Qualified Energy Conservation Bonds (QECBs)
Federal Subsidies for Interest Expense on Qualifying Debt
What are QECBs?

- Taxable Interest Bonds or Tax Credit Bonds
- Issued to finance projects in public buildings that reduce energy consumption by 20%
  - Architect Certification Required
- Issued to implement “green community programs”
- Interest Payments can be:
  - Subsidized by the Federal Government or
  - The purchaser can receive a Federal Tax Credit
Creation of QECBs

- Created by Congress in 2008 as part of the Energy Improvement Stabilization Act
- Amended in 2009 as part of the American Recovery and Reinvestment Act
  - Increased Volume Caps
  - Liberalized green community provisions
- Amended in 2010 to allow for bonds to be issued as “Direct Pay vs. Tax Credit” greatly expanding the market for these bonds
Direct Pay vs. Tax Credit

- **Tax Credit Bonds**
  - Bond purchasers receive a federal tax credit in lieu of interest
  - Tax credit is taxable income to the purchasers
  - Tax credit rate is published daily by the IRS
    - 70% of published
  - Credit rate is often not sufficient to attract investors – a supplemental coupon is often needed
  - Limited investor pool
Direct Pay vs. Tax Credit

Direct Pay Bonds

- Interest earned by bond holders is taxable
- Issuers receive federal subsidy equal to the lessor of:
  - 100% of the interest payable on the bonds or
  - 70% of the tax credit rate set daily by the Treasury
- Subsidies are currently subject to sequestration (7.2% haircut)

- Issuers must file 8038-CP to receive tax credit
  - At least 45 days but not more than 90 days in advance of the interest payment date
Volume Cap Limitations

- Total State of Illinois Allocation
  - $133,846,000

- Allocation was sub-allocated to counties and municipalities with populations of over 100,000

- IFA received $22,620,783 all of which has been utilized
## Volume Cap Limitations

### City Allocations

<table>
<thead>
<tr>
<th>City</th>
<th>Amount</th>
<th>City</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aurora</td>
<td>$1,778,201</td>
<td>Naperville</td>
<td>$1,485,203</td>
</tr>
<tr>
<td>Chicago</td>
<td>$29,666,445</td>
<td>Peoria</td>
<td>$1,190,634</td>
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<tr>
<td>Elgin</td>
<td>$1,085,427</td>
<td>Rockford</td>
<td>$1,636,106</td>
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<tr>
<td>Joliet</td>
<td>$1,497,510</td>
<td>Springfield</td>
<td>$1,225,428</td>
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</tbody>
</table>
### County Allocations

<table>
<thead>
<tr>
<th>County</th>
<th>Amount</th>
<th>County</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Champaign</td>
<td>$2,021,135</td>
<td>Kankakee</td>
<td>$1,170,159</td>
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<tr>
<td>Cook</td>
<td>$24,948,146</td>
<td>Lake</td>
<td>$7,357,456</td>
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<td>DeKalb</td>
<td>$1,103,086</td>
<td>LaSalle</td>
<td>$1,178,255</td>
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<tr>
<td>DuPage</td>
<td>$8,173,550</td>
<td>Macon</td>
<td>$1,138,705</td>
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<tr>
<td>Kane</td>
<td>$3,038,684</td>
<td>Madison</td>
<td>$2,797,540</td>
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## Volume Cap Limitations

### County Allocations

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<th>Amount</th>
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<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>McHenry</td>
<td>$3,925,988</td>
<td>St. Clair</td>
<td>$2,736,092</td>
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<td>McLean</td>
<td>$1,717,486</td>
<td>Tazewell</td>
<td>$1,371,743</td>
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<tr>
<td>Peoria</td>
<td>$726,949</td>
<td>Will</td>
<td>$5,008,254</td>
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<tr>
<td>Rock Island</td>
<td>$1,540,357</td>
<td>Winnebago</td>
<td>$1,480,857</td>
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<tr>
<td>Sangamon</td>
<td>$804,820</td>
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</tbody>
</table>
Type I – Capital expenditures incurred for purposes of:

- Reducing energy consumption in publicly owned buildings by at least 20%. (Currently most common use) Architect certification required.
- Implementing green community programs. NO IRS Guidance available at this time. ICC Project 1st of this kind in Illinois.
- Rural development involving the production of electricity from renewable energy resources.
- Any facility eligible for the production tax credit under Section 45 of the Internal Revenue Code. (Wind, Solar, Biomass, Geothermal)

Type II – Expenditures with respect to research facilities and research grants to support research in:

- Development of cellulosic ethanol or non-fossil fuels.
- Technologies for the capture and sequestration of carbon dioxide produced through the use of fossil fuels.
- Increasing the efficiency of existing technologies for producing non-fossil fuels.
- Automobile battery technologies and other technologies to reduce fossil fuel consumption in transportation.
- Technologies to reduce energy use in buildings.
Type III – Mass commuting facilities and related facilities that reduce the consumption of energy, including expenditures to reduce pollution from vehicles used for mass commuting.

Type IV – Demonstration projects designed to promote commercialization of:

- Green building technology.
- Conversion of agricultural waste for use in the production of fuel or otherwise.
- Advanced battery manufacturing technologies.
- Technologies to reduce peak use of electricity.
- Technologies for the capture and sequestration of carbon dioxide emitted from combusting fossil fuels in order to produce electricity.

Type V – Public education campaigns to promote energy efficiency (other than movies, concerts and other events held primarily for entertainment purposes).
How are QECBs Issued?

- If issued as a governmental bond, QECBs could be:
  - General Obligation Bonds
  - Funding Bonds
  - PHS Bonds
  - Debt Certificates
  - Alternate Revenue Bonds
  - Limited Tax Bonds based upon existing Debt Service Extension Base

- QECBs are issued as taxable bonds.

- Direct Pay subsidy provides a direct payment subsidy on interest to the issuer.
How are QECBs Issued?

- Project proceeds must be spent to finance qualified projects anticipated to be completed within three years of the issue date.

- No more that 2% of the proceeds can be used to fund costs of issuance of the bonds.

- Any project financed with QECBs is subject to Federal Davis-Bacon Act prevailing wage laws, including private activity bonds financed with QECBs.

- Consider extraordinary call in the event the Federal subsidy is further reduced
Several projects on both Peoria and East Peoria campuses

East Peoria campus project was the construction of a “Sustainability Center” (Green Community Program)

North Peoria Project was the substantial remodeling and repurposing of facilities acquired from the State of Illinois (20% energy savings in public buildings)
Projects located in multiple jurisdictions with QECB volume cap available

- City of Peoria $1,190,634
- Peoria County $726,949
- Tazewell County $1,371,743
Obtaining Volume Cap

Need formal resolutions (prepared by Bond Counsel) from each governing body
- Time needed for board and committee meetings
- Political nature of the process

Volume cap must be spent on projects in the geographic limits of the entity granting the cap
- Unless aggregated through IFA
  - Time constraints
  - Issue must then go through IFA
  - Added costs and time delays
ICC Case Study

- Only Tazewell County Volume Cap Used
  - Delays with obtaining architect’s certificate for energy savings for North Peoria project
  - Need to complete issue by February 28th levy deadline
  - Issue was a funding bond so interest was accruing on the underlying debt certificates
ICC Case Study - Results

- QECB Rate on date of Sale: 4.84%
- 70% of QECB Rate: 3.388%
- Rate on QECB Bonds: 3.600%
- Net Rate (before sequestration): 0.212%

- Total Net Payments: $1,424,447.09
- Principal of QECBs: $1,370,000.00
- Net Interest Cost: $54,447.09

- Net Effective Interest Rate: 0.4559%
### ICC Case Study – Results

#### NET DEBT SERVICE
Illinois Central College
QECBs

<table>
<thead>
<tr>
<th>Date</th>
<th>Principal</th>
<th>Coupon</th>
<th>Interest</th>
<th>Total Debt Service</th>
<th>QECB Credit</th>
<th>Impact of Sequester</th>
<th>Net Debt Service</th>
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Board/Community reaction to QECBs
ICC Case Study

- Suggestions if you are considering a QECB
Questions?

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