Qualified Energy Conservation Bonds

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NASEO Regional Meeting

August 2, 2012
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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.

Disclaimers
• Pre-ARRA provision that received much of its funding through ARRA
• Unlike most ARRA provisions, QECBs have not expired
• In fact, there is no QECB expiration date under current federal law
• Instead, limited by maximum volume cap

QECBs for “Post-ARRA”
Energy Finance
• QECBs are effectively a federal interest rate buydown program for state and local bonds.
• 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. (Otherwise, bondholders receive tax credits).
• 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.
• Maturities are also set periodically and have ranged from 12 to 22 years (see Treasury Direct website)
Example: Energy Efficiency Project

• Issuer: Philadelphia Municipal Authority
• Amount Issued: $6.25 million
• Date Issued: May 11, 2012
• Use of Bond Proceeds:
  • Part of larger energy performance contract with NORESCO
  • Energy efficiency upgrades at Philadelphia’s City Hall, Justice Juanita Kidd Stout Center for Criminal Justice, Municipal Service Building and One Parkway
  • The City plans to install ECMs, including lighting replacements, control system upgrades, and water conservation improvements
  • Energy savings expected to exceed net bond debt service by more than $10.2 million over the life of the transaction.
• Issuer: **Billings School District**
• Amount Issued: $8,334,000
• Date Issued: July 12, 2012
• Use of Proceeds
  • To make energy efficiency improvements to school district buildings

**Example: School Improvements**
• Issuer: St. Louis County, Missouri
• Amount Issued: $10.3 million
• Date Issued: April 29, 2011
• 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
• Issuer: Colorado Housing Finance Authority
• Amount Issued: $6.7 million
• Date Issued: April 20, 2012
• Use of Bond Proceeds:
  • Help finance a 2.5MW solar photovoltaic (PV) project for the Denver Housing Authority (DHA).
  • The developer will be installing and operating installations on over 700 DHA housing units over the next 10 months, providing DHA with cost savings, hedges against spiking residential power prices and a major advancement of its sustainability goals.

Example: Renewable Issuance
Example: Transportation Issuance

- **Issuer:** Spotsylvania County, VA
- **Amount Issued:** $1.2 million
- **Date Issued:** July 19, 2012
- **Use of Bond Proceeds:**
  - Construction and equipping of a passenger train station and 1,000 space parking area in the County along the Virginia Railway Express (VRE) rail line.
  - Coincides with a VRE rail project through which commuter rail service is being extended from the neighboring City of Fredericksburg into Spotsylvania County.
• Note: Although IRS has complete issuance information collected through Forms 8038-TC & CP, it has to date declined to share.

• EPC Sources: Bloomberg, MuniOS, MSRB, issuer websites, and correspondence and telephone interviews with state and local allocatees.

• Out of $3.2 billion allocated, EPC has been able to identify only $681 million of known issuances as of July 23, 2012, leaving about $2.5 billion unaccounted for.

• This represents a national utilization rate of only 21%.

**How much money is left?**
• State utilization rates range from complete lack of known utilization to complete exhaustion of allocation (100% issued in Kansas)

• Known state leaders include Kentucky (93%), Montana (83%), South Dakota (79%), and California (75%).

• Twenty-six states are not known to have issued any QECBs.
• Lack of state authorization
• Debt aversion
  • Allocate your “volume cap” to an issuer that can use it.
• Small allocation size
  • Identify small projects
  • Bundle your QECBs with other tax subsidized financing such as GO or revenue bonds; QSCBs.
  • Participate in or create a pooling program such as the one being developed by NYSERDA.
• Lack of information and technical assistance
  • Contact DOE TAP at technicalassistanceprogram@ee.doe.gov.
• In June 2012, IRS issued Notice 2012-44, offering guidance and clarification on frequently asked questions.
• QECB provision intended to give issuers “broad discretion”
• “Green Community Program” Definition
  • Promotes “energy conservation, energy efficiency or environmental conservation initiatives related to energy consumption, broadly construed” AND either
    • Involves property that is available for “general public use” (such as replacing streetlights on public roads with LED bulbs) OR
    • Loans/grants that have “broad public availability” (including residential housing or private building energy efficiency initiatives that provide grants or loans that are broadly available for homeowners or businesses).
• Measurement of 20% Energy Savings in Public Buildings
  • Can be measured building-by-building or at the building system component
  • Issuer can rely on reasonable expectations, engineer’s certification

IRS Guidance on QECBs
Where can I find more information?

• The current version of the EPC QECB paper is available at http://www.energyprograms.org/wp-content/uploads/2012/03/QECB_Memo_6-8-2.pdf. Updates will be posted periodically on our Publications page.

• 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
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Questions?
Please keep in touch.