



U.S. DEPARTMENT OF
ENERGY

Energy Efficiency &
Renewable Energy



Qualified Energy Conservation Bonds (QECBs) – State Issues & Approaches

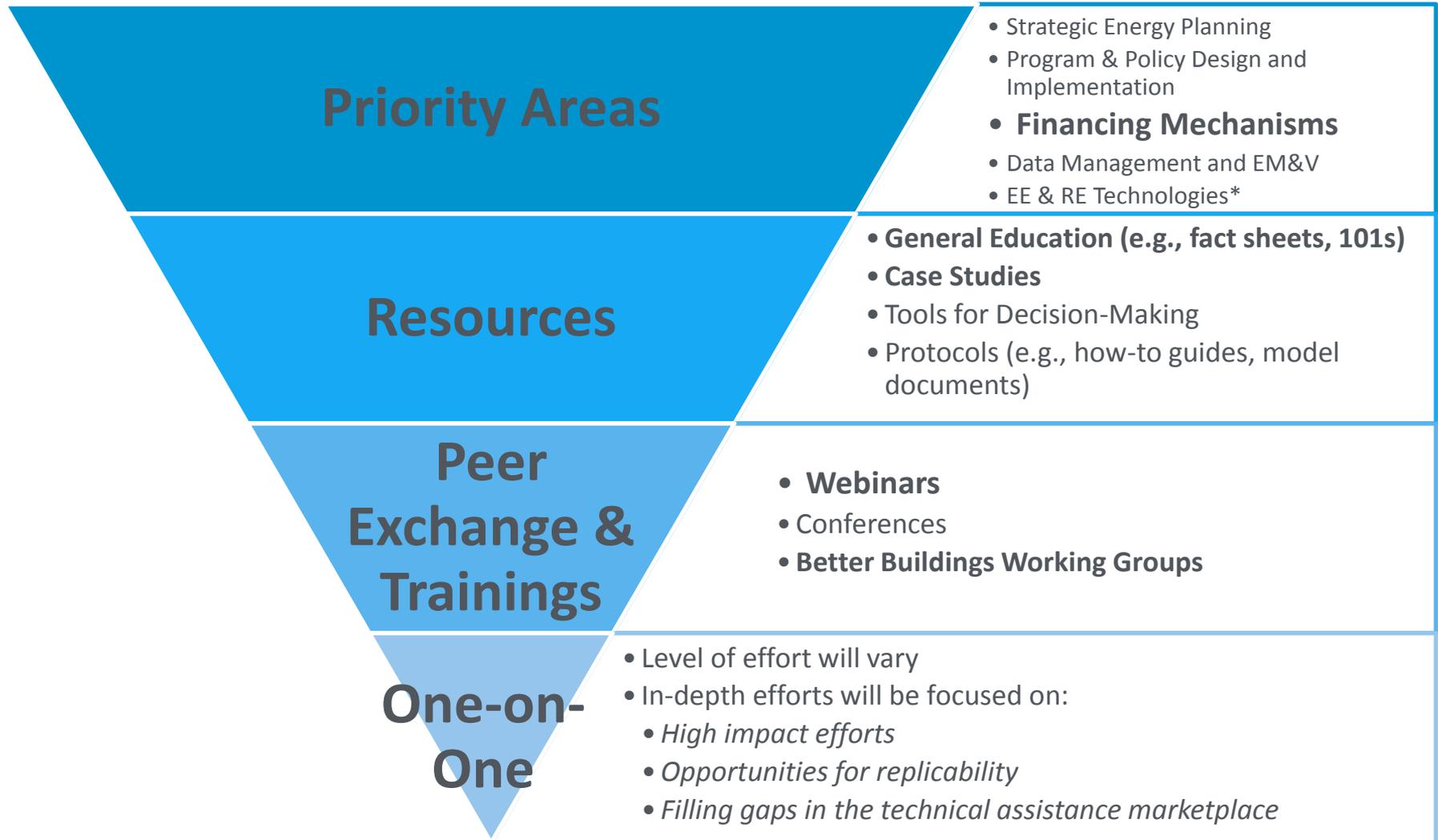
February 12th, 2013

DOE's Technical Assistance Program

Agenda

- TAP Introduction & QECB Resources
- QECB Overview (Elizabeth Bellis, Energy Programs Consortium)
- Case Studies with Discussion
 - Maryland (Dan Bresette, Maryland Energy Administration)
 - Texas (Robert Latsha, Texas Bond Review Board)
 - Ohio (Todd Nein, Ohio Air Quality Development Authority)

DOE's Technical Assistance Program



How to Tap into QECB Resources

Visit our QECBs page on the TAP *Solution Center*

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Qualified Energy Conservation Bond (QECB)

A Qualified Energy Conservation Bond (QECB) is a debt instrument that enables qualified state, tribal and local government issuers to borrow money to fund energy conservation projects (It is important to note that QECBs are not grants). A QECB is among the lowest-cost public financing tools because the U.S. Department of Treasury subsidizes the issuer's borrowing costs. Like [Build America Bonds](#), QECBs are taxable bonds — this means that investors must pay federal taxes on QECB interest they receive. Issuers may choose between structuring QECBs as tax credit bonds (bond investors receive federal tax credits in lieu of interest payments) or as direct subsidy bonds (bond issuers receive cash rebates from U.S. Treasury to subsidize their net interest payments). Both tax credit and direct payment bonds subsidize borrowing costs—most QECBs are expected to be issued as direct subsidy bonds due to the current lack of investor appetite for tax credit bonds.

QECB proceeds can be used to fund capital expenditures on a variety of projects including:

- Reducing energy consumption in publicly owned buildings
- Implementing green community programs (including loans, grants, or other repayment mechanisms)
- Developing rural capacity, specifically involving the production of electricity from renewable energy resources
- Supporting energy-related research facilities, research grants and research
- Implementing mass commuting and related facilities that reduce energy consumption and pollution
- Designing/running demonstration projects to promote the commercialization of energy-related technologies and processes
- Launching public education campaigns to promote energy efficiency

The U.S. Congress authorized \$3.2 billion of QECB issuance capacity, which has been allocated to states, local governments and tribal governments based upon population. Processes for notifying state authorities of intention to issue QECBs (and deadlines for doing so) vary.

Transaction Points

A QECB issuance takes several months to structure, market, price and close. Qualified issuers should select eligible projects and consult their bond counsel for more information on the QECB opportunity.

Advantages	Disadvantages
<ul style="list-style-type: none">+ Provides substantial amount of cheap capital that can be infused into existing or new programs+ Allows qualified state, local and tribal governments to issue debt at extremely low rates+ Engages private investors	<ul style="list-style-type: none">— Issuance process requires an investment of time on the part of the issuer— A limited number of QECBs have been issued to date— A few programmatic questions remain as to applicability of certain federal requirements

<http://www1.eere.energy.gov/wip/solutioncenter/financialproducts/qecb.html>

More TAP & QECB Offerings

- For long-term *peer exchange* focused on finance
 - Better Buildings Alliance Working Group for Finance – *coming soon!*
Contact: TechnicalAssistanceProgram@ee.doe.gov
 - Also, NASEO State Energy Financing Committee
Contact: Sandy Fazeli, sfazeli@naseo.org
- For *one-on-one assistance* and *peer matching*, submit an application online
http://www1.eere.energy.gov/wip/solutioncenter/technical_assistance.html
- For all of TAP's latest and greatest, sign up for **TAP Alerts**
TechnicalAssistanceProgram@ee.doe.gov



Qualified Energy Conservation Bonds Overview

Elizabeth Bellis, Energy Programs Consortium

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.

Disclaimers

- QECCBs are effectively a federal interest rate buydown program for state and local bonds.
- Unlike traditional tax-exempt bonds, interest on QECCBs 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). Subsidy payments are subject to sequestration.

QECCB Overview

- 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)

QEGB Overview Cont’d

- Out of \$3.2 billion allocated, EPC has been able to identify only \$748 million of known issuances as of January 2013, leaving about \$2.45 billion unaccounted for. This represents a national utilization rate of only 23.36%.
- State utilization rates range from complete lack of known utilization to complete exhaustion of allocation (100% issued in Kansas).
- Twenty-five states are not known to have issued any QECS.

How much money is left?



Elizabeth Bellis

Director, QECB Program, Energy Programs Consortium

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Questions?

Please keep in touch.

Dan Bresette—Maryland Energy Administration

QECB Outreach in Maryland

- **Challenges of QECB Issuances to Accommodate in Outreach**
 - Post-EECBG wariness of reporting and compliance
 - Relatively small allocations
 - Overriding debt and budget concerns
 - Internal disconnect between local finance and energy departments
 - Lack of urgency

QECCB Outreach in Maryland

- **Advice for Outreach to “Large Local Governments”**
 - ☑ Share existing proof-of-experience case studies and resources
 - Local finance professionals might not trust verifiable savings
 - ➔ *SEO can lend credibility and provide access to technical assistance from other trusted sources (e.g., U.S. DOE)*
 - ☑ Use appropriate messaging for different audiences
 - Energy and finance departments might have different priorities and measures for success
 - ➔ *SEO can help translate “QECCB” into energy and finance languages to facilitate understanding on mutual (i.e., energy and finance) benefits*
 - ☑ Offer to host energy and finance stakeholders at the same time
 - Local finance professionals and energy managers might not know they need to meet
 - ➔ *SEO can provide an opportunity for both sets of stakeholders to meet and discuss opportunities and address challenges*

QECB Outreach in Maryland

- **Discussion and Feedback**

- *Are these challenges relevant in your state or to your state’s “large local governments?”*
- *What are the key differentiators between successful projects and those that languish?*
- *Has your state’s SEO been active in promotion of QECBs?*
- *Do you have any other advice to offer?*



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Robert Latsha—Texas Bond Review Board

Challenges

- Legal Authorization to administer
 - Texas Legislature meets biennially
- Notification to local allocation recipients
 - 59 local recipients
 - 41 recipients received less than \$3.0 Million in Bonding Authority
- No claw-back provision
- No funds for marketing the program
- Federal subsidy concerns

Allocation of Bond Ceiling

- Statute originated from Hurricane Ike
- “The board is authorized to administer programs established by the applicable official for the allocation of a miscellaneous bond ceiling or the designation of bonds entitled to the federal subsidy limited by a miscellaneous bond ceiling.”

Local Notification

- Phone calls to Mayors'/County Judges' Offices
- Certified notification letters
 - with the option to waive included
- 5 local municipalities waived bonding authority back to the state

As of 2/12/13

- No QECB closings
- 54 local authorities with allocated bonding authority ranging from \$23.4 M to \$1.1M
- State has \$54.7 M in total authority
- *ESPC Contractors seem to be the most interested in QECB authority in Texas*
- Texas still leads the nation in Wind Power

Todd Nein—Ohio Air Quality Development Authority

Additional Attendee Questions/Discussion

More TAP & QECB Offerings

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