

9/23/09



Federal Incentives/Policies for Renewables & Efficiency

Qualified Energy Conservation Bonds (QECBs)

Last DSIRE Review: 04/14/2009

Incentive Type: Federal Loan Program

State: Federal

Eligible Efficiency

Technologies: Yes; specific technologies not identified

Eligible Renewable/Other Technologies: Solar Thermal Electric, Photovoltaics, Landfill Gas, Wind, Biomass, Hydroelectric, Geothermal Electric, Municipal Solid Waste, Hydrokinetic Power, Anaerobic Digestion, Tidal Energy, Wave Energy, Ocean Thermal

Applicable Sectors: Local Government, State Government, Tribal Government

Amount: Varies

Authority 1: [26 USC § 54A](#)

Date Enacted: 10/03/2008

Date Effective: 10/03/2008

Authority 2: [26 USC § 54D](#)

Date Enacted: 10/03/2008 (subsequently amended)

Date Effective: 10/03/2008

Authority 3: [IRS Notice 2009-29](#)

Date Effective: 04/07/2009

Summary:

The *Energy Improvement and Extension Act of 2008*, enacted in October 2008, authorized the issuance of Qualified Energy Conservation Bonds (QECBs) that may be used by state, local and tribal governments to finance certain types of energy projects. QECBs are qualified tax credit bonds, and in this respect are similar to new [Clean Renewable Energy Bonds](#) or CREBs.

The October 2008 enabling legislation set a limit of \$800 million on the volume of energy conservation tax credit bonds that may be issued by state and local governments. However, *The American Recovery and Reinvestment Act of 2009*, enacted in February 2009, expanded the allowable bond volume to \$3.2 billion. In April 2009 the IRS issued Notice 2009-29 providing interim guidance on how the program will operate and how the bond volume will be allocated.

The advantage of these bonds is that they are issued -- theoretically -- with a 0% interest rate. The borrower pays back only the principal of the bond, and the bondholder receives federal tax credits in lieu of the traditional bond interest. The tax credit may be taken quarterly to offset the tax liability of the bondholder. The tax credit rate is set daily by the U.S. Treasury Department; however, energy conservation bondholders will receive only 70% of the full rate set by the Treasury Department under 26 USC § 54A. Credits exceeding a bondholder's tax liability may be carried forward to the succeeding tax year, but cannot be refunded. Energy conservation bonds differ from traditional tax-exempt bonds in that the tax credits issued through the program are treated as taxable income for the bondholder. QECB rates are available [here](#).

In contrast to CREBs, QECBs are not subject to a U.S. Department of Treasury application and approval process. Bond volume is instead allocated to each state based on the state's percentage of the U.S. population as of July 1, 2008. Each state is then required to allocate a portion of its allocation to "large local governments" within the state based on the local government's percentage of the state's population. Large local governments are defined as municipalities and counties with populations of 100,000 or more. Large local governments may reallocate their designated portion back to the state if they choose to do so. IRS Notice 2009-29 contains a list of the QECB allocations for each state and U.S. territory.

The definition of "qualified energy conservation projects" is fairly broad and contains elements relating to energy efficiency capital expenditures in public buildings; renewable energy production; various research and development applications; mass commuting facilities that reduce energy consumption; several types of energy