QECB Overview & Issuance Update
NASEO Midwest
November 14, 2011
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IRS Circular 230
Disclosure
• 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?
What is a QECB?

• 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.
• 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.
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:

How much subsidy do QECBs get?
• 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.
• 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.
What kinds of projects can I finance with 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**.
How popular are 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).
• 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).
• 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.
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
Questions?
Please keep in touch.