



MEMORANDUM

TO: Qualified Energy Conservation Bond (QECB) Allocation Recipients

FROM: Governor's Office of Management and Budget

DATE: July 12, 2010

RE: Qualified Energy Conservation Bond Allocation

The Governor's Office of Management and Budget ("GOMB") makes the initial allocations of the State of Illinois' qualified energy conservation bond (QECB) allocation to large local governments in the State of Illinois (the "State"). QECBs may be used by governmental issuers to finance certain types of energy conservation and renewable energy projects (please see further discussion below). Federal guidance on QECB allocations directs the states to distribute separate allocations to each large city or county that has a population of 100,000 or more and to Indian tribal governments based on a ratio of the jurisdiction's population to the state's population as a whole. The State will use its remaining QECB allocation to provide for projects inside the State. Attached hereto is an allocation spreadsheet which shows your jurisdiction's QECB allocation. **Please note that at least 70% of your jurisdiction's allocation must be used for governmental purposes.** Up to 30% of your jurisdiction's allocation may be issued as private activity bonds, which are bonds that benefit businesses or individuals. The attached allocation spreadsheet further breaks down your jurisdiction's allocation to reflect this 70/30 ratio.

GOMB wishes to remind each recipient of QECB allocation that it can voluntarily waive its allocation to the Illinois Finance Authority ("IFA") at any time for re-allocation by the IFA to other qualifying energy projects in the State. As required by law, each county or city receiving a QECB allocation must report any issuances of QECBs to the IFA via the IFA's website (www.il-fa.com) within 30 days of the date such QECBs are issued.

QECCBs are qualified tax credit bonds. With tax credit bonds, generally the issuer of the bond 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, QECCB holders 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. QECCBs differ from traditional tax-exempt bonds in that the tax credits issued through the program are treated as taxable income for the bondholder.

For QECCBs issued after March 18, 2010, the bond issuer may make an irrevocable election to receive a direct payment from the Department of Treasury for interest on the QECCBs. For these types of QECCBs, the amount of such payment with respect to any interest payment date under the bond is equal to the lesser of (i) 100 percent of the amount of interest payable under the bond on such date; or (ii) 70 percent of the amount of interest which would have been payable under such bond on such date if such interest were determined at the applicable tax credit rate as described in the preceding paragraph. The direct payment comes in the form of a refundable tax credit to the issuer in lieu of a tax credit to the bondholder. This option was formerly limited to Build America Bonds. The advantage of either option is that it creates a lower effective interest rate for the issuer because the federal government subsidizes a portion of the interest costs.

For more information regarding the QECCB program or to waive your QECCB allocation to the IFA for re-allocation to other qualifying projects in the State, please contact Kim Du'Prey at (312) 651-1364. Thank you for your continuing cooperation and your efforts to revitalize the Illinois economy.