bond allocations, though this may take concerted outreach and time on a state's part.

Uncertainty Surrounding the 20% Energy Savings Requirement

The U.S. Department of Treasury has not issued guidance on how the 20% energy savings requirement should be measured, documented, or applied, creating a great deal of uncertainty. For instance, some might interpret the requirement to apply strictly at an individual building level, and others may interpret it broadly as 20% savings across a portfolio of buildings. Furthermore, it is unclear if the 20% savings should be annual, for the life of the measures, or for the term of the bond. Additional confusion surrounds whether the savings are estimated, measured, or verified. Many issuances have dodged these questions by implementing projects with savings that greatly exceed 20% and using industry-recognized M&V such as through an ESPC. To date, bond counsel have been fairly conservative on what is eligible. A petition by the Clean Economy Development Center, co-sponsored by NASEO and EPC, presses the Obama Administration for clearer guidance on this issue.

Uncertainty Surrounding "Green Communities" Definition

The Clean Economy Development Center also raises the uncertainty around eligibility under "green communities" as a barrier in its petition. A few state and local governments have indicated that they may be more willing to explore green community program issuances if there were more clarity.

Lack of Information on QECB Issuances at a National Level

IRS processes all the paperwork for QECB issuances and has the best and most complete information. However, IRS is unwilling to release a summary list of projects and issuances. If more widely available, this would allow NASEO, EPC, and others to better understand gaps and needs and use that information to target assistance and outreach. The current NASEO-EPC effort aims to fill this gap, but primary information from IRS is still preferred.

Persisting Effects of Weak Economic Conditions and Lack of Eligible Projects

The persisting effects of the economic downturn continue to affect the appetite for public debt financing, as noted earlier. Another result of the weak economy is lesser demand for energy projects overall, and potential beneficiaries may prefer more straightforward grants to a complicated issuance. Energy efficiency projects, especially commercial and industrial projects, may take several years to fully develop from the initial energy assessment phase to implementation. Thus, the timing of accessing QECB financing and the project development cycle may not always align. A number of local governments lack ready projects or sufficient expertise to get projects off the ground or issue bonds, and in these instances it may be more prudent for the local government to delay issuing QECBs or waive them back to the state. Additionally, this raises the need to engage the private sector that has the expertise to design and implement energy efficiency projects quickly and to continue feeding the pipeline of projects by developing and supporting far-sighted energy efficiency programs.

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