



QECBs

COG Energy Advisory Committee

January 17, 2012

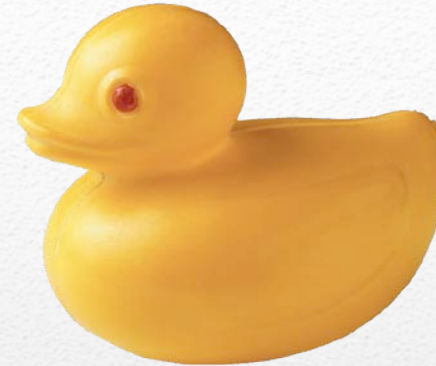
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IRS Circular 230 Disclosure



- The Energy Programs Consortium (**EPC**) is a consulting group that 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.
- We work closely with NASEO and receive funding from the Energy Foundation. DOE has expressed an interest in supporting direct technical assistance.

Pleased to meet you



A tool...and something of an odd duck.

- **A qualified energy conservation bond (QECCB)** 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 QECCB?

- 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?



- 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”).
- 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>.



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 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 maturity (along with historical maturities) can be found on the tax credit rate lookup page (see slide 6).
- There is currently no cut-off date by which allocations must be used.



For how long can an issuer get the subsidy?

- Washington, DC was allocated **\$6,140,000** of QECCBs and is considering an issuance.
- Virginia was allocated **\$80,600,000**, completed its sub-allocations to municipalities and counties with populations of 100,000 or more in proportion to population, and is considering its options.
- Maryland was allocated **\$58,445,000** and completed its sub-allocations. To date, at least \$6,515,000 of QECCBs have been issued in Maryland (for energy efficiency improvements to schools) .



DC Area Allocations

- The most popular project type has been **capital expenditures to reduce energy consumption in publicly-owned buildings by at least 20%**.
- Capital investments into production of **renewables** have also been popular. Covered facilities include: wind, closed-loop biomass, open-loop biomass, geothermal or solar energy, small irrigation power, landfill gas, trash, qualified hydropower and marine and hydrokinetic production.
- Recently there has been more interest in issuing QECCBs for “**green community programs**” (including the use of loans or other repayment mechanisms to implement them).
- We have also seen **public education campaigns**.
- Other options **include research facilities and grants, certain demonstration projects and mass commuting projects**.

What types of projects
can be financed with
QECCBs?



- 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

Example: Large Solar & Wind Issuance

- Issuer: **Scituate, MA**
- Amount Issued: \$1.5 million
- Use of Proceeds: One 1500 KW wind turbine



Example: Small Wind Issuance



- At least **97 projects** in **23 states** have been funded with QECCBs to date.
- Known bond volume totals **\$609 million**; more bonds may be issued but not yet known (particularly if they were sold through private placement).

How popular are QECCBs?

- Poor credit rating of potential issuers
- Lack of appetite for debt
- Bond caps
- Lack of familiarity with bonds generally or QECCBs
- Lack of available projects
- Lack of guidance from Treasury about key legal questions

Barriers to Issuance

- The U.S. Treasury has not yet issued regulations or other guidance clarifying ambiguities in the original authorizing provision.
- Important questions include the definition of the term “green community programs” (which is not provided in the statute) and the proper methodology for calculating energy savings.
- The Clean Economy Center is spearheading an effort to obtain such guidance. For more information, contact me or Colin Bishopp at colin.bishopp@cleaneconomycenter.org.

Treasury Guidance

- The NASEO website has a variety of resources, including documents other states have used and the EPC QECCB memo which contains information about all known issuances.
 - <http://www.naseo.org/resources/financing/qecb/index.html>
- DSIRE has a QECCB 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 QECCB 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.
