



Qualified Energy Conservation Bonds

Last DSIRE Review: 02/19/2009

Incentive Type: Federal Loan Program

Eligible Efficiency Custom/Others pending approval, Yes; specific technologies not

Technologies: identified

Eligible Renewable/Other Solar Thermal Electric, Photovoltaics, Landfill Gas, Wind, Biomass, Hydroelectric, Geothermal Electric, Municipal Solid Waste,

Technologies: Hydrokinetic Power, Anaerobic Digestion, Tidal Energy, Wave Energy, Ocean Thermal

Applicable Sectors: Local Government, State Government, Tribal Government

Authority 1: [H.R. 1424: Div. B, Sec. 301 \(The Energy Improvement and Extension Act of 2008\)](#)

Date Enacted: 10/03/2008

Effective Date: 10/03/2008

Authority 2: [H.R. 1: Div. B, Sec. 1112 \(American Recovery and Reinvestment Act of 2009\)](#)

Date Enacted: 02/17/2009

Effective Date: 02/17/2009

Summary:

Note: This summary is a preliminary interpretation of how the Qualified Energy Conservation Bond program will operate, based on the language of H.R. 1424. The Internal Revenue Service (IRS) has not yet issued any official program guidance defining its interpretation of the law.

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

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. 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.

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 related demonstration projects; and public energy efficiency education campaigns (see H.R. 1424 for additional details). Renewable energy facilities that are eligible for CREBs are also eligible for energy conservation bonds.

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. The overall bond volume will be allocated to each state on the basis of its population, and to each large local government (municipality or county with a population of more than 100,000) within a state according to its share of the state's population. Indian tribal governments are treated as large local governments for the purpose of allocating bonds. Any unused portion of the large local government allocation may be reallocated to other local governments.

For more information on energy conservation bonds, contact Zoran Stojanovic or Timothy Jones of the IRS Office of Associate Chief Counsel at (202) 622-3980.

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