Qualified Energy Conservation Bonds
Brief Sheet

The essentials

- A Qualified Energy Conservation Bond is a qualified tax credit bond allocated by the Treasury Department to all 50 states, Washington, D.C. and tribal governments.
- Federal funds are available for local energy efficiency programs, renewable energy production, technology research and commercialization projects throughout Arizona.
- About $67 million allocated to Arizona.
- The funds are not being used due (at least in part) to lack of intergovernmental communication and guidance.

What is a Qualified Energy Conservation Bond?[1] It is a qualified tax credit bond allocated by the Treasury Department to all 50 states, Washington, D.C. and tribal governments. The states, etc. then sub-allocated to large local governments, i.e. counties or municipalities with populations of 100,000 or more. These large local governments are tasked with issuing QECBs to investors and using the resulting funds to support "qualified conservation purposes."

Under the Internal Revenue Code § 54D(f), "qualified conservation purpose" is defined fairly broadly. It includes: A) capital expenditures incurred for purposes of energy efficiency projects achieving at least 20% energy savings in publicly owned buildings, implementing green community programs, and energy generation from renewable energy sources for rural development; B) research support for development of biofuels or other nonfossil fuels, carbon capture and sequestration, increasing efficiency of current renewable energy technologies, improving vehicle fuel consumption efficiency and storage, and energy conservation in buildings; C) public transportation and pollution reduction efforts; D) demonstration projects to jumpstart commercialization of green building technologies, biofuels, battery manufacturing technologies, peak electricity use reduction technologies, and carbon capture and sequestration technologies; and E) energy efficiency education campaigns.

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[1] In 2008, the IRS was given the authority to establish a qualified tax credit bond program under the Tax Extenders and Alternative Minimum Tax Relief Act, § 54D. The bond program was initially limited to $800 million and extended to $3.2 billion under ARRA. Retrieved from http://www.irs.gov/pub/irs-drop/n-09-29.pdf.

How much was Arizona allocated? The Treasury Department allocated $67,436,000 to Arizona.[2] The Arizona Commerce Authority sub-allocated these funds to each large local government based on the population proportion of each locality (e.g., Mesa has a pop. of 452,933, and was allocated a total of $4.8 million).[3]

How much has Arizona issued, and where? This is uncertain, because local government agencies are not sharing issuance information. According to data collected from various sources such as the DOE and Wells Fargo, the Energy Programs Consortium estimate that only Tempe and Tucson have issued funds totaling $14,320,000, or just 21% of the funds allocated to all of Arizona.[4] The type of projects funded were not specified.

However, according to the ACA, QEBC-issuers projects must fund "shovel-ready" projects within six months of receiving the QEBCs, otherwise the allocation is automatically returned to the ACA for reallocation.[5] These sub-allocations were made in either 2010 or 2011 and it is unclear as to whether this rule has been suspended due to the IRS' failure to provide guidance as discussed below.

Why haven't more local governments issued their allotted QECBs to fund qualified conservation projects? According to a January 12, 2012 letter from multiple organizations to President Obama, the IRS itself has been a main obstacle to the issuance of QECBs and the funding of "qualified conservation purposes."[6] Issuers and bond counsel have looked to the IRS to further define "qualified conservation purpose," but the IRS has failed to provide specific guidance. Without further guidance, issuers and bond counsel are reluctant to apply funds to projects that may or may not fall within the IRS' definition of a qualified purpose. Their reluctance is particularly strong because the IRS/Treasure Dept. will be auditing the QECB-funded projects according to the as-yet-unspecified IRS interpretation of § 54D.

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[2] Elizabeth Bellis, Energy Programs Consortium Memorandum, retrieved from http://www.naseo.org/resources/financing/qecb/index.html

[3] See, ACA allocation matrix, retrieved from http://www.azcommerce.com/qecb.aspx

[4] Note that the EPC's Tempe and Tucson issuance estimates conflict with the ACA's allocation matrix, *id*.

[5] ACA QECB 2010 Program Guidelines, retrieved from http://www.azcommerce.com/qecb.aspx

[6] Letter to President Obama, retrieved from http://naseo.org/resources/financing/qecb/index.html

Learn more:
The Arizona Commerce Authority website has a brief description of the QECB program as well as a downloadable Arizona allocation matrix and program guidelines.
http://www.azcommerce.com/qecb.aspx

The National Association of State Energy Officials (NASEO) website has an analysis of potential benefits and current obstacles to QECB allocation, overviews of QECB allocation programs around the nation, and links to webinars.
http://naseo.org/resources/financing/qecb/index.html

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