

NOTICE OF GUIDANCE
Minnesota Qualified Energy Conservation Bond Allocation and Reallocations
MINNESOTA MANAGEMENT & BUDGET
AUGUST 25, 2010

Background

On April 26, 2010, the IRS issued [Notice 2010-35](#), announcing that Qualified Energy Conservation Bonds (QECBs) and other qualified tax credit bonds now qualify for the new Federal direct payment subsidy option. The direct subsidy payment to the issuer is equal to the lesser of: (a) the interest payable on each interest payment date, or (b) 70-percent of the amount of interest that would be payable on the QECB if the credit rate published by the Secretary of the Treasury on the sale date of the QECB were the interest rate on the bond.

This authority allows QECBs to finance, among other purposes, retrofits of existing public and private buildings through loans, grants or other repayment mechanisms to individual homeowners or businesses. For additional information on QECBs, please visit: <http://www.irs.gov/pub/irs-drop/n-09-29.pdf>.

Summary of Eligible Project Types

- Capital expenditures for the purposes of:
 - Reducing energy consumption in publicly-owned buildings by at least 20 percent;
 - Implementing green community programs;
 - Rural development involving the production of electricity from renewable energy resources; or
 - Programs listed above for Clean Renewable Energy Bonds (CREBs).
- Expenditures on research facilities and research grants, to support research in:
 - Development of cellulosic ethanol or other 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; and
 - Technologies to reduce energy use in buildings.
- Mass commuting facilities and related facilities that reduce the consumption of energy, including expenditures to reduce pollution from vehicles used for mass commuting.
- Demonstration projects designed to promote the 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.
- Public education campaigns to promote energy efficiency.

Issuers of QECBs should consult with their bond counsel about the eligibility of the project to be financed.

At least 70 percent of the allocations must be used for government projects. No more than 30 percent may be used for private activities. Private activity QECB proceeds may only be used for capital expenditures. Additionally, 100 percent of the available project proceeds of QECBs are to be used for one or more qualified conservation purposes.

Direct Allocations

The U.S. Treasury and the IRS determined individual state QECB volume caps. Minnesota received a volume cap allocation of \$54,159,000. The ARRA provides that each city or county meeting a certain population requirement will receive volume cap allocation. Additionally, all tribal communities are eligible to receive a volume cap allocation. A list of direct allocations can be found in Exhibit 1 at the end of this document.

Reallocation Process

ARRA and IRS Notice 2009-29 allows the bonding authority to be reallocated to an eligible issuer within a county or city's jurisdiction, tribal government, or to the state. Chapter 88, Article 6, Sect. 21, of the Laws of 2009, authorized the Commissioner of Minnesota Management & Budget (MMB) to administer volume cap allocations related to bond authority contained in the ARRA. MMB staff will be contacting local and tribal governments to determine whether the original recipient intends to use the authority and requesting that unused authority be returned to the state using the notice of waiver form. This will allow for the creation of a larger, statewide pool of QECBs that all local and tribal governments may then apply to. It is the intention of MMB to maximize the use of QECBs through this reallocation process.

The state's direct allocation (and any allocations returned to the state) will be awarded by MMB and the Department of Commerce (Commerce) through a competitive application process open to local governments and tribal communities. Due to the relatively small amount of direct allocations, MMB will reserve \$5 million of the State's direct allocation (\$19,720,214) in QECB bonding authority for tribal governments. If this authority is not reallocated during the application process it will then become part of the larger, statewide pool and available to all eligible applicants. MMB will accept applications for the QECBs reallocated using reallocation request form developed by MMB and Commerce. Requests for reallocation must be received no later than 4:30pm on Friday, September 10, 2010.

As bonds are issued, MMB requests that the issuing authority complete the one-page notice of issue form. All forms and application materials can be found on the MMB website under "Bonding."

Contact Information

For more information about QECBs and other bond financing opportunities, visit MMB's website at www.mmb.state.mn.us/fin/bonds, or contact Susan Gurrola, Treasury-Debt Management, at (651) 201-8046 or sue.gurrola@state.mn.us.

This Guidance is provided to remind applicants of existing federal guidance and is to assist when receiving and/or awarding contracts using funds made available under ARRA. It is the responsibility of awarded applicants to ensure compliance with all ARRA regulations and requirements imposed by the Qualified Energy Conservation Bond.

EXHIBIT 1**QECB Allocation of Bonding Authority**

Total Bond Allocation: 54,159,000
 Total State Population: 5,220,393

Large Local Government (LLG)	Population as of 7/1/08	% of State Population	Est. Allocation
Anoka	327,090	6.27%	\$ 3,393,397
Dakota	392,755	7.52%	\$ 4,074,639
Hennepin	758,383	14.53%	\$ 7,867,849
Minneapolis, City of	382,605	7.33%	\$ 3,969,338
Ramsey	221,838	4.25%	\$ 2,301,460
St. Paul, City of	279,590	5.36%	\$ 2,900,608
Rochester, City of	100,413	1.92%	\$ 1,041,735
St. Louis	196,864	3.77%	\$ 2,042,367
Scott	128,937	2.47%	\$ 1,337,658
Stearns	147,076	2.82%	\$ 1,525,841
Washington	229,173	4.39%	\$ 2,377,557
Wright	119,701	2.29%	\$ 1,241,839
Tribal Reservations*			
Bois Forte	657	0.01%	\$ 6,816
Grand Portage	557	0.01%	\$ 5,779
Fond du Lac	3,728	0.07%	\$ 38,676
Mille Lacs	4,704	0.09%	\$ 48,802
Leech Lake	10,205	0.20%	\$ 105,872
Red Lake	5,162	0.10%	\$ 53,553
Upper Sioux	57	0.00%	\$ 591
Lower Sioux	335	0.01%	\$ 3,475
Prairie Island	199	0.00%	\$ 2,065
Shakopee	338	0.01%	\$ 3,507
White Earth	9,192	0.18%	\$ 95,362
LLG Total (incl. Tribes)	3,319,559	63.59%	\$ 34,438,786
State of Minnesota (direct)	1,900,834	36.41%	\$ 19,720,214
Total	5,220,393	100.00%	\$ 54,159,000

Note: Population totals as of July 1, 2008, from www.census.gov/popest/archives/2000s/vintage_2008/

* Tribal populations based on 2000 Census data