QECB Overview & Issuance Update

NASEO Midwest

November 14, 2011

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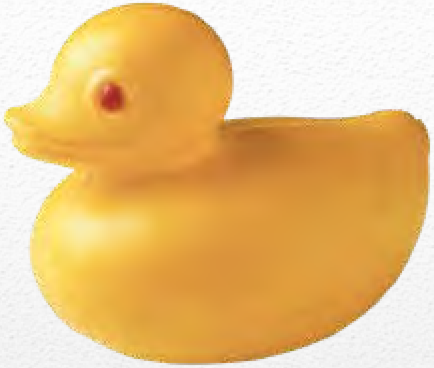
IRS Circular 230 Disclosure

The EPC QECB Program

- The Energy Programs Consortium (**EPC**) is a joint venture of NASCSP, representing the state weatherization and community service programs directors; NASEO, representing the state energy policy directors; NARUC, representing the state public service commissioners; and NEADA, representing the state directors of the Low-Income Home Energy Assistance Program.
- The **QECB Program** began in 2010, when EPC began tracking QECB utilization and talking to issuers about issues, questions, concerns and obstacles encountered along the way.

- What is a QECB?
- What kind of subsidy do QECBs get?
- How much subsidy do QECBs get?
- For how long can an issuer get the subsidy?
- How much could I issue?
- What types of projects can be financed with QECBs?

QECB 101 Overview



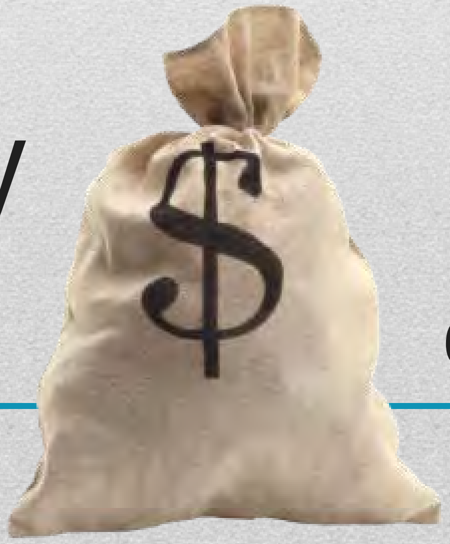
A tool…and something of an odd duck.

- A **qualified energy conservation bond** (QECB) is a federally subsidized bond that may be issued for a variety of uses that tend to promote the conservation of energy.

What is a QECB?

- QECBs are a type of "**tax credit bond**". You may be familiar with the more common Build America Bonds.
- Tax credit bonds are subject to many of the same rules as traditional tax-exempt bonds, but the **interest is taxable**.
- Tax credit bonds can be issued to provide the holder of the bond with a federal tax credit. Until early 2010, QECBs could only be issued this way, and very few of them were issued.
- Some tax credit bonds give issuers the option to receive a **direct cash payment from the U.S. Treasury** in lieu of providing the bond holders a federal tax credit (sometimes referred to as "direct pay," "cash pay" or "direct subsidy" bonds). QECBs can now be issued as direct subsidy bonds.

What kind of subsidy do QECBs get?



How much subsidy do QECBs get?

- QECB issuers receive a check equal to **70%** of the interest on your QECBs OR, if lower than your interest rate, the maximum rate set by Treasury (the “qualified tax credit rate”).
- For example (annualized for simplicity):
  - Interest rate on your bonds = 5%
  - Amount issued = $1,000,000
  - Qualified Tax Credit Rate = 4.5%
  - Subsidy = 70% * 4.5% * $1,000,000 =

  $31,500 per year out of $50,000 annual interest

- You can look up the most up to date rate (as well as historical **rates**) at:
  - https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDate.htm.

- The maximum maturity for tax credit bonds is also set by Treasury periodically.
- Historically, QECB issuers have been allowed 12 to 19 year maximum maturities.
- In the previous example, that would amount to $378,000 (12 years) to $598,500 (19 years) of direct subsidy from the federal government to your jurisdiction.
- The most up-to-date maximum maturity (along with historical maturities) can be found on the tax credit rate lookup page (see slide 7).
- There is currently no cut-off date by which allocations must be used.

For how long can an issuer get the subsidy?

- Each state received an allocation proportionate to its population. IRS Revenue Ruling 2009-29 (available on the IRS website or on the DSIRE QECB page) provides the state allocations.
- ARRA provided that each state “shall” sub-allocate a portion of its allocation to large local governments (cities and counties of 100,000 population or more) within the state.
- The sub-allocation is generally accomplished through Executive Order or state legislation.

How much can I issue?

- The Midwest (Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio, Wisconsin) was **allocated** almost 20% of the total QECB volume.
- The Midwest has **used** almost 17% of its allocation, second only to the Southwest (49.6%) in using its allocation.
- Of those issuances, about 87% were for energy efficiency improvements to publicly owned buildings.
- About 10% were for green community programs.
- Large **metro areas** known to have issued QECBs include the City of Chicago and St. Louis.

Midwest Allocation & Utilization of QECBs

- You can use your QECBs for a number of **“qualified conservation purposes”**, including:
- **Energy efficiency in publicly owned buildings**: Capital expenditures to reduce energy consumption in publicly-owned buildings by at least 20%;
- Capital investments in certain **renewable energy facilities** including wind, closed-loop biomass, open-loop biomass, geothermal or solar energy, small irrigation power, landfill gas, trash, qualified hydropower and marine and hydrokinetic production;
- “**Green community programs**” (including the use of loans or other repayment mechanisms to implement them);
- **Public education campaigns**;
- **Rural development** including the production of energy from renewable sources;
- **Research facilities and grants, certain demonstration projects and mass commuting projects**.

What kinds of projects can I finance with QECBs?

- At least **80 projects** in **21 states** have been funded with QECBs to date.
- Known bond volume totals **$540 million**; more bonds may be issued but not yet known (particularly if they were sold through private placement).

How popular are QECBs?

- 12 known issuances August through the present date
- Total Volume: $49 million
- Two very small ($120k school improvements and $386k EE/muni retrofit)
- A couple of fairly large issuances (Los Angeles & Deerfield $12m, Rancho Water District almost $10m) for energy efficiency/municipal retrofits.
- Other EE/muni retrofits include Licking County OH ($2.1m), Fayette County PA ($1.4m), and Belchertown MA ($3.14, performance contract).
- A number of school issuances: Rapid City SD ($4m), Champaign IL ($120k), McHenry CCSD IL ($1.5m), Alma Center WI (4.6m).
- A couple of renewable issuances in MA: Scituate (1.5m) & Cathartes Private Investments/Westford Solar (5.8m)
- *Note: All amounts are approximate. (We do not yet have Official Statements for all recent issuances).*

Recent Issuances

- Clean Economy Development Center (CEDC) is organizing a petition to request guidance on the scope of “green community programs” and allowable methodology in calculating 20% energy savings for energy efficiency issuances.
- The White House has requested specific information from willing issuers or would-be issuers regarding barriers they have encountered and questions to be addressed.
- Should you be open to sharing your experience outside of the NASEO group, please contact Elizabeth Bellis and Diana Lin.

We the People Petition

- The NASEO website has a variety of resources, including documents other states have used and the EPC QECB memo which contains information about all known issuances.
  - http://www.naseo.org/resources/financing/qecb/index.html
- DSIRE has a QECB page with links to relevant statutory provisions and IRS guidance.
  - http://www.dsireusa.org/incentives/incentive.cfm?Incentive_Code=US51F&re=1&ee=1
- The Department of Energy's website has resources including a QECB Primer and webinars.
  - http://www1.eere.energy.gov/wip/solutioncenter/financialproducts/m/qecb.html

Where can I find more information?

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Questions?
Please keep in touch.