Using Qualified Energy Conservation Bonds to Promote Energy Efficiency in the Community

Author : Glenn Barnes

Categories : Financing Development, Sustainable Development

Tagged as : Bonds, Energy, energy efficiency, Energy Finance, QECBs, renewable energy

Date : September 27, 2011

Glenn Barnes is Senior Project Director with the Environmental Finance Center based at the UNC School of Government.

This past July, the state issued a letter to notify North Carolina cities and counties of an opportunity to access a relatively inexpensive source of capital: Qualified Energy Conservation Bonds, or QECBs (as covered in this post by Mary Tiger).

These bonds can be issued for a variety of energy projects including installing energy efficiency and renewable energy in public buildings, rural development involving the production of electricity from renewables, certain energy research, mass commuting facilities, demonstration projects, public education campaigns, and green community programs. The green community programs provision is what allows cities and counties to promote energy efficiency in the community at large.

Though the term “green community program” is not defined in the federal statues, the congressional conference report to ARRA indicates that green community programs can include “tax credit bonds to finance retrofits of existing private buildings through loans and/or grants to individual homeowners or businesses, or through other repayment mechanisms.” Importantly, these loans and/or grants do not count towards the unit of government’s 30 percent allocation cap on private activity bonds.

To date, the majority of QECBs have been issued for renewable installations and energy efficiency upgrades for public facilities. There are, however, a few examples of QECBs funding green community programs.

Saint Louis County, MO issued $10.4 million in QECBs to capitalize its Saint Louis County Sustainable and Verifiable Energy Savings (SAVES) residential energy upgrade loan program. Owner-occupied single family homes can borrow up to $15,000 for eligible improvements with terms of 3.5 percent interest and tenors up to 10 years. Saint Louis County SAVES expects to finance approximately 1,400 energy upgrades with its QECB issuance.

The county has a AAA bond rating but pledged an annual appropriation for repayment instead of a general obligation, which meant that the debt was issued as AA+/Aa2, and their effective interest rate with the QECB designation is 0.7 percent. The county is subsidizing the administration and management of the loan program with its Energy Efficiency and Conservation Block Grant funds.

The Berkeley National Lab recently wrote a policy brief about Saint Louis County's loan program which explains the financing mechanisms in greater detail.

The other green community program funded to date with QECBs is Boulder County, CO's Climate Smart commercial PACE program. PACE, or Property Assessed Clean Energy, is a financing mechanism that allows property owners to receive capital from a unit of government for energy efficiency or renewable projects and then repay that capital through a property assessment. In 2010, concerns from the Federal Housing Finance Authority, the federal entity that controls Fannie Mae and Freddie Mac, put most residential PACE programs nationally on hold. But commercial programs have continued in some places.

Boulder County's commercial program provided funding for both energy efficiency and renewable energy projects, and eligible participants in the PACE program included commercial and institutional properties including non-profits, apartment buildings, small manufacturing facilities and multifamily, low-income and/or elderly housing complexes.

In 2010, the county accepted applications for potential projects from commercial entities. Once those applications had been approved, they issued two QECBs for the capital needed for the program. The effective interest rate to the county with the QECB designation was under 2 percent.

These programs and others nationally can serve as templates for North Carolina governments interested in green community programs.