QECBs
NASEO Transportation Financing Webinar
June 12, 2012
Circular 230: This presentation was not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. Federal tax law.

This presentation is intended to serve as a general introduction to the use of qualified energy conservation bonds to finance renewable energy projects. Nothing contained in this presentation should be construed or relied upon as legal advice.
Energy Programs Consortium (EPC) is a joint venture of NASCSP, representing the state weatherization and community service programs directors; NASEO; 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.
• QECBs are a tax credit bond for a variety of energy projects.
• Unlike traditional tax-exempt bonds, interest on QECBs is taxable.
• If the issuer so elects, Treasury makes cash payments to issuer to offset interest payments on the bonds.
• Amount paid is the interest on the issuance or, if lower, 70% of the “qualified tax credit rate” set periodically and available at Treasury Direct’s website. See Notice 2010-35.
  • Effectively, direct pay QECBs are a federal interest rate buydown program.
• Maturities are also set periodically and have ranged from 12 to 22 years (see Treasury Direct website)

QECB Review
• QECBs have not yet been used on a widespread basis for transportation projects
• However, the statutory language does specifically provide that QECBs can be issued for mass commuting projects.
• “Mass commuting facilities and related facilities that reduce the consumption of energy, including expenditures to reduce pollution from vehicles used for mass commuting.” See 26 USC 54D(f)(c).
• In addition, QECBs can be used for “green community programs”.
• This term was not defined in the authorizing legislation.
• Legislative history suggests it was intended to cover refinancing mechanisms for energy efficiency retrofits.
• However, it is not clear whether IRS will limit its definition to such programs or might interpret it more broadly.
• Guidance is currently being sought by a group of stakeholders.
• At least **110 projects in 23 states** have been funded with QECBs to date.

• Known bond volume totals **$671 million**; more bonds may be issued but not yet known (particularly if they were sold through private placement).

**How popular are QECBs?**
• Issuer: Kansas Development Finance Authority
• Amount Issued: $17.8 million
• Use of Bond Proceeds:
  • Kansas State University Projects
  • Installation of Energy Efficient Fume Hoods; Computer Power Management; Chilled Water Plant overhaul; Steam Pressure Reduction

Example: Large Energy Efficiency Project
• Issuer: St. Louis County, Missouri
• Amount Issued: $10.3 million
• Use of Bond Proceeds:
  • Green Community loan program
  • Operating a residential energy efficiency loan program
  • Offering loans up to $15,000 at 3.5%
  • Used EECBG funds to help with program and issuance costs

Example: Green Communities Project
Example: Large Solar & Wind Issuance

- Issuer: Los Angeles Department of Water & Power
- Amount Issued: $131 million
- Use of Bond Proceeds:
  - Pine Tree Wind Turbine Expansion Project – 10 wind turbines (15MW total added)
  - Pine Tree Solar Project – PV generator targeted at 10MW at 34.5kV output; will generate 20 GWh per year
  - Adelanto Solar Project – PV generator targeted at 10MW at 4.16kV output; will generate 20 GWh per year
- Determine the **amount** of your jurisdiction’s allocation.
- Check the **bond rating** of the would-be issuer or the underlying credit (in the case of a conduit issuance with a private developer).
- **Identify the project** or projects desired to be financed. This may be done by issuing a request for applications if there is not already a project in mind.
- Select **professionals** (legal, financial) and contractors (builders, etc) for the project. This may be done by a competitive bid or RFP process in accordance with state and local requirements.
- **Bond counsel** should review intended uses for compliance with QECB requirements and assist in drafting documentation.
- Many QECBs (especially smaller issuances) are sold via private placements with banks.

**How do I get started?**
Where can I find more information?

• The DOE Technical Assistance Program (TAP)
• The EPC QECB Paper, available at www.energyprograms.org, contains a list of all known issuances, graphs showing utilization trends, and a discussion of legal and practical issues and solutions
• 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.