

***Testimony from Representative Chris Tuck and Staff
for House Energy Committee Hearing on HB 278, March 9, 2010***

Hello, I am Chris Tuck, Representative for District 29, also known as the Dimond Business District.

Thank you co-chairs Millet and Edgmon and the rest of the members on the House Special Committee on Energy for considering HB 278 and allowing me to present it here today.

I would like to do a quick overview and then pass this onto my team member, Aurah Landau.

Currently, the Alaska Housing and Finance Corporation's Energy Rebate Program, combined with the Weatherization Program, is successfully helping some Alaskan families to live more comfortable by improving their homes, keeping them warm, and saving them money on their energy bills. At the same time, this program is creating and sustaining good paying jobs.

The Energy rebate program is very successful already, with a 70% completion rate. Once families are able to make the initial investment, the payback is huge for Alaskans who can reduce their energy costs. Families are saving thousands of dollars on their energy bills.

Along with this program, we're keeping our energy efficiency trades jobs growing. Orders for doors, windows and insulation are filling construction supply shops. Alaskan plumbers, electricians, heating suppliers, drywallers, and other contractors are keeping busy year-round with the work coming from residential home energy improvements.

However, due to a tougher economy and high energy costs, we are finding that many middle class families are strapped for cash and are having a hard time taking advantage of this program.

People are going into high credit card debt and trying to keep afloat until they get reimbursed. It puts people in a dangerous situation. The people who need it the most are ones already pinching pennies.

They make too much to qualify for a low-income weatherization program and don't have several thousand dollars up front for efficiency upgrades, even with a state reimbursement likely down the road.

Rural Alaska households face especially high energy costs, which leaves those families without the money to make an upfront investment.

We hope to solve that with HB 278 by putting energy saving opportunities at their fingertips and include more families into the program, which will help more Alaskans improve their quality of life and build savings.

Here's how the bill works:

- HB 278 will make it easier for more Alaskan families and businesses to participate in the state's energy efficiency rebate program. It's a huge opportunity to keep our tradesmen working year round, and to train up new workers and keep them in Alaska.
- HB 278 would simply allow the homeowner to get a voucher which says the state is good for that same amount of money. The homeowner can use that voucher to work with contractors and supply shops who want to accept the voucher, to get energy efficiency work done without needing cash in hand.
- HB 278 is a simple authorization for the voucher concept. Alaska Housing and Finance Corporation will go through the administrative process of making sure it works smoothly for homeowners, contractors, housing authorities and others who might be involved in voucher-based energy efficiency upgrades. This is the same role that Alaska Housing and Finance Corporation has played with the existing energy rebate program.
- HB 278 does not change the amount of energy efficiency payments or the state's level of participation in the home energy efficiency program.

I am going to now turn the microphone over to my staffer, Aurah Landau, to explain more about how this could work.

Hi, thank you. For the record, my name is Aurah Landau, staff to Representative Chris Tuck.

Firstly, I want to follow up on the need for a voucher-type program

AHFC is surveying those who have completed the program, and have found that about 1/5 of those people are not completing their energy work because they don't have the funds. If we extrapolate that out to the 28K people who have signed up for the energy rating, we know that we already have about 5,600 people who could use the voucher program. That doesn't even include the people who haven't applied because they don't think they could squeeze a few thousand out of their household budget.

One of the things AHFC is finding, and I hope I'm not stealing their thunder here, is that roughly 70% of people who start the rebate program are finishing. People are lining up around the state to access energy efficiency funds, to make their homes more comfortable. That tells us many more would take advantage of the program if they could even afford to enter it.

This is also a jobs bill.

My husband and I just got our final rating last week, and one of the contractors we're working with suggested the concept of a voucher because, as he said, lots of folks can't afford to pay up front out of

pocket. He also said that he was staying busy when his colleagues down south were having to take all kinds of dinky jobs just to pay the bills and even those jobs were getting scarce. I just have to tell you too, that the lumber yard where my husband and I got our insulation material said pink foam was going like candy at Halloween. That's how much business the energy upgrades create.

Some technicalities:

As you'll see in your bill packet, the statute that created the rebate program is very simple. Just a broad authorization to do home energy upgrades. This bill is similarly broad, so, it gives AHFC discretion to set up a voucher program however would work best for all involved. (Review sectional)

AHFC manages hundreds of millions of dollars, a variety of different energy and loan programs, is developing a complex veterans housing program. Because of that, and AHFC's proved ability to develop and manage programs, lawyers in Legislative Legal were very comfortable with this level of authorization.

What is a voucher?

A voucher is simply a document that says that the state is good to up to a certain amount of money for home energy efficiency work. It outlines for the homeowner and the contractor or lumber yard what work is eligible for payment. It also stipulates that payment is made once the final energy audit is done to certify energy gains, and to which entity the payment is made.

How would a voucher system work?

I want to thank AHFC for taking the time to talk through the mechanics of how a voucher system would work. At first, we had some confusion about who would carry the cost of the work, whether this was a loan, a grant, whether banks would have to be involved or what.

I think we all agree that simple is better. In its most simple form, this voucher works nearly identically to how the existing rebate system works.

An energy rater would come to the house to rate the "as-is" efficiency and give the homeowner an energy efficiency improvement options report. Homeowners would pay for this first audit, then get reimbursed.

A sample report is outlined in your packet on page 4 of the summary of existing program. As you can see, it lists the eligible improvements which may be chosen to improve the home's energy efficiency. The report also details which improvements give the best bang for the buck in terms of best improvement in energy rating. So far, this is the same as the existing rebate program.

And here's where the voucher program differs. Along with the report, the homeowner would get a slip of paper – the voucher – which the homeowner can use with contractors or supply houses who wish to honor it, to get work done without having to pay a down payment or payment in full up front.

Then, the rest of the voucher system is basically the same as the rebate program. The homeowner gets the work done or does it themselves, then gets a post-improvement 2nd energy rating which certifies the level of energy efficiency gained. The improvement level triggers the amount of the payment, though the payment is never more than the amount spent and the maximum rebate is \$10,000.

The homeowner is on the hook for all costs above those ok'd by the post-improvement audit – as they are now.

I had a contract lawyer provide some examples of language that could be added to the as-is audit that makes the responsibilities clear. (show sample voucher language) This could simply be included in the report from the energy rater, and then there's no additional application from the homeowner, no fancy accounting at the end. Simple.

So, what changes with the voucher is the timing of the obligation between the homeowner and the supply houses/contractors.

The voucher allows those contractors who want to accept the voucher to know that the state will be good for a certain portion of that money after the work is done, with the post-audit determining exactly how much of the payment will be from the state and how much from the homeowner.

Some contractors and supply yards would be fine with waiting a few extra days or months. Some wouldn't. That's a business decision that each company is best suited to make on their own. We definitely don't want to tell folks how to run their businesses!

To make the voucher work best, the homeowner and the lumber yard or contractors who provides supplies or does the work would both sign off on the reimbursement, and AHFC would send a check to the vendors. Rather than a rebate, the check would be for services performed.

The beauty of the home energy program is that the as-is audit provides a very tight list of what is considered qualified expenses. So, the voucher could be technically be fulfilled by whomever who turns in receipts associated with a particular home project.

That is, by the way, how the state's receipt-based refunds are set up now, including ours here in the Legislature for office accounts. Basically, all receipts are considered valid for payment to whomever they are owed to -- as long as the receipts are included in list of qualified expenses and the home energy efficiency program,

In conversations with contractors, a few mentioned they'd like to have this bill limited to contractors who have residential certifications. Unfortunately, that approach would mean that rural areas might have a hard time getting any work done, and homeowners couldn't do work themselves.

There's been some discussion of whether it would be better to have the regional housing authorities manage a voucher program.

While I don't want to speak for any housing authorities, I thought that the varied feedback – which ranged from Bering Straits Housing Authority saying they like the idea and would consider forming a subsidiary to do it, Tlingit and Haida Housing Authority saying they support the voucher idea, to folks out in SW saying they thought the lack of contractors would hamper usefulness in some areas – indicated that a more flexible structure would work best for the varied needs around the state. Also, while, this bill is a step towards making energy efficiency more available, it can't solve all the problems at once.

Interestingly, SAGA here in Juneau is training a new weatherization crew to go out and do weatherization in partnership with Tlingit and Haida Housing Authority. They've been trained in weatherization with the hope that they could travel around AK and help in areas where contractors could use manhours or contractors aren't working.

Just a quick note, this bill reaches a group of people who are not served by any other energy efficiency program. Weatherization is income based. The rebate requires people to have money in their pocket, which many folks don't have. The loan program is a second mortgage, and only about 100 people have done it around Alaska. It's understandable that many families might not want to take out a second mortgage, go through the paper work, have the impact to their credit rating, and more to just access a few thousand dollars for 18 months.

One more bit...We were very surprised by the fiscal note because AHFC had mentioned before that maybe one position would cover the voucher change. I'm going to guess that the change came from AHFC assuming that a voucher was similar to a loan program or a check sent before work was done. Now that we're cleared up, I hope the fiscal note will drop down.

Ultimately, if the point of the program is to get more families living in more comfortable affordable houses, and put people to work doing it, the legislature can through this bill, direct AHFC to make that happen.