Metropolitan Washington Council of Governments

COG BUILT ENVIRONMENT AND ENERGY ADVISORY COMMITTEE

December 15, 2016

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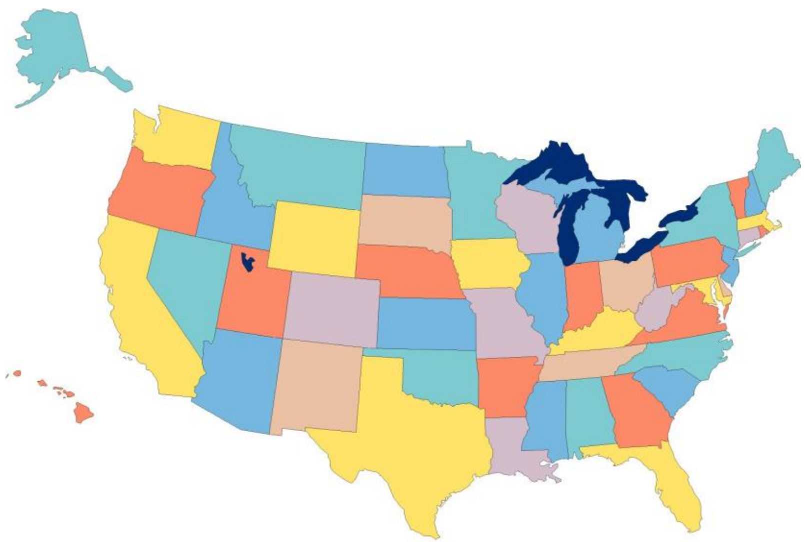
Qualified Energy Conservation Bonds (QECBs)

What are QECBs?

- Tax credit bonds for qualified energy conservation programs including:
  - to reduce energy consumption in publicly owned buildings by at least 20%
  - to implement green community programs (including the use of grants, loans, or other repayment mechanisms to implement such programs)
  - for rural development (including the production of renewable energy)
  - for certain renewable energy facilities (such as wind, solar, and biomass)
  - for certain mass commuting projects
- Interest on QECBs is taxable to the purchaser(s) of the bonds who receive(s) the interest, unlike standard tax-exempt bonds.
- Instead, the issuer typically applies for a direct payment from the US Treasury that substantially offsets the interest payments the issuer makes to the bond purchaser(s).
  - Treasury pays the issuer the lesser of the taxable coupon rate or 70% of "qualified tax credit rate" (QTCR) as of the date of issuance, which you can look up here: https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDate.htm

QECBs Nationwide



- Of $3.2 billion in total allocations, around $1.3 billion (40 %) are known to have been issued
- Allocated to states based on population; states “shall” suballocate to large local governments (LLGs) (population of 100,000 or more)
  - LLGs can waive suballocation back to state

QECBs in VA

- 39% is known to have been used (Norfolk, Spotsylvania, etc.).
- The state requested sub-allocatees express an intent to use by December 2015; all remaining local sub-allocations were waived to state.
- Local governments interested in accessing QECBs may apply to the state for an allocation through the statewide green community program, VirginiaSAVES.
- http://www.vasavesgcp.com

QECBs in MD

Jurisdiction	Allocation
Anne Arundel County	$5,324,796
Baltimore County	$8,1888,030
Carroll County	$1,761,908
Charles County	$1,463,345
Frederick County	$2,340,341
Harford County	$2,499,895
Howard County	$2,850,689
Montgomery County	$9,793,890 (issued?)
Prince George's County	$8,662,178
St. Mary's County	$1,044,425
Washington County	$1,508,357
Baltimore City	$6,659,180
State of Maryland	$6,347,968 (issued)

– Only 18% of the total is known to have been used.
– Most of the sub-allocations are still available for use.
– Counties that cannot issue own allocations may wish to join the Maryland Clean Energy Center (MCEC) green community program.

QECBs in DC

- $6.14m allocation not known to have been expressly authorized by the District
- DC has a debt cap that is generally accounted for years in advance.
- For more information about the QECB process in DC, contact:

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Office of Chief Financial Officer
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Green Community Programs (GCPs)

- QECB GCPs must promote “energy conservation, energy efficiency or environmental conservation initiatives related to energy consumption, broadly construed” involving “general public use” or loans/grants that have “broad public availability”
- Some are structured so that bonds are issued directly to finance the project – e.g. LLG issues to finance a LED streetlight conversion project
- Others are structured as conduit issuances:
  - program is administered by state/LLG (sometimes in conjunction with third party provider) and takes applications from the private sector that satisfy the requirements of the program.
  - State/LLG issues bonds on behalf of the applicant and loans the proceeds to them
  - The applicant is responsible for the repayment of the bonds and the state agency is not liable for their repayment

QECB Examples – GCPs

Types of projects financed include:

- LED streetlight conversions
- Residential Energy Efficiency Loans
- Commercial and Multifamily PACE
- Energy efficiency improvements to museum
- Conversion of truck fleet to CNG vehicles
- Energy efficiency improvements for public and private schools

QECB Examples – Publicly Owned Buildings

- Can be used to retrofit:
  - Schools/Universities
  - Municipal buildings/facilities
  - Wastewater facilities
  - Correctional facilities
- Common energy-conserving improvements: heating, cooling, lighting.
- Projects as small as $650,000 (Gilbert City, AZ, 2012)
- Often done by ESCOs using “performance contracting”

QECB Examples - Renewables

- Over 40 known issuances, primarily solar and wind projects, including solar at schools
- Largest issuance - Los Angeles Department of Water and Power
  - issued $131 million in 2010
- Washington State Housing Finance Commission
  - issued $9 million in QECBs as a conduit issuance to construct 5 wind turbines on privately owned land in Kittitas County, WA

QECB Examples - Mass Transit

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- Spotsylvania County, VA: $1.24 million in 2012 to construct a train station and parking lot along Virginia Railway Express rail line extension
- Milwaukee County, WI: 2 issuances for new buses for mass transit system ($4/9 million 11/15; $7.1 million 11/16)

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Warehouse for Energy Efficiency Loans (WHEEL)

What is WHEEL?

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- Publically-supported multi-state residential energy efficiency loan program based on Pennsylvania's successful Keystone HELP
- Allows financing of wide range of energy efficiency, water efficiency, renewable and resilience measures (as well as some ancillary work required to do the eligible work) at a reasonable fixed rate
- Borrowers can repay WHEEL loans of up to $20,000 over periods of up to <u>10 years</u>.
- Underwriting: Loans offered to homeowners with FICO scores of at least <u>640</u> whose payments on debts will not exceed 50 percent of their income after taking a WHEEL loan and who do not have any recent bankruptcies or significant outstanding judgments owed.
- Public-private partnership with Program Administrator Renew Financial and senior lenders Citi and PA Treasury

Homeowner Benefits

- Fast, simple approval and application process
- Consumer protections: fixed rate, no payment traps or prepayment fees
- WHEEL loans are unsecured, which means neither the equipment financed nor the house improved can be repossessed due to nonpayment.
- 100 percent of the project can be financed
  - No upfront costs

Sponsor Benefits

- Turnkey program for public sponsor who does not wish to become a bank or a contractor manager
- "Sustainable sustainability": Structured so that public funds used should be available for reuse rather than expended like grant-based programs.
- Leverage: For every dollar of public funds lent to a homeowner, approximately 4 private dollars are lent.
- Tailor & Customize: Public sponsor can choose what measures to support and provide additional support for more comprehensive work or for lower-income families.

Challenges

Various, including:

- Program Administrator currently requires 3 year commitment of a significant amount of funds
- Building contractor networks takes time
- Private alternatives can result in public programs being used as a “second look” option for less creditworthy borrowers, putting public funds more at risk

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