

Update on
QECBs, Sequestration & WHEEL

Elizabeth Bellis, Energy Programs Consortium

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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

- 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. These payments are subject to sequestration (discussed below).
- Maturities are also set periodically and have ranged from 12 to 22 years (see Treasury Direct website)

QECB Review

- “Sequestration” -- government-wide budget cuts mandated by the Budget Control Act of 2011.
- The sequester reduction is applied to section 6431 amounts claimed by an issuer on any [Form 8038-CP](#) filed with the Service which results in a payment to such issuer on or after March 1, 2013.
- As determined by the Office of Management and Budget, payments to issuers from the budget accounts associated to these qualified bonds are subject to a reduction of **8.7%** of the amount budgeted for such payments.
- The sequestration reduction rate will be applied until the end of the fiscal year (September 30, 2013) or intervening Congressional action, at which time the sequestration rate is subject to change.
- It is unclear whether the sequester reduction applies to tax credit QECB issuances that did not opt for direct payments and file Form 8038-TC rather than 8038-CP, as the IRS statement does not mention these issuances. EPC is looking into this.

Sequestration & QECBs

- Originally OMB released a report in 2012 stating the subsidy payments for the federal fiscal year ending September 30, 2013, may be cut by 7.6%.
- OMB has now indicated in a report to Congress dated March 1, 2013, that the current percentage reduction will be 5.3%.
- The 5.3% is the overall reduction in the program's total FY 2013 level.
- Since the beginning of FY 2013 last October 1 some issuers have received payments that were not reduced. In order to achieve the overall annual savings of 5.3 percent, the remaining payments will have to be cut by a larger percentage.
- The Tax Exempt Bond office ("TEB") of the Internal Revenue Service has now advised that subsidy payments to issuers through September 30, 2013, will be reduced 8.7%.

Where did 8.7% come from?

Existing Issuers

- Existing issuers face higher net interest payments.
- Many existing issuers have the right to repurchase their QECBs in the event of a subsidy reduction.
 - Such issuers may weigh alternative capital sources that could be drawn upon to fund a repurchase, and the costs thereof (including transaction costs) relative to the increase in interest payments on QECBs.

What Does It Mean?

- Future issuers may consider tax credit QECBs in lieu of direct pay QECBs if they are exempt from sequestration.

What Does It Mean?

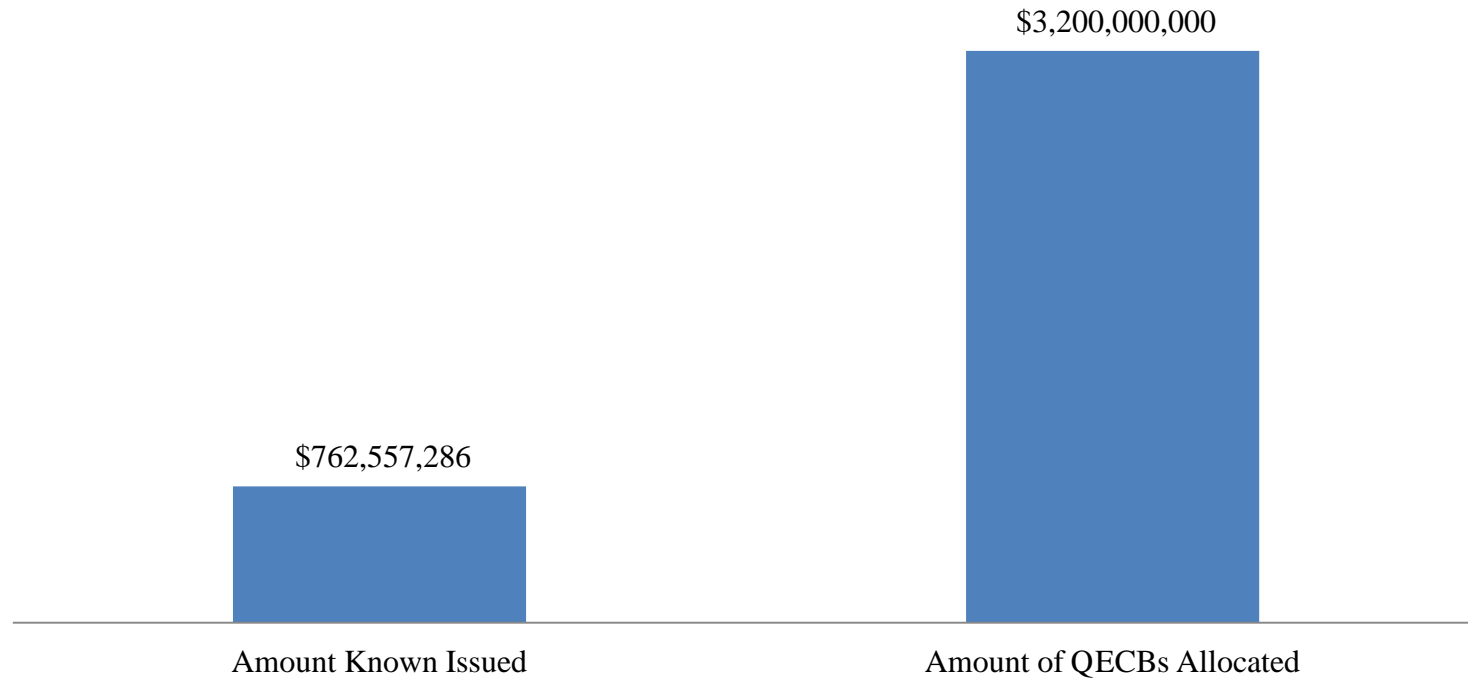
- Out of \$3.2 billion allocated, EPC has been able to identify only \$762.6 million of known issuances as of March 1, 2013, leaving about \$2.44 billion unaccounted for. This represents a national utilization rate of only 23.83%.
- State utilization rates range from complete lack of known utilization to complete exhaustion of allocation (100% issued in Kansas).
- Twenty-five states are not known to have issued any QECBs.

How much money is left?

- Do QECCBs cover administrative costs?
 - Special rule for green community loan program issuances?
 - Your experiences?

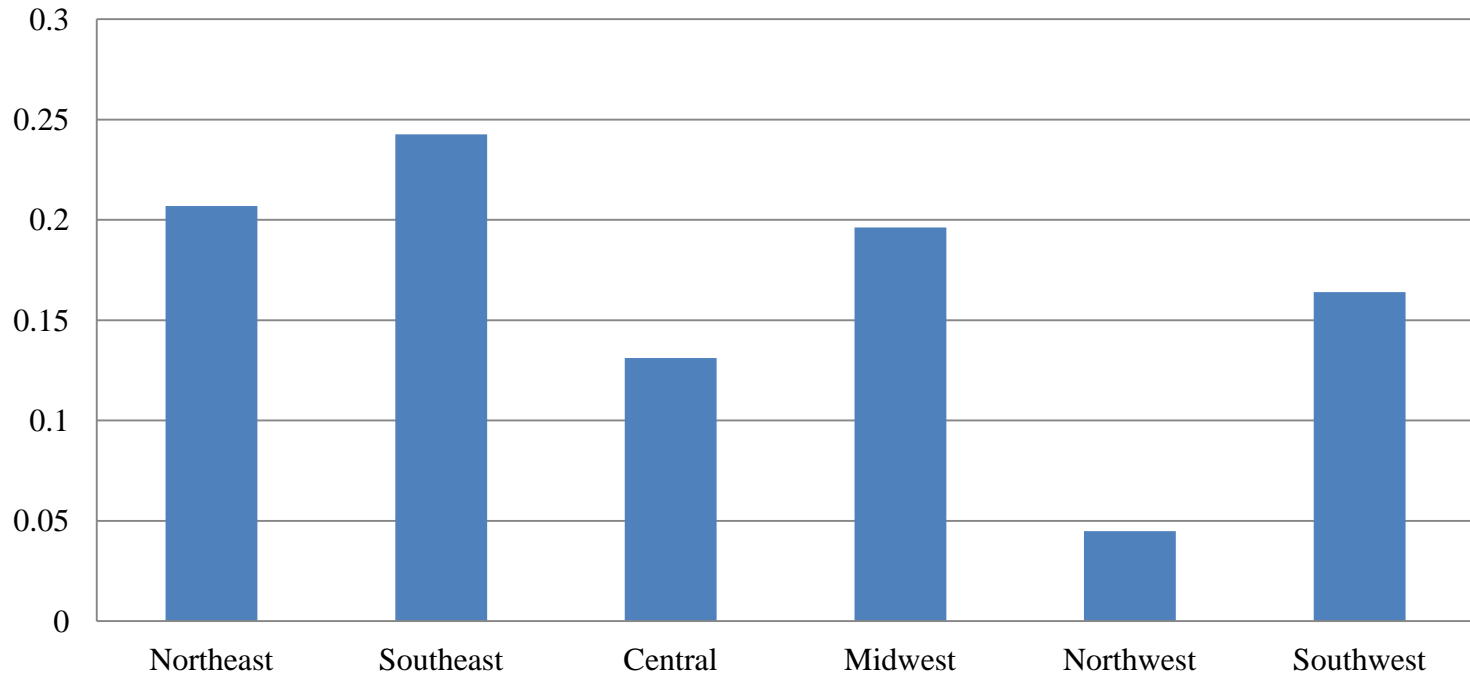
Administrative Costs

QECBs Known to be Issued v. Allocated



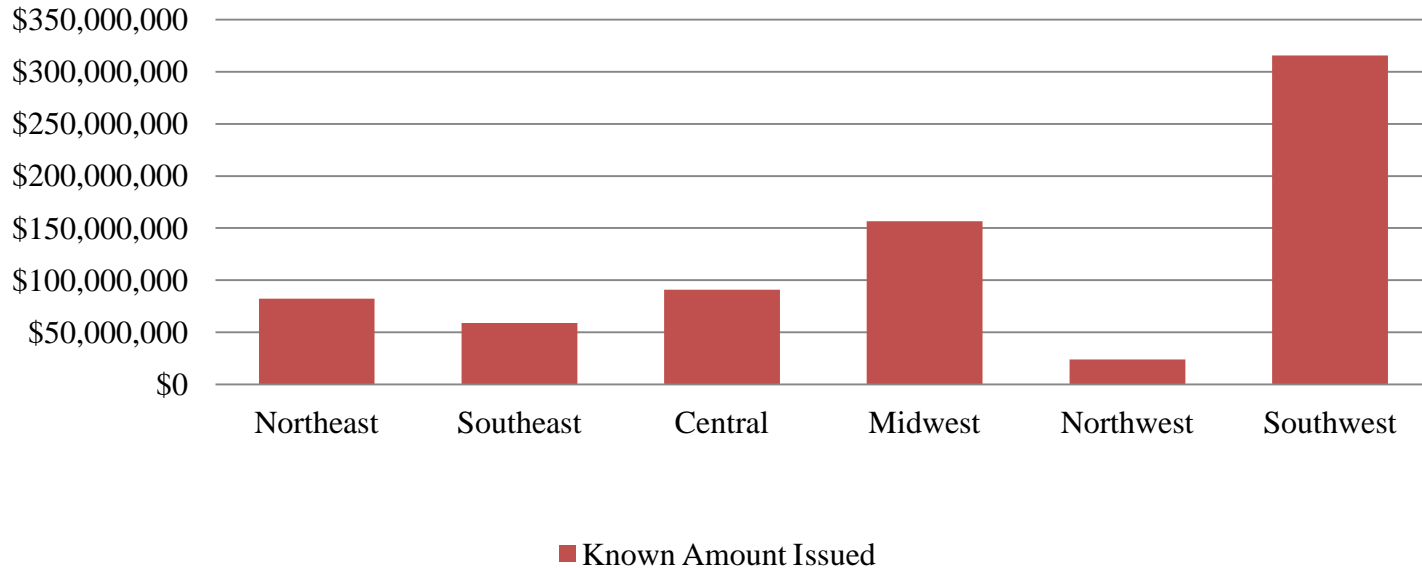
QECB Allocation

Percent of Total Allocation, By Region



QECB Regional Allocation

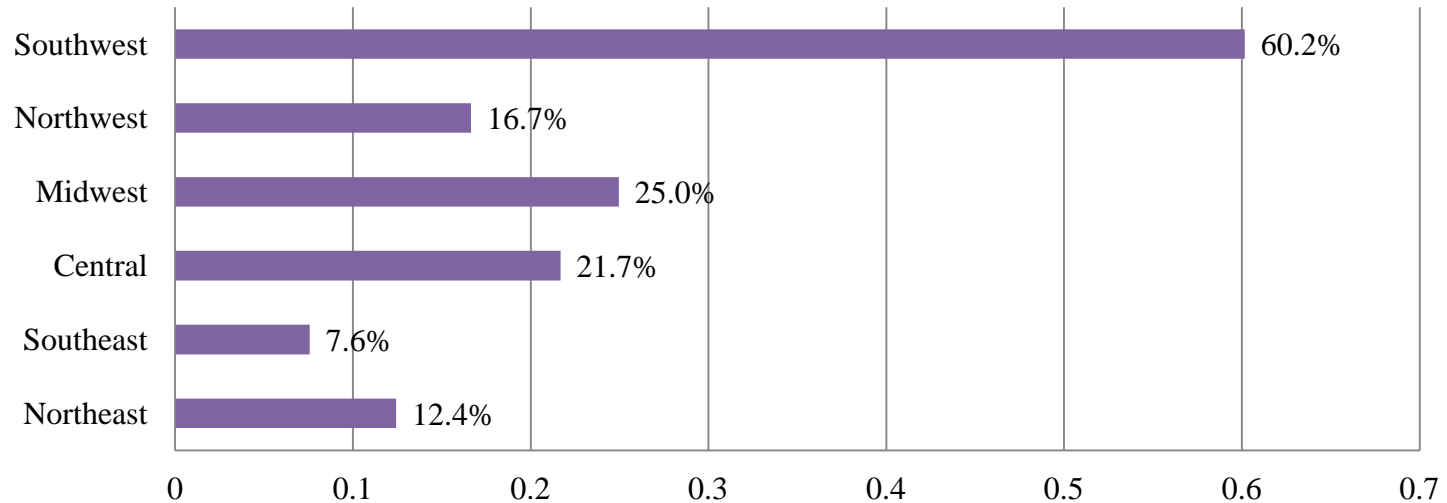
Known QECC Issuances by Region



QECC Issuances by Region

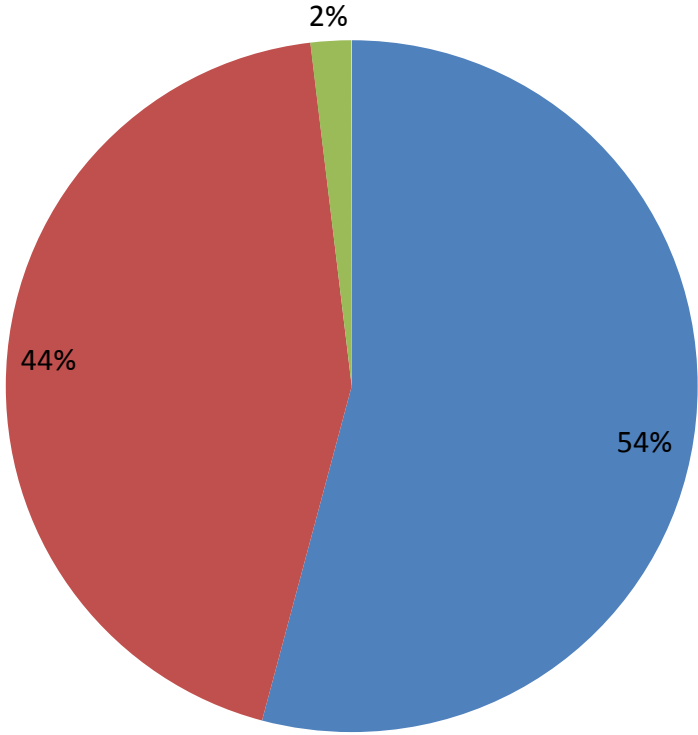
Proportion of Allocations Utilized, by Region

■ % Known Issued of Allocated



QECCB Utilization by Region

Use of QECBs



- QECBs Known to be Issued for Energy Efficiency Projects
- QECBs Known to be Issued for Renewable Energy Projects
- QECBs Known to be Issued for Green Communities Projects

QECBs by USE

- 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>

Where can I find more information?

- A collaboration between EPC, Pennsylvania Treasury Department, Renewable Funding and Citigroup Global Markets
 - Supported by the National Association of State Energy Officials (NASEO)
- Energy efficiency financing programs require two sources of funding:
 - Credit enhancement funds to mitigate risk and support attractive financing
 - Private capital to fund the majority of the loan principal
- WHEEL provides low-cost, large-scale private capital to state and local government and utility-sponsored residential energy efficiency loan programs
 - WHEEL facilitates this by purchasing & aggregating loans to support the issuance of investment grade-rated securities
 - A robust secondary market supports more attractive financing with less dependence on public subsidy
 - Opportunity for “zero net subsidy” financing as sponsor revenue can exceed initial contribution

Introduction to WHEEL

- Pennsylvania Treasury began its Keystone Home Energy Loan Program (Keystone HELP) expecting to hold loans to term
- Keystone HELP volumes exceeded expectations:
 - Keystone HELP just celebrated 10,000th loan
 - Treasury noted it was on pace to exhaust all the funds available for this class of assets
 - Without additional available capital, HELP would need to stop offering financing
- Treasury realized a functioning “secondary market” would be necessary to continue Keystone HELP
- WHEEL was designed to provide capital to fund Keystone HELP and similar programs around the country

Keystone HELP and WHEEL

- Kentucky has committed funds to WHEEL.
- WHEEL is accepting additional state, local and utility sponsors.

WHEEL status



Elizabeth Bellis

Director, QECCB & WHEEL Programs, EPC

Email: ebellis@energyprograms.org

Questions?

Please keep in touch.
