Clean Renewable Energy Bonds (CREBs)

Presented by:

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The Energy Tax Incentives Act of 2005 authorized $800 million of tax credit bonds for renewable energy projects. SF 2401 authorized additional $400,000,000 – application to be noticed March 2007, due July 2007 and approved end of 2007.

The new bonds are called “clean renewable energy bonds,” or “CREBs.”
“Capture the Low Hanging Fruit”
Private Tax Incentives
Put Megawatts on the wires in 24 months.
Qualified Issuers:

State, local, or tribal governments
Cooperative electric companies
Certain cooperative lenders
CREBs Are Tax Credit Bonds:

Qualified Zone Academy Bonds (QZABs)
Gulf Tax Credit Bonds (Katrina Bonds)
Gulf Opportunity Zone Bonds (GOZB’s)
Tax credit reduced by individual or corporate tax rate.

Resulting tax credit (net tax credit) reduces tax liability “dollar-for-dollar”

Transactions will require “Original Issue Discount” (OID) to raise investor yields to market levels. (1.0 – 1.25%)

Example: $3,000,000 transaction over 15 years saves $1,513,000 @ 5.60%
Qualified Renewable Energy Projects:

Wind
Closed or open loop biomass
Geothermal or solar
Small irrigation power
Landfill gas
Waste-to-energy
Refined coal production (clean coal)
Qualified hydropower
95% of CREB proceeds must be used for capital expenditures.

95% of the net proceeds will be spent within 5 years.
General Characteristics of Tax Credit Bonds:

Virtual Interest-free loan
Bondholder receives Federal tax credit
Federal government effectively absorbs interest expense
Credit is included in bondholder’s income
IRS sets credit rate daily for each maturity (Now: 4.51% - 5.60%)
IRS sets maximum maturity daily (Now 15 years!)
Issuers must apply to IRS for an allocation.
IRS will allocate bond authority.
$500 million was allocated to State, local or tribal
governments in Phase #1.
$250 million to be allocated to governments in
Phase #2.
Round #1 Results: 786 applicants, 610 approved,
Size: $23,000 - $3,200,000, Types: 400 solar, 99
wind, 23 landfill, 8 hydro, 1 biomass.
Application Requirements:

File with the IRS by April 26, 2006 (Phase #1), (July 1, 2007 – Phase #2), (1st Quarter 2008 – Phase #3);
Identify the qualified borrower;
 Demonstrate project constitutes a qualified project;
 Indicate date the project will be placed in service;
 Certification by an independent, licensed engineer the project will be technically viable;
Application Requirements:

Indicate the location of the project;
Describe a plan to obtain all regulatory approvals;
Description of the plan of finance, anticipated amount and date of issuance, sources of security and repayment for the bonds;
Official “action” by applicant public body
Eligible projects will be allocated the full amount of authority requested beginning with the project(s) for which the smallest amount has been requested and continuing with the project(s) for which the next-smallest amount has been requested until the total authority has been allocated.

In the event that $400 million in the aggregate has been allocated to projects for State, local or tribal governments, the remaining authority will be allocated, under the above-described methodology, only to eligible projects of mutual or cooperative electric companies.
Arbitrage Restrictions:

The arbitrage restrictions applicable to tax-exempt bonds generally apply to CREBs.
In pooled financings, conduit borrowers must enter into written loan commitments before the bonds are issued.
CREBs issuers must file information reports with the IRS similar to the reports required for tax-exempt bonds.
CREBs must be issued before December 31, 2008 (2nd Phase).
Current Situation:

Senate File 2401 – Grassley/Baucus – Passed December 2006
Extension of CREBs through December of 2008
$400,000,000 Annual Allocation
Projects allocated fund up to $3,200,000
Extension of CREBs under consideration through 2010