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Energy Conservation Bonds (ECBs)

The American Recovery and Reinvestment Act authorizes $2.4 billion of Energy Conservation Bonds (ECBs) to finance state, municipal and tribal government programs, greenhouse gas reduction initiatives, and loans and grants to implement green community programs.

State and local governments can issue the bonds for a broad range of purposes that include

- capital expenditures to reduce energy use in publicly owned buildings by at least 20%;
- implementing green community programs;
- rural development involving electricity production from renewables;
- research facilities and grants for the development of cellulosic ethanol or other nonfossil fuels;
- technologies to capture and sequester carbon dioxide produced by fossil fuel use;
- increasing the efficiency of technologies for producing nonfossil fuels;
- automobile battery technologies and other technologies to reduce fossil fuel use in transportation,
- or technologies to reduce energy use in buildings;
- mass commuting facilities that reduce energy use (including pollution reduction for vehicles used for mass commuting);
- demonstration projects that promote commercialization of green building technology;
- conversion of agricultural waste for fuel production;
- advanced battery manufacturing technologies;
- technologies to reduce peak electricity demand;
- technologies that capture and sequester carbon dioxide emitted from fossil fuel-fired power facilities;
- and public education campaigns to promote energy efficiency.

Two bonding mechanisms for financing renewable energy and energy efficiency systems have been expanded under the tax section of the American Recovery and Reinvestment Act of 2009, which President Barack Obama signed on February 17. The act authorizes the allocation of as much as $1.6 billion in new Clean Renewable Energy Bonds (CREBs), which are tax credit bonds for financing renewable energy projects. CREBs were previously limited to a maximum of $800 million.

The act also authorizes the allocation of $2.4 billion in qualified **energy conservation bonds**, up from the current limit of $800 million. These tax credit bonds are allocated to states and large local governments to finance a variety of clean energy projects.

Unlike normal bonds that pay interest, tax credit bonds pay the bondholders by providing a credit against their federal income tax. In effect, the new tax credit bonds will provide interest-free financing for clean energy projects. But because the federal government essentially pays the interest via tax credits, the U.S. Internal Revenue Service must allocate such credits in advance.

However, tax credit bonds require the investment of a bondholder that will benefit from the federal tax credits, and those investors may be hard to find during the current business downturn.

To try to draw more investment, a separate measure in the tax bill will allow regulated investment companies to pass through to their shareholders the tax credits earned by such bonds.

Yet another measure adds a prevailing wage requirement to projects financed with CREBs or energy conservation bonds

. See pages 39-41 and 143-149 of the American Recovery and Reinvestment Tax Act of 2009 (PDF 5.9 MB), as well as PDF pages 100-101, 118-123, and 148 of the accompanying joint explanatory statement of the conference committee (PDF 24.9 MB). Download Adobe Reader.

"(4) SPECIAL RULES FOR BONDS TO IMPLEMENT GREEN COMMUNITY PROGRAMS.-In the case of any bond issued for the purpose of providing loans, grants, or other repayment mechanisms for capital expenditures to implement green community programs, such bond shall not be treated as a private activity bond for purposes of paragraph (3).".