

Qualified Energy Conservation Bonds

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Qualified Energy Conservation Bonds (QECCBs)

Fundamentals

Establishment:

- First established in 2008 by Congress under the Energy Improvement and Extension Act at \$800 million nationwide
- Expanded in 2009 to \$3.2 billion under the American Recovery and Reinvestment Act (ARRA)

Purpose:

- QECCBs present a unique way for states, local governments, commercial and other non-governmental entities to finance renewable energy and energy efficiency projects
- These federally subsidized obligations enable issuers to borrow low-interest capital to finance capital expenditures reducing energy consumption in publicly-owned, commercial and other non-governmental facilities

Mechanics:

- Allocated to the States in proportion to US population, with sub-allocations to large local governments with a population > 100,000, and the remainder allocated at the discretion of the State
- Sub-allocations may be waived by large local governments; many states have implemented rules to reallocate unused allocation, including reclaiming it from governmental entities
- Long-term financing options available
- No federal expiration date for allocations
- Up to 30% of the allocation may be used for non-governmental purposes, subject to green community program

Qualified Energy Conservation Bonds (QECCBs)

Project Qualifications

QECCBs may only be issued for qualified conservation purposes which include capital expenditures for:

- Reducing energy use in public buildings by at least 20%
- Implementing green community programs
- Rural development involving production of electricity from renewable energy resources and research facility expenditures for certain technologies
- Facilities generating electricity from certain renewable energy assets

Examples of qualified projects:

- Energy Efficiency
- Renewable Energy (Wind, Solar, Biomass)
- LED lighting (indoor, outdoor and street lights)
- Mass commuting Projects

Qualified Energy Conservation Bonds (QECCBs)

Project Requirements

Capital expenditure:

- Public Buildings: Issuer must “reasonably expect” that the capital expenditure/s will result in a 20% or greater reduction in energy consumption in the first year for the selected project
 - Issuer may rely on an engineer’s certification
- Green community programs must (i) promote one of a broad range of energy conservation purposes and (ii) involve (a) property available for general public use or (b) loans/grants that have broad public availability
- Funds are subject to the requirements of the Davis Bacon Fair Wage Act by the vendor

Qualified Energy Conservation Bonds (QECCBs)

Nuts and Bolts

Issuance of QECCBs:

- In most states proceeds must be spent within three years of issuance
 - Texas: upon approval of allocation entity must use within three months
- Must have binding commitment with a third party to spend at least 10% of the proceeds within six months
- 2% of proceeds can go toward the cost of issuance
- QECCBs can be used in conjunction with other funding options i.e. Texas LoanSTAR program
- Form 8038-CP must be filed 30 days prior to the first interest payment and 45 days prior to each subsequent interest payment date
- Interest payments on QECCBs are subject to sequestration

Qualified Energy Conservation Bonds (QECCBs)

Financing Structures and Security

Financing Structures:

- Lease and Installment Purchase Agreements
- Bond, i.e. General Obligation or Revenue

Security:

- Collateral, i.e. equipment, property
- Revenues, including enterprise funds or contracted revenue
- General Obligation
- Subject to appropriation

Qualified Energy Conservation Bonds (QECCBs)

Interest Rate

Interest Rate:

- Interest rate is taxable
- US Treasury provides an interest rebate to the QECCB issuer which is the lesser of 70% of the Qualified Tax Credit Rate (QTCR) or the interest rate on the obligation
- Maturity varies and is set by the US Treasury, can be as long as 30 years
- Example of the interest rate calculation:

Taxable Rate	3.75%
Rebate (4.0% (QTCR) x 70%)	<u>2.80%</u>
Net Interest Rate Cost	0.95%

Qualified Energy Conservation Bonds (QECCBs)

Texas

QECCB Allocation:

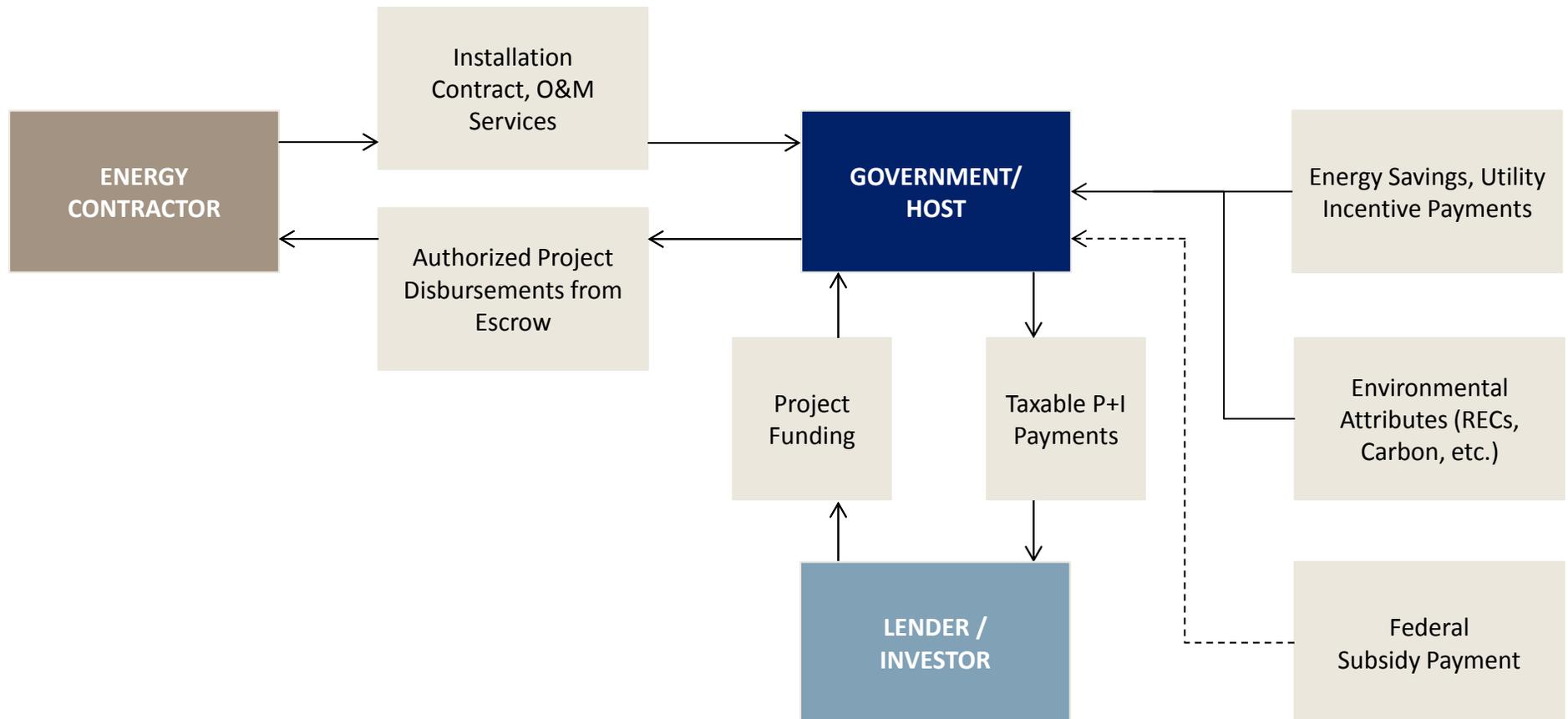
- State allocation of \$252,378,000
 - 59 municipalities received \$205,881,203 in sub-allocations
 - Six municipalities waived their portion to the State
 - One municipality (City of Houston) issued \$9,635,437 of their \$23,373,147 allocation
 - Two municipalities (City of San Antonio and Brazoria County) issued all or a portion of their allocation to a 3rd party



Available QECCB allocation for Texas: \$252,378,000

Federal Direct Pay Subsidy Obligation Structure

Federal Direct Pay Subsidy Obligation Funding Mechanism for Energy Related Projects



Qualified Energy Conservation Bonds (QECCBs)

2009 Nationwide Allocations¹

QECCB Allocation By State

AK	\$ 7,120,000
AL	\$ 48,346,000
AR	\$ 29,623,000
AZ	\$ 67,436,000
CA	\$ 381,329,000
CO	\$ 51,244,000
CT	\$ 36,323,000
DC	\$ 6,140,000
DE	\$ 9,058,000
FL	\$ 190,146,000
GA	\$ 100,484,000
HI	\$ 13,364,000
IA	\$ 31,150,000
ID	\$ 15,809,000
IL	\$ 133,846,000
IN	\$ 66,155,000
KS	\$ 29,070,000

QECCB Allocation By State

KY	\$ 44,291,000
LA	\$ 45,759,000
MA	\$ 67,413,000
MD	\$ 58,445,000
ME	\$ 13,657,000
MI	\$ 103,780,000
MN	\$ 54,159,000
MO	\$ 61,329,000
MS	\$ 30,486,000
MT	\$ 10,037,000
NC	\$ 95,677,000
ND	\$ 6,655,000
NE	\$ 18,502,000
NH	\$ 13,651,000
NJ	\$ 90,078,000
NM	\$ 26,975,000
NV	\$ 20,587,000

QECCB Allocation By State

NY	\$ 202,200,000
OH	\$ 119,160,000
OK	\$ 37,787,000
OR	\$ 39,320,000
PA	\$ 129,144,000
RI	\$ 10,901,000
SC	\$ 46,475,000
SD	\$ 8,343,000
TN	\$ 64,476,000
TX	\$ 252,378,000
UT	\$ 28,389,000
VA	\$ 80,600,000
VT	\$ 6,445,000
WA	\$ 67,944,000
WI	\$ 58,387,000
WV	\$ 18,824,000
WY	\$ 5,526,000

Qualified Energy Conservation Bonds (QECCBs)

Resources

Texas Bond Review Board

- http://www.brb.state.tx.us/programs_qecb.aspx

National Association of State Energy Officials

- <http://www.naseo.org/financing-resources-qecb>

Questions

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