

HOUSE FINANCE COMMITTEE
April 3, 2008
8:42 a.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [8:42:54 AM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Richard Foster
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

None

ALSO PRESENT

John Weise, Staff, Senator Lyman Hoffman; Brian Butcher, Legislative Liaison, Alaska Housing Finance Corporation; Dan Fauske, CEO/Executive Director, Alaska Housing Finance Corporation.

PRESENT VIA TELECONFERENCE

Bob Breen, Director, Alaska Housing Finance Corporation.

SUMMARY

HB 366

"An Act relating to an exemption from public disclosure of certain appropriations from the dividend fund; and providing for an effective date."

SB 303 was SCHEDULED, but NOT HEARD.

SB 289

"An Act relating to home energy conservation and weatherization for purposes of certain programs of the Alaska Housing and Finance Corporation."

SB 289 was HEARD and HELD in Committee for further consideration.

SB 303

"An Act relating to certain grants awarded by the Department of Environmental Conservation."

SB 303 was SCHEDULED, but NOT HEARD.

[8:43:26 AM](#)

SENATE BILL NO. 289

"An Act relating to home energy conservation and weatherization for purposes of certain programs of the Alaska Housing and Finance Corporation."

JOHN WEISE, STAFF, SENATOR LYMAN HOFFMAN (SPONSOR), testified in support of the legislation and provided a PowerPoint presentation, "SB 289 Home Energy" (Copy on File.)

Mr. Weise referred to Page 2, Slide 1, "Housing Assessment Survey 2005":

- Estimated Housing Stock 2005 - 278,118
- % older housing (21+ yrs) increasing
- % new housing (0-10 yrs) decreasing
- Households income eligible for weatherization services - 45,000
- Households report being drafty - 45%

Mr. Weise pointed out that the percentage of older housing is increasing while the percentage of newer homes is decreasing. The sponsor's intent is to help with high energy costs for the tens of thousands of homes across Alaska that need assistance.

Mr. Weise reviewed Page 3, Slide 2, "Home Energy":

- Responsive to Alaskans being impacted by high energy costs
- Updates and expands the home energy efficiency and weatherization programs in the AHFC

Mr. Weise reported that the sponsor met with the Alaska Housing Finance Corporation (AHFC) to discuss solutions aimed at helping occupants who are suffering the most. Senate Bill 289 updates and expands two of AHFC's current energy conservation and weatherization programs.

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Mr. Weise discussed Page 4, Slide 3, "Weatherization":

- Focus on energy-efficient improvements
- Direct the available funding to items that will save the most energy
- Typical improvements include air sealing, insulating and improved heater efficiencies

Mr. Weise observed that the bill focuses primarily on energy efficient improvements and directs funding to those items that would save the most energy. Typical improvements include air sealing, insulating, and upgrading heater efficiencies involving water heaters, furnaces, or boilers.

Mr. Weise referenced Page 5, Slide 4, "Energy Efficiency and Weatherization Program":

- Eligibility for home energy efficiency programs extended from 60% to 100% median income.
- Low income Alaskans will continue to receive the priority focus of the program

Mr. Weise pointed out that the existing weatherization program aids Alaskans at the 60 percent median income level or lower. He proposed raising the eligibility for assistance to 100 percent median income while continuing to give priority to Alaskans in the lowest income groups. This extension would create a broader range of income qualifying households approaching the "tens of thousands" number demonstrated earlier. The expansion would allow services to support more Alaskans impacted by high energy costs.

Mr. Weise detailed Page 6, Slide 5, "Median Income Guidelines":

Family Size	60% Median	100% Median
1	\$23,887	\$39,812
2	\$31,236	\$52,060
3	\$38,586	\$64,310
4	\$45,936	\$76,560
5	\$53,286	\$88,810

Each add'l person - 60% \$1378 and 100% \$2296

Mr. Weise observed that a family of one would go from roughly \$24,000 at 60 percent median to almost \$40,000 at 100 percent median. A family of four would go from \$46,000 to almost \$77,000 in income.

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Mr. Weise elaborated on the impact of proposing \$300 million for weatherization programs statewide on Page 7, Slide 6, "SB 289 Impact":

Past Years	\$4.8 million (1.8m federal \$3m AHFC)	600 households	1700 people
Current program	With \$48 million	4167 households	11,800 people
Expanded Program Adjust to 100% median income	\$200 million	17,400	49,000

Mr. Weise went on that in past years, AHFC spent \$4.8 million per year (\$1.8 million federal sources and \$3 million from AHFC sources) to help 600 households or 1700 people a year. Mr. Weiss acknowledged that all Alaskans are struggling with high energy costs but reiterated that the intention behind SB 289 is to make certain that Alaskans suffering the most at the lowest income levels are receiving help first. Under the existing program at the 60 percent median income level with funding jumping up to \$48 million, help would be distributed to little more than 4000 households or 12,000 people falling substantially short of the tens of thousands requiring assistance. By comparison, expanding the program to 100 percent median income and allotting \$200 million to this qualifier, AHFC projects could potentially assist more than 17,000 households or 50,000 people.

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Mr. Weise set forth that the Home Energy Rating Rebate Program portion of the bill stresses the importance of targeting Alaskans who through unfortunate circumstances are living in hard to heat dwellings. Unlike the previous plan, this AHFC program is not dependent on income level. Houses in Alaska are divided into energy ratings from one to five stars. The sponsor intends to allocate \$100 million towards those Alaskans living in residences with the lowest star ratings and provide incentive to increase home energy efficiency. Homeowners would need an "As-is" and a post energy rating assessment. The rebate would be in a step-approach as energy star ratings increase; \$2500 awarded for the first increase in a star rating and \$500 for each

additional star rating on up to a total of \$5,000. Half steps are included.

Mr. Weise recounted Page 9, Slide 8, "Increase Energy Star Ratings of Home":

- 1-step increase, \$2500
- 2-steps, \$3000
- 3-steps, \$3500
- 4-steps, \$4000
- 5 or more steps \$5000

Mr. Weise alleged that the amount of money needed to replace an inefficient boiler and gain the efficiencies would cost somewhere between \$5,000-\$10,000 dollars.

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Mr. Weise read Page 10, Slide 9, "Home Energy Rating Rebate Program":

- Expected 30% reduction in home energy costs
- Up to \$5,000 rebate
- State cost - \$100 million
- Homeowner investment - est \$175 million

Mr. Weise testified that in a past evaluation of the rebate program, AHFC found that on average energy costs were reduced by 30 percent and in some cases as high as 70 percent. The cost or investment to the State would be \$100 million. In addition, Alaskan homeowner investment through self-financing or procuring a loan would be upwards of \$175 million.

Mr. Weise summarized that SB 289 creates an improved and more flexible process to allow AHFC to respond to rising fuel costs across the state. Senate Bill 289 broadens AHFC's scope of influence by helping the organization to reach more Alaskans.

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Mr. Weise noted legal response regarding the removal of references to two private entities, Alaska Craftsman Home Program and Energy Rated Homes of Alaska. He also impressed upon the committee the three categories inserted on Page 3 of the bill: the home energy loan program, rural capital retrofit program, and energy efficiency and weatherization program. The latter primarily targets weatherization activities from the \$300 million proposed in the supplemental appropriation.

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Representative Gara asked Mr. Weise if the \$300 million appropriation is in conjunction with the bill. He further queried the number of improvements that would qualify for a rebate if a person is below the 60 percent median income and owns a home.

Mr. Weise explained that AHFC assesses homes using a program to verify predicted energy savings. Those who qualify for energy savings would extend to 100 percent median income level. All expenses would be paid through AHFC and there would be no out-of-pocket expenses to the homeowner. The retrofits would be subsequently verified by AHFC to affirm that the actions applied increase energy efficiency.

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Representative Gara asked if an applicant below 60 percent of the median income, with a five star upgrade, would receive 100 percent of the rebate.

Mr. Weise elucidated the two prong approach: first, income qualifications or second, energy efficiency verified by AHFC. He avowed that state assistance is available as long as energy savings is confirmed. Those not qualifying under low income would undergo a pre-assessment by AHFC with approval in advance of work proposed. The homeowner would be responsible for either performing the work or contracting a company to do so. The Alaska Housing Finance Corporation would do a post-assessment corroborating the improvements and as long as they were in accordance, a rebate would arrive to match the program model in energy star ratings.

Representative Gara asked if there would be an income cap.

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Mr. Wiese observed that there are no income requirements for the rebate program. Those who apply would most likely have a low energy star rating. A person who lives in a four star home and gets approval from AHFC to rebuild to a five star rating would be reimbursed the rebate amount of \$2500, equal to one rating jump, even if they spent \$10,000.

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Vice-Chair Stoltze asked if the inherent economic value of a home is figured into the formula and what would constitute a bad investment for Alaska Housing Finance Corporation.

Mr. Weise replied that AHFC has engaged in these activities for some time. He felt assured that AHFC would not invest in something that would not result in efficiency.

[8:59:34 AM](#)

BRIAN BUTCHER, LEGISLATIVE LIASON, ALASKA HOUSING FINANCE CORPORATION, explained that the organization would determine what amount of work is reasonable. The previous goal was to spread \$4 million in state and federal funds as widely as possible. In this instance a low sum of \$4,000 turned out to be the average amount spent on a home. With greater monies available there could be an increase to \$7,000 or \$8,000 per house. He reiterated that through the regulation process AHFC would ascertain a reasonable amount of average funds per home.

Vice-Chair Stoltze asked if the priority would be to identify the most efficient approach regardless of esthetic value under a \$7000 cap. Mr. Butcher responded that most energy efficient improvements are relatively inexpensive.

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Mr. Butcher explained the rating process. Based on the pre-evaluation, a homeowner can choose what project to pursue in order to receive a higher rating. The home is assessed again for effective upgrades upon completion, at which point the homeowner is eligible for a rebate.

DAN FAUSKE, CEO/EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, added that with a \$5000 investment, based on oil prices of \$100 per barrel, the return is approximately 57 percent. He underlined that the high rate of return is due to energy efficiency. He noted that in the present economy payback is accelerated and substantial.

[9:04:59 AM](#)

Co-Chair Meyer clarified that the program is contingent upon the \$300 million in the supplemental budget. He understood that \$200 million would be for persons meeting income requirements and \$100 million would be for homes conditional upon authorization by AHFC. Mr. Weise confirmed the statement.

[9:05:23 AM](#)

Representative Nelson asked about the process of requesting a rater in a small community. Mr. Butcher explained that for cost efficiency an energy rater would be scheduled in a community to assess all homes requesting a rating. The organization is currently working on streamlining the process.

[9:06:45 AM](#)

Representative Nelson noted that that there are over 200 villages and inquired about prioritizing by region. Mr. Butcher confirmed that there is a regional breakdown of the state by population and heating days which establishes priority order and monetary distribution.

[9:07:24 AM](#)

Representative Hawker understood that there are two programs within AHFC that have been developed over time under a broader statutory authority. He clarified that they are developed internally within AHFC, not programs that exist independently in statute.

Mr. Bryan Butcher, assented that the practical details are mapped out in the regulations.

Representative Hawker ascertained that the purpose of the legislation is to empower AHFC to define how the programs should operate. Mr. Butcher revealed that there had been discussion internally about raising the median income limit for the weatherization program. He stated that though assistance for low income households will always remain the priority, those above the current median also struggle with energy costs.

[9:09:09 AM](#)

Representative Hawker noted that the change in the median income level would be addressed through internal regulation. Though the provision allows for a broader scope, there is no mandate to make the changes and nothing prohibiting AHFC from establishing the percentage at whatever it deems appropriate. Mr. Butcher agreed.

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Representative Hawker said the policy question is how much control the legislature wants to have and how much control is allowed for AHFC. He asked if a letter of intent should accompany the bill in order to establish parameters.

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Mr. Fauske acknowledged that the intent is clearly to control the program by not leaving it open to abuse. Further, the intent addresses quality of life issues and improvement on the housing stock but most importantly maximizing the reduction of energy use in the state. He emphasized both a desire to be as broad as possible to capture as many homeowners as possible and a desire to stretch funds as far as possible. He was unfamiliar with the effects of a legislative restriction placed on AHFC by writing down the median income requirements.

[9:12:57 AM](#)

Representative Hawker asked if raising the weatherization percentage to 100 percent, would be high enough to maximize the benefit to the State. Mr. Fauske felt that increasing the percentage would be a wise, effective tool in expanding the benefit to more people.

[9:14:11 AM](#)

Mr. Butcher speculated on the exclusion of the median income level percentage in statute. He said that it was not talked about because AHFC can only estimate how quickly funds will be used and how many homes will receive the funds. There will not be certainty with regards to the right percentage until the program is underway for two or more years. Alaska Housing Finance Corporation plans to strive towards 100 percent, but the omission allows AHFC to return to the legislature if adjustments need to be made to administer the program effectively.

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Co-Chair Meyer commented that the bill would be held in Committee and that the provisions in the bill are dependent on the passage of the \$300 million in the supplemental.

Representative Gara surmised that if funds are used up quickly than there is no need to increase the eligibility guidelines. He emphasized the importance of maintaining the advantage for low income. Mr. Butcher agreed the highest priority is for low income residents. Each community benefits if the amount of energy being used is reduced.

[9:16:28 AM](#)

Representative Gara questioned if there are construction requirements that new houses have to be energy efficient. Mr. Butcher said AHFC funds are not available to new homes unless they are built to a four or five star rating. Currently homes across the state are almost uniformly being built to that level. Representative Gara wanted to know if commercial buildings are built to higher ratings as well. Mr. Fauske believed they were but was not certain. He noted that the provision will generate approximately 1000 jobs. He named various ways to economize programs and projects through mass purchasing and addressing the rating of homes more efficiently.

[9:19:24 AM](#)

Representative Joule asked if housing authorities around the state have raters. Mr. Fauske responded that AHFC certifies the raters.

BOB BREEN, DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, (Testified via Teleconference), disclosed there are energy raters who already work for some housing authorities. He elaborated that AHFC also sends raters to work with a number of housing authorities needing inspectors. The intent is to train 40 to 60 more energy raters statewide.

[9:20:39 AM](#)

Representative Joule queried geographic adjustment for higher costs farther out. Mr. Fauske answered that though there are no regional cost adjustments, experience has shown that the cost differentials are taken into account.

[9:21:40 AM](#)

Representative Joule alluded to earlier discussion regarding monetary adjustments to accomplish the same goals in different townships. Mr. Breen explained a variable built into the software rating program that takes into account cost of fuel, heating degree days, and cost of living in different areas.

[9:23:12 AM](#)

Representative Kelly requested an outline from AHFC spanning the 30 year history of its conservation and weatherization programs. He specifically requested numbers referencing the percentage of the housing stock rated for energy efficiency and dollars spent on upgrades. He asked the opinion of Alaska Craftsman Home Program and energy rated homeowners regarding the broader language in the bill.

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Mr. Fauske provided some history. Eleven years ago, feuding erupted among state housing agencies; thus specific names appear in statute. Alaska Housing Finance Corporation did not want to regulate the industry and felt home-building groups should police themselves. However, adopting a general rating system would require a standard. The Cold Climate Housing Research Center (CCHRC) developed as a central testing center and institution whose methods were accepted by all. The main reason for removing the names from the statute is that they are no longer necessary and encourage earmarking. He said there have been no complaints to the corporation.

Representative Kelly asked for assurance of continuing high standards set by key players no longer referred by name in the bill. He again requested figures for the past 30 years.

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Mr. Breen agreed to provide the information. He interjected that in the early years the program ran on minimal funding. Federal regulations allowed only a small amount of money for each home. Good work happened but often not enough to make a home energy efficient.

Mr. Fauske recalled an incident eight years ago celebrating the weatherization of the 10,000th home statewide to achieve energy efficiency.

Mr. Breen affirmed varying degrees of program assistance, with one home receiving \$500 worth of repair and another \$4,000. He applauded the program's long history and success as a win-win situation and emphasized his thirty year association with it.

[9:28:29 AM](#)

Representative Kelly pointed out that cabins in rural areas are sometimes heated very differently than homes in an urban center such as Fairbanks. He wanted to ensure that AHFC is not overly focused on places with multiple resources as opposed to areas where a majority of the population lives.

[9:29:49 AM](#)

Representative Thomas commented on a Senate majority presentation which divulged the large difference between heating a home in Anchorage at an average rate of \$1400 and a home in Fairbanks at \$14,000. He stressed concentration of efficiency upgrades in rural places where the cost of energy is higher.

Representative Thomas related a personal experience with wood heat and electricity. He probed into AHFC's changing "specs" and was curious to know if in a house with a thermostat the water tank and furnace are linked to turn on every 20 minutes under current efficiency criteria.

He queried about what to do for someone with a five star energy rating whose costs have increased. As a past tribal president, he interpreted SB 289 as duplicating hundreds of thousands of dollars of work already done through The Native American Housing Assistance and Self-Determination Act. He wondered how many times a rater returns to a home to assess efficiency as standards adapt.

[9:32:39 AM](#)

Mr. Fauske noted AHFC's challenge in balancing both urban and higher-cost, harder to access rural areas of the state. He also recognized that communities rely on a range of heating sources. He assured understanding that AHFC accurately prioritize and delegate dollar amounts according to many variables including: kinds of energy consumed, remoteness of locations, time allotted to a ramping up period, density of dwellings in an area and types of houses erected.

Mr. Fauske expressed excitement over the proposed \$300 million allocation, its equitable distribution and the ultimate goal of a reduction in energy usage around the state. He assured that the AHFC network will remain receptive to communication from people living in all regions.

[9:35:27 AM](#)

Mr. Fauske realized, with regards to four or five star homes, that new technologies have limits. The idea is to make improvements that will last 30 years; AHFC will not revisit a house every few years. A highly-rated homeowner may choose to redo an attic or replace windows knowing the cost benefit ratio has payback in itself.

[9:36:20 AM](#)

Mr. Butcher spoke to the \$300 million dollar sum and reiterated unknowns as to how many people will choose to participate. Until the program is underway there is uncertainty of how much money is ample.

[9:37:32 AM](#)

Mr. Fauske envisioned the legislation expanding to public buildings as well.

[9:38:07 AM](#)

Representative Hawker referenced discussions with an economist. He asked if opposition has surfaced regarding the efficiency of this approach in dealing with a long term energy plan.

Mr. Fauske stated that some had suggested funds are better spent in alternative energy. He maintained that he had personally witnessed results and that the program, if well-managed, is an extremely efficient plan.

Representative Hawker shared Mr. Fauske's beliefs and added that if there is disagreement he wanted the other side to come forward.

[9:41:07 AM](#)

Mr. Fauske spoke of savings through technological upgrades.

Mr. Breen encouraged the economist to visit the CCHRC in Fairbanks to talk with their President, Jack Hébert. He upheld that touring the facility's labs is both an eye-opening and impressive experience.

[9:42:30 AM](#)

Representative Nelson expressed gratitude for the legislation and commented that weatherization was named as the first tactic in a state energy policy by newly appointed Energy Coordinator, Steven Haagenson. She added that her district would continue to rely on diesel even as they explore a replacement through wind power. High-penetration turbines are not a constant resource when there are no hydrogen storage units to save the energy. She noticed a trend in which families at prime earning capacity who cannot afford fuel in their newer homes are moving back into smaller, dilapidated buildings. Residents are looking in turn at weatherizing these old houses. She thanked the administrators for expanding the program and its timely arrival for needy families.

[9:45:21 AM](#)

Mr. Fauske cited a conversation with an individual from Bethel, Tim Meyers who also says that people are tending back to the old ways with new technology to maximize efficiency. Mr. Meyers possesses a unique design sense and collaborates with CCHRC. He has built and continues to farm potatoes underground.

Mr. Fauske regretted that sometimes change in an unconventional direction is difficult. Retired persons are moving to town because they cannot afford rural living on a fixed income. He agreed, along with Mr. Meyers who feels adamantly, that all technologies need to be looked at.

[9:46:31 AM](#)

Representative Gara expressed support for the bill but voiced concern as to whether the distribution of funds would take into account the hardship on people in districts with elevated monthly fuel bills. Mr. Fauske pledged that an extreme effort would be made to assist those areas quickly.

Representative Gara inquired about weatherizing a residential home before a recreational cabin. Mr. Fauske confirmed that the buildings would be attended to in this order.

Representative Gara asked if a wood-heated house would be discriminated against because of more greenhouse gas emissions or the cost and effort problems facing a homeowner who cuts his own fuel verses buying it. Mr. Fauske responded that it would not.

[9:48:28 AM](#)

Representative Kelly asked if the AHFC would participate in installing a catalytic converter wood stove. Mr. Fauske stated that the AHFC has no restrictions on any building technologies as long as the house is conforming to standards. Mr. Breen concurred and added that he encourages homeowners to explore alternatives and provides information about other less costly heating sources.

[9:49:46 AM](#)

Representative Kelly rephrased his inquiry into the willingness of the AHFC to help with the purchase of a new stove. Mr. Breen replied yes; assistance is usually reflected in the post-rating.

Representative Kelly asked about the extent of AHFC's backlogged application requests. He delved into the procedure of framing in unnecessary windows. Mr. Fauske confirmed the practice.

Representative Kelly broached the topic of fraud in the initial program and inquired as to current status.

[9:51:30 AM](#)

Mr. Fauske said he had not heard the term fraud used at all in recent memory. Inspection and follow-up seem to leave no room for deception, and the post-assessment test is conclusive. On the \$1 million rebate side of the bill where substantial enhancements towards energy efficiency are verified by AHFC, he approved of an initial investment that pays benefits. Deducting the inspection fee from the rebate or raising the rebate amount are subjects that have also been discussed.

Representative Kelly asked for clarification of the investment piece on the \$2 million side, the income qualification portion of the bill.

[9:53:25 AM](#)

Mr. Butcher informed the committee that the \$2 million appropriation funds a grant program for people under the 100% median income level who can not afford energy improvements to their home. He repeated that investing with benefits over time is for folks who can afford to put in their own money and get a rebate. As AHFC proceeds through the regulation process and public comment, it will determine incentives appearing as a definitive rebate amount. He offered some history and detailed that the rebate program has been inactive since the early 1990s when it was eliminated due to budget pressures.

[9:54:21 AM](#)

Representative Kelly warned against the potential of waste when no investment is required by those persons receiving money from the state. He solicited ideas regarding ways to hold low-income Alaskans accountable.

SB 289 was HEARD and HELD in Committee for further consideration.

#ADJOURNMENT

The meeting was adjourned at 9:55 AM.