

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON ENERGY**

February 9, 2010  
3:07 p.m.

**MEMBERS PRESENT**

Representative Bryce Edgmon, Co-Chair  
Representative Charisse Millett, Co-Chair  
Representative Kyle Johansen  
Representative Jay Ramras  
Representative Pete Petersen  
Representative Chris Tuck

**MEMBERS ABSENT**

Representative Nancy Dahlstrom

**COMMITTEE CALENDAR**

OVERVIEW(S): HOME ENERGY REBATE PROGRAM & LOW INCOME HOME  
WEATHERIZATION PROGRAM.

- HEARD

HOUSE BILL NO. 296

"An Act authorizing and relating to the issuance of bonds by the Alaska Housing Finance Corporation; establishing the Alaska energy efficiency revolving loan fund and relating to the fund; authorizing municipalities and the State of Alaska to borrow money from the Alaska Housing Finance Corporation for the purposes of the Alaska energy efficiency revolving loan fund; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 296

SHORT TITLE: ENERGY EFFICIENCY BONDS; LOANS; FUND

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

|          |     |                                 |
|----------|-----|---------------------------------|
| 01/19/10 | (H) | READ THE FIRST TIME - REFERRALS |
| 01/19/10 | (H) | ENE, FIN                        |
| 02/09/10 | (H) | ENE AT 3:00 PM BARNES 124       |

**WITNESS REGISTER**

DAN FAUSKE, CEO/Executive Director  
Alaska Housing Finance Corporation (AHFC)  
Department of Revenue (DOR)

Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the Alaska Housing Finance Corporation (AHFC) Rebate & Weatherization Program Legislative Report; introduced HB 296 on behalf of the House Rules Committee by request of the governor.

CARY BOLLING, Energy Specialist II  
Energy Program Communications  
Alaska Housing Finance Corporation (AHFC)  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented the report titled, "AHFC Rebate & Weatherization Programs: Legislative Report 2/2/2010.

JOHN ANDERSON, Weatherization Officer  
Alaska Housing Finance Corporation (AHFC)  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the presentation by the Alaska Housing Finance Corporation (AHFC).

BRYAN BUTCHER, Director  
Governmental Affairs and Public Relations  
Alaska Housing Finance Corporation (AHFC)  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the presentation by the Alaska Housing Finance Corporation (AHFC).

JACK KRIENHEDER, Chief Policy Analyst  
Office of the Director  
Office of Management & Budget (OMB)  
Office of the Governor  
Juneau, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 296.

#### **ACTION NARRATIVE**

[3:07:13 PM](#)

**CO-CHAIR BRYCE EDGMON** called the House Special Committee on Energy meeting to order at 3:07 p.m. Present at the call to order were Representatives Petersen, Tuck, Millett, and Edgmon. Representatives Ramras and Johansen arrived as the meeting was in progress.

[3:07:24 PM](#)

#### **Overview: Home Energy Rebate Program & Low Income Home Weatherization Program**

[3:07:25 PM](#)

CO-CHAIR EDGMON announced that the first order of business would be overviews on the Home Energy Rebate Program & Low Income Home Weatherization Programs.

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DAN FAUSKE, CEO/Executive Director, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), informed the committee AHFC is making progress on its dual programs of rebate and weatherization. He recalled AHFC began the programs with original allocations of \$200 million for weatherization and, \$100 million for rebate, but after an additional \$60 million was funded for rebate, the total for both programs was \$360 million. He asked Mr. Bolling to present the report titled "AHFC Rebate & Weatherization Programs: Legislative Report 2/9/2010."

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CARY BOLLING, Energy Specialist II, Energy Program Communications, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), began his presentation with a brief review of the weatherization program. He said that of the \$200 million allocated, approximately \$70 million has been encumbered. Previous to the infusion of money into the program in 2008, an average of 600 homes per year was weatherized. In FY 2009, approximately 1,740 homes were weatherized; in FY 2010, 4,000 homes are expected to be weatherized; and the number anticipated for FY 2011 is 7,500 homes. Mr. Bolling advised that the five statewide weatherization providers, in addition to the fifteen housing authorities, continue to "ramp up" their operations to handle the increase. He continued to report that in FY 2008, 56 communities/areas were served; in FY 2009, 90 communities/areas were served; and he anticipated over 100 communities/areas would be served in FY 2010. Mr. Bolling called attention to the Rebate Program and stated that \$160 million was allocated for the program in 2008, and the funds are fully encumbered. He reminded the committee that residents have 18 months to complete the rebate process, and \$32 million has been expended so far. Furthermore, over 20,000 ratings have been completed and 3,418 rebates have been paid for an average amount of about \$6,173. He noted that the average participation rate is 72 percent and explained that this percentage is the number of applicants who have gotten rebates within the time limit of 18 months. Mr. Bolling added that new homes that are built with a 5 Star Plus energy rating also qualify; in fact, 532 rebates have been paid for new homes in the amount of \$7,500 each.

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REPRESENTATIVE TUCK asked for the reasons the participation rate is not higher. For example, if applicants do not get the work done in time or if they do not meet the criteria.

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MR. BOLLING clarified the 72 percent participation rate is for the people who have had 18 months to complete the process. AHFC is conducting a survey to determine why 28 percent decided not to participate.

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MR. FAUSKE offered two known reasons: the rebate amount was insignificant, or there was a shortage of resources [to pay for the improvements].

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CO-CHAIR EDGMON asked whether AHFC has a regional breakdown on where the benefits are going, and the availability of raters. He expressed his appreciation for the job AHFC has done so far, but said he has questions from his constituents.

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MR. BOLLING explained that there were 38 raters statewide at the beginning of the program. At this time, there are 123 raters and 16 are in training status. Also, there is a roving rater who will travel to communities that have three to five applicants who need an energy rating. In response to the high demand at the outset of the program, a centralized sign-up list was created to better organize and dispatch raters. Mr. Bolling displayed a slide that showed there were in excess of 9,000 houses on the statewide waitlist in 2008; however, in December 2009, the program was declared fully encumbered and ratings are not currently being dispatched.

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MR. FAUSKE further explained that when the application process is started, \$10,000 is set aside for that application. This guarantees enough money for the applicants that do go through the process. If applicants wait 18 months and then "opt out," the money that has been set aside flows back into the program. He pointed out that the waitlist is back up to 1,008 houses statewide and that is an indication that there is an increased desire for the program. Although the money is not gone, AHFC wants to avoid "stops and starts" in funding. Mr. Fauske opined that the legislature needs to decide whether it wants to continue the program, and if so, how to ensure there are no stops and starts.

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CO-CHAIR EDGMON related his personal experience with the program. His home qualified for \$1,500 in improvements; however, in Dillingham, that amount does not go as far as it does in Anchorage. His constituents are interested in "what it would take to get the full \$10,000...."

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MR. BOLLING explained that the rebate amounts are based on increased efficiency. For example, if a Four Star rated home is improved to a Four Star Plus, that is a one step improvement and the home would be eligible for up to a \$4,000 rebate. On the other hand, the rebate is also based on eligible receipts; therefore, if it cost \$1,500 to improve one step, that is the amount that would be rebated. Mr. Bolling cautioned that for a fairly efficient home the rebate would never reach \$10,000, whereas a home at a One Star energy rating level has more possibility for improvement.

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CO-CHAIR EDGMON questioned whether the owner of a One Star home can afford to pay for \$10,000 in improvements.

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JOHN ANDERSON, Weatherization Officer, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), indicated that the energy efficiency conditions of a house are not tied to income as much as to the age of the building and method of construction. Over the past 50 years, there have been design and construction changes that have more of a correlation to the energy efficiency of a home than the economic level of the family.

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MR. BOLLING observed that he teaches classes in Anchorage on how to read energy ratings, and several students live in homes with One Star energy ratings.

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CO-CHAIR EDGMON pointed out the inequity of the program in that the cost of improvements to bring a One Star home to a higher level of efficiency in a rural area would cost more than \$10,000. Although the program is well-intentioned, there remain disadvantages to residents in Bush Alaska, such as the inability to get a rating done. He suggested that there are more problems with the program than the two Mr. Fauske mentioned; for example, how to address regional inequities in the cost of improvements.

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MR. ANDERSON agreed. He then advised that the weatherization program does calculate regional cost differences; however, although it was discussed, the rebate program does not make any adjustment.

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REPRESENTATIVE TUCK suggested regional cost differences could be adjusted in a way to similar to the funding of education, wherein Anchorage is the "base" and communities with a higher cost per Btu equivalency are compensated on a floating scale. Considering the high cost of heating, he understood how rural homes may save more money than urban homes by going one step up from a One Star rating.

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CO-CHAIR MILLETT asked for suggestions from AHFC as to how to lessen the disparity between urban and rural residents.

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MR. FAUSKE recalled there were efforts to make the program as equitable as possible; in fact, the program was increased from 60 percent to 100 percent of median income. He remarked:

We're talking about people in all areas of the state are divided up differently and that median income is calculated differently everywhere, so the differential gets built-in, maybe it's not enough, but it does get built-in, rural versus urban, depending on what your median income is and you're still at 100 percent of median income or below to be weatherized, and if you're above that you're into the rebate."

MR. FAUSKE then reminded the committee that AHFC continues to offer, at a low fixed rate, \$30,000 15-year loans for home improvements. He acknowledged that AHFC does not have enough money to do the whole state, and the intent of the program was to concentrate on saving energy. Actually, when the program was designed, AHFC considered raising the median income, but that led to concerns about the Internal Revenue Service (IRS). The weatherization program is currently tax-exempt, but the rebate is taxable, and he cautioned against attracting further scrutiny by the IRS. Mr. Fauske expressed his continued support of the program and said "if we need to tweak it more, make it more equitable ... we've not given up on anything, but it is tough." He reviewed some of the problems with raters such as trying to train local raters. Energy raters and weatherization assessors have very similar tasks, and AHFC may decide that housing authorities can do the work of raters in remote areas. Returning to the subject of income,

Mr. Fauske assured the committee that AHFC is trying to be fair, and is open to suggestions.

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CO-CHAIR EDGMON asked whether AHFC staff has a regional analysis of where the benefits have gone; for example, if the program works better for those on the road system than for those off of the road system.

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MR. FAUSKE stated that AHFC divided the state by heating degree days, the cost of fuel, and population, in order to prevent all of the money from flowing strictly to urban areas. Furthermore, AHFC anticipated that the majority of the rebate money would go to urban areas and more weatherization money would go to rural areas. He expects the program to continue to be successful in Fairbanks and Anchorage; however, there are rural areas with activity and without activity. Recently he met with the Association of Alaska Housing Authorities and discussed ideas as to how to better implement the program, but he stressed that there are rural areas that have already gone through their allocations. The logistical support from local government sometimes makes the difference. The housing authorities in Metlakatla, the Northwest Arctic Borough, and Dillingham have had good success and will need a re-allocation of funds. A total of 105 communities have participated in the rebate program.

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MR. BOLLING returned to the presentation and provided statistics from sampled homeowners. The average cost paid by the homeowner is \$10,500, and the average rebate is \$6,100, which leaves an average investment by the homeowner of \$4,400. For a projected annual energy savings per home of \$1,300 to \$1,500, the payback period is three years. Further information tracked by the AHFC database indicates that the average reduction in CO2 emissions for 3,129 homes is 12,352 pounds per year. The average increase in energy rating is two steps of improvement for an average energy use reduction of about 32 percent. He then displayed a chart that showed the average annual savings per home for: electricity, 711 kilowatts per hour (kWh); natural gas, 931 hundred cubic feet (CCF); number two oil, 692 gallons; propane, 96 gallons, and wood, 2.4 cords. The projected average energy cost reduction statewide is 26.8 percent. Mr. Bolling turned to the second mortgage loan for energy conservation program and re-stated that these loans are for up to \$30,000, and have a 15-year term. Presently the current loan activity is 104 loans. Regarding the training aspect of the programs, he noted in 2009, there were almost 100 professional classes with 1,384 students, and 317 consumer classes with 3,908 students, that were held in 23 regional communities.

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REPRESENTATIVE TUCK asked whether a savings of 2.4 cords of wood is equivalent to a savings of 711 kWhs.

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MR. BOLLING explained that there is a different energy content in each kind of fuel. A person paying \$.10 per kWh in electricity is saving \$71.10 per year.

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REPRESENTATIVE TUCK surmised the fuels were equivalent in Btus, and 711 kWhs are the same as 2.4 cords of wood.

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MR. BOLLING further explained that the cost can vary because people use different kinds of fuel. For those burning wood, the average savings is 2.4 cords of wood; for those using natural gas, the average savings is 931 CCF. This is not a direct comparison. Furthermore, there are homes using different fuels for different purposes.

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CO-CHAIR EDGMON asked whether AHFC is planning to request more money from the legislature for communities that have used their weatherization allocation.

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MR. FAUSKE indicated that AHFC has contingency money available, and at this time, is not going to take money from the regions that have not used their funds. Nana, Southwestern Lake and Peninsula, Interior Koyukuk, Middle Yukon, and Prince of Wales/Metlakatla have used their allocations, but Juneau was designated \$12.2 million and has \$10.2 million remaining. He expected the numbers for the weatherization program to change and assured the committee that AHFC is helping regions that need better activity.

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CO-CHAIR EDGMON asked whether 18 months is an adequate period of time for homeowners to get the work done.

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MR. FAUSKE said, "We think so." At the outset, the shortage of raters was a hurdle, and he was also concerned about a shortage of sub-

contractors. However, he opined a shortage of raters is not a problem now.

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BRYAN BUTCHER, Director, Governmental Affairs and Public Relations, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), added that if someone asks for an extension on the time limit because they cannot get materials in time, or there are health issues, AHFC will confirm that situation and work with them. He assured the committee applicants are not penalized if there is a hardship.

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CO-CHAIR MILLETT asked whether AHFC knows how many people do not have the cash for the upgrades, and how many have applied for the loan program.

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MR. BUTCHER confirmed that AHFC has been compiling information from applicants who are not completing the process after 18 months. There have been about 200 so far. He expressed hope that there will be sufficient information for legislators by the end of the session. In addition, AHFC wants to find out what areas are using the program, what areas are not, and why. The funds are allocated by region, so Anchorage and Fairbanks cannot sweep up all of the money.

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CO-CHAIR MILLETT asked if, after the rating is done on a house, there is an opportunity to talk with homeowners about how to pay for improvements.

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MR. BUTCHER said yes. Initially, AHFC focused on educating residents about the program; however, at this point it is time to do more advertising about how to use the loan program to get the weatherization work done.

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MR. BOLLING added that AHFC makes an effort to let people know in advance that for the rebate program, cash is required up-front. Otherwise, applicants are directed to the weatherization program.

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CO-CHAIR MILLETT then asked for the current interest rate on the loan program.

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MR. BUTCHER replied about 7 percent.

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CO-CHAIR EDGMON observed that is a higher interest rate than available through conventional financing.

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MR. BUTCHER opined an applicant probably could not get a loan cheaper for small materials. In addition, it is easy to qualify.

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CO-CHAIR MILLETT asked for the default rate.

[3:49:36 PM](#)

MR. BUTCHER said of 104 loans made, 15 have been paid off, and there are no defaults.

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REPRESENTATIVE JOHANSEN asked for more information on when the funds not used in Juneau will be re-allocated.

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MR. FAUSKE answered that AHFC will decide in the next few weeks; however, there will be an effort to determine why the money has not been used prior to moving it to another region.

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MR. BUTCHER noted that grants are renewed in March and April; each weatherization contractor and housing authority must show its activities for the last year and discuss next year.

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REPRESENTATIVE TUCK expressed his interest in the demographics that can affect applicants. For example, he has a constituent who could benefit from lower energy costs, but he is in foreclosure and could not participate in the rebate or loan program.

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MR. BUTCHER offered to talk with Representative Tuck's office on this case as that information is not going to be available until spring or early summer.

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REPRESENTATIVE TUCK shared that Alaskans are happy with AHFC, but are not interested in getting a second loan. Also, they are reluctant to spend a lot of money in order to gain one step in the rating system.

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CO-CHAIR MILLETT asked whether AHFC is in the position to be a debt collector if a voucher system is put in place.

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MR. FAUSKE acknowledged that AHFC has had a lot of discussion on how the voucher would be set up. He is troubled by the "grant side" because there are 22,000 residents who have completed the program as it is. Furthermore, he pointed out that if an applicant can qualify for a voucher, he/she could qualify for a loan. Other problems may arise if AHFC is making fiat sole-source performance arrangements with contractors, because the contractors must guarantee the improved energy rating. These guarantees may become a risk to the contractors' bonding. He opined some of these problems can be worked out, but perhaps not all. Mr. Fauske re-stated AHFC's intent to help residents, especially with energy savings.

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CO-CHAIR MILLETT questioned whether the committee is considering huge changes for a few people whose situations could be dealt with on an individual basis.

[4:00:17 PM](#)

MR. FAUSKE pointed out that AHFC is contacting banks about processing the collections on the 104 loans already processed. It is a similar issue with vouchers. He offered his assistance to Representative Tuck's constituent.

[4:01:36 PM](#)

REPRESENTATIVE TUCK clarified that his office is looking at options for a bill, but he would not discuss the intent of the bill before it comes before the committee.

[4:02:44 PM](#)

REPRESENTATIVE PETERSEN has heard that "they're out of money in that fund." He asked whether there is a need to allocate more money.

[4:03:31 PM](#)

MR. FAUSKE responded that AHFC did not submit a funding request this year; however, interest in the program is spreading. Furthermore, the energy rater waiting list is beginning to grow again, and he expressed his concern that in 2011 the program would have to stop. He re-stated that the legislature must decide whether the program should continue and, if so, a smaller increment would be needed this current year to keep the program going. Mr. Fauske said his personal feeling was that the program should be continued.

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REPRESENTATIVE PETERSEN agreed. He encouraged AHFC to submit an appropriation request to the legislature.

[4:05:11 PM](#)

MR. BUTCHER acknowledged that the finance committee and the governor's office are asking for an estimate on the amount AHFC would need for FY 2011. At this point, AHFC is assuring applicants that there is money available for the program.

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CO-CHAIR MILLETT asked whether other cold climate states were participating in energy efficiency and weatherization programs.

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MR. FAUSKE stated that state governments in all 50 states have been contacted by a representative from the Obama Administration for information on this subject. He said, "AHFC is the shining star ... in terms of success, monies toward the program, and the development of our software." Other states, such as Arizona are doing a good job dealing with cooling environments.

[4:08:05 PM](#)

MR. BUTCHER added that in 2008, Alaska appropriated considerably more funds for weatherization than the total appropriation to states from the federal government. However, federal support is increasing.

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MR. FAUSKE described the information AHFC provided to the federal government.

[4:10:27 PM](#)

CO-CHAIR EDGMON referred to provisions in HB 305 that call for a consolidation of energy components and services in state government. He then asked for comments on the proposed department of energy, and whether AHFC's position as the federal energy agency for the state presents a problem.

[4:12:37 PM](#)

MR. BUTCHER said the creation of a department of energy is a policy decision to be made by the governor and the legislature. There are two issues to be noted: (1) energy efficiency programs are very close to the Building Energy Efficiency Standard (BEES) in statute that affect the AHFC mortgage program; (2) AHFC pays its employees from mortgage programs receipts, and a transfer to a department of energy would mean salaries would be paid from the general fund. Regarding its position as the state's energy agency, he said that happened when AEA was going through many changes; however, AHFC works well with AEA.

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REPRESENTATIVE JOHANSEN asked whether there was a distinction between using AHFC's dividend to the state for capital projects or for operating expenses.

[4:15:17 PM](#)

MR. BUTCHER said yes. He explained that the AHFC dividend paid to the state is in statute; in fact, when that became statute, AHFC's rating with Standard & Poor was increased because it showed that AHFC would be paying 75 percent of its adjusted change of net assets to the state. Furthermore, the increase in rating allowed AHFC to bond "for cheaper paper, which allows us to have lower interest rates." Mr. Butcher further explained that AHFC is legally separate from the state so that none of the debts of AHFC can become debts of the state. He opined a change [to a department of energy] would "put that in kind of a gray area because we'd have the governor making decisions on the spending of our funds away from our board."

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MR. FAUSKE clarified that the general obligation and debt of AHFC is the debt of the corporation, not of the state. The legislature has been very good about recognizing that separation.

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REPRESENTATIVE JOHANSEN surmised that once the dividend is paid to the state, there are strings tied back to the corporation, and there are restrictions on how the state spends the money.

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MR. BUTCHER stated the dividend is treated as cash, and most years the money is used to fund AHFC's capital projects; however, in past years the excess has been spent on the Department of Environmental Conservation Village Safe Water program, Medicaid, or debt retirement.

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REPRESENTATIVE JOHANSEN observed the state can fund positions with that money.

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MR. BUTCHER said yes.

[4:18:42 PM](#)

CO-CHAIR MILLETT has heard that management of the Department of Energy (DOE) federal money is working for AHFC, but not necessarily for the users. She asked if there was there a specific reason why the energy rebate and weatherization programs could not be managed by AEA, or transferred over to a department of energy.

[4:19:37 PM](#)

MR. BUTCHER pointed out that residential funding is under AHFC and commercial funding is under AEA by statute. In addition to requiring a change in statute, there is the problem of the relationship between the residential efficiency program and the work done in the mortgage program.

[4:20:17 PM](#)

CO-CHAIR MILLETT asked whether AHFC could "still be able to do that work if those two programs were housed under the department of energy." She clarified her question and said:

Could they administer these programs as well as you if they're ... if the statute allowed them to?

[4:20:57 PM](#)

MR. FAUSKE said no. Although AEA "is a fine organization," AHFC has a distinct interest in its mortgages because it cannot purchase a mortgage unless the energy efficiency standards are met. Mr. Fauske expressed his concern about explaining to a rating agency that the responsibility for the standards is held by "a group over there." He stressed that AHFC has a unique relationship with its core business. He then cautioned that AHFC raises money through bonding and business

activity, and a perception that AHFC's dividend would fund operational activities "has a different take on Wall Street," because AHFC cannot sell bonds to fund operations, except on a limited basis.

**HB 296-ENERGY EFFICIENCY BONDS; LOANS; FUND**

[Contains discussion of HB 305]

[4:23:11 PM](#)

CO-CHAIR EDGMON announced the next order of business would be HOUSE BILL NO. 296, "An Act authorizing and relating to the issuance of bonds by the Alaska Housing Finance Corporation; establishing the Alaska energy efficiency revolving loan fund and relating to the fund; authorizing municipalities and the State of Alaska to borrow money from the Alaska Housing Finance Corporation for the purposes of the Alaska energy efficiency revolving loan fund; and providing for an effective date."

[4:23:34 PM](#)

DAN FAUSKE, CEO/Executive Director, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), informed the committee HB 296 is an act authorizing and relating to the issuance of bonds by AHFC to establish an Alaska energy efficiency revolving fund. He noted that the bill was a result of discussions with the administration, the Department of Transportation & Public Facilities (DOT&PF), and two agencies of the Department of Commerce, Community, & Economic Development (DCCED), the Alaska Industrial Development & Export Authority (AIDEA) and the Alaska Energy Authority (AEA). The agencies met to discuss how to deal with the \$28.3 million received from the American Recovery and Reinvestment Act of 2009 (ARRA) for the state energy program. Of that, \$18 million is going to state facilities through DOT&PF and AHFC, and the bill would leverage this money through performance based contracting to \$250 million. Mr. Fauske noted that DOT&PF has utilized this process previously. He explained that contractors assess and guarantee that the energy savings resulting from the retro-fit of public buildings would pay for the debt service on the bonds. Thus, the contractors are "on the hook" to meet that standard. Basically, general fund monies that are currently paying for utilities are saved and put towards paying the loan. Alaska Housing Finance Corporation's position is that spending \$18 million is not as effective as leveraging the funds. He noted that the state owns many facilities and leveraging the funds would create a revolving loan fund so the money will continue to be loaned out as the debt is paid. Mr. Fauske compared the bill to the use of the tobacco settlement money; rather than an annual increment, the money was secured by bonds that are paying off very well. Under this bill, the bonds would be AHFC general obligation bonds and the paying agencies would be the state agencies utilizing the program, in a manner similar

to the purchase of the Atwood Building, and the loans to the University of Alaska (UA) to build dorms.

[4:27:31 PM](#)

REPRESENTATIVE TUCK asked whether performance based contracting was part of the former revolving loan program.

[4:27:56 PM](#)

MR. FAUSKE said no.

[4:28:08 PM](#)

REPRESENTATIVE TUCK asked who would determine the contractor on state projects.

[4:28:21 PM](#)

MR. FAUSKE responded DOT&PF and the school districts would decide.

[4:28:43 PM](#)

MR. BUTCHER clarified that AHFC would administer the program. In addition, because the bill would create a revolving loan fund and funds would remain available in perpetuity as the loans are repaid, there is not a question of whether funds would be available for future projects. Furthermore, AHFC is comfortable that DOT&PF would work with the other departments that own buildings to establish a prioritized list of public buildings that are ready to have work done now. AHFC would determine a list of priorities for school district and municipal projects.

[4:30:18 PM](#)

CO-CHAIR EDGMON mentioned another provision of HB 305 that requires AEA to establish an energy index database and that further revises current law regarding energy audits. He asked whether the energy standards required by HB 305 would make the program established by HB 296 more effective.

[4:31:05 PM](#)

MR. BUTCHER relayed that representatives from affected departments advised that gathering the information needed to create an energy index would cost "in the millions." Furthermore, as the program established by HB 296 evolves, this information would be gathered by energy auditors during the process. Also, he was told by representatives at DOT&PF that they are already aware of the priority order of buildings with energy efficiency needs.

[4:32:16 PM](#)

CO-CHAIR EDGMON asked whether the different agencies working with DOT&PF have different standards.

MR. BUTCHER clarified that the agencies have the same standards; however, there is the question of whether to develop an index at a high cost, before any work is done.

CO-CHAIR EDGMON observed that one of the goals of the energy policy bill is to increase the overall efficiency levels by 15 percent between 2010 and 2020. He asked what impact this bill would have on the approximately 700 state buildings administered by DOT&PF.

[4:34:01 PM](#)

MR. BUTCHER stated that a portion of the appropriation to the state energy program (SEP) is being used to determine a benchmark for improving energy efficiency on the "residential side." Regarding public facilities, he deferred the question to DOT&PF or the Department of Administration (DOA).

[4:34:39 PM](#)

JACK KRIENHEDER, Chief Policy Analyst, Office of the Director, Office of Management & Budget (OMB), Office of the Governor, informed the committee HB 296 is a continuation of a program DOT&PF has in place. He offered to provide information from DOT&PF on 16 state buildings that have had performance contract energy upgrades. This data would reveal the energy savings per building. Mr. Krienheder told the history of the DOT&PF program. In response to Representative Tuck, he said that historically, the energy performance contract firm does the initial audit and provides a report of the recommended work. For the ongoing DOT&PF program, the energy performance contractor was Siemens Energy. The energy performance contractor then collects bids from local subcontractors to do the work similar to deferred maintenance contracts that use local hire.

[4:38:48 PM](#)

REPRESENTATIVE TUCK surmised that Siemens Energy is a professional auditor for commercial facilities that would oversee the work.

[4:39:07 PM](#)

MR. KRIENHEDER said correct. He added that Siemens Energy would do the audit, submit a proposal, guarantee the savings, and monitor the project after, to make sure that the projected energy savings are being realized.

[4:39:30 PM](#)

REPRESENTATIVE JOHANSEN asked for further information about the DOT&PF program.

[4:39:56 PM](#)

MR. KRIENHEDER relayed that the program was modeled after a similar energy savings program in Washington. The first energy performance contract was signed 4 to 5 years ago, and about 16 buildings have been improved since then. In further response to Representative Johansen, he advised that the performance contractor does an initial energy audit and predicts the savings over a certain payback period. The financing aspect can be handled in different ways. The work done includes new lighting, upgrades to heating controls, improvements to insulation, and general projects to reduce the energy use of the building. He pointed out that for these projects DOT&PF has been borrowing money from DOR, or through the contractor; HB 296 proposes to use AHFC bonds instead, in order to get a lower interest rate and to simplify the process. Furthermore, the energy savings pay for the loan payments until the loan is paid off, and then the full savings begin to accrue to the state.

[4:44:19 PM](#)

CO-CHAIR MILLETT asked whether the performance standards are being met and whether there are savings.

[4:44:44 PM](#)

MR. KRIENHEDER said yes. The savings are guaranteed by the performance contractor; thus if the targets are not met the contractor must pay the state. In fact, the savings targets have been met and exceeded. The contractor's guarantee is on the quantity of energy saved, but the dollar savings fluctuates with the cost of energy. He offered to provide information from DOT&PF on the actual savings.

[4:46:32 PM](#)

REPRESENTATIVE JOHANSEN observed the zero fiscal note is incorrect.

[4:46:47 PM](#)

MR. BUTCHER assumed that after the loan is paid off the savings would go to the department, thus the fiscal note should be indeterminate.

[4:47:32 PM](#)

MR. KRIENHEDER clarified that the intent of the fiscal note was to address the cost to DOT&PF of performing this program. Personnel would be hired for the management of the performance contracts; however, these positions would be paid for from the federal ARRA

funds. Regarding energy savings, the amount is too speculative to be determined.

[4:48:41 PM](#)

REPRESENTATIVE TUCK asked whether the energy savings goes directly back to the revolving loan fund. Further, he asked if there is interest or other benefits paid to AHFC.

[4:49:34 PM](#)

MR. BUTCHER responded that AHFC is not going to operate at a deficit, but the cost of the loan has not been determined. There would be some interest charged at a low rate.

REPRESENTATIVE TUCK asked for the meaning of "sovereign immunity defense."

[4:50:32 PM](#)

MR. KRIENHEDER understood that language is needed to secure the loan from AHFC.

[4:50:54 PM](#)

REPRESENTATIVE TUCK then asked whether AHFC would verify the proposal, and how performance contractors are "on the hook."

[4:51:49 PM](#)

MR. BUTCHER expressed his belief that the energy department at AHFC would look at the contract. Regarding energy performance contracts, other states have had success making the energy savings part of the contract. In most cases, if the energy savings exceeds the estimate, the excess goes to the contractor; however, this aspect is not part of the DOT&PF contracts.

[4:52:56 PM](#)

MR. KRIENHEDER added that performance contractors are on the hook financially because they have to provide a bond.

[4:53:23 PM](#)

REPRESENTATIVE TUCK surmised that it is in the municipality's or school district's best interest to get bids from more than one contractor in order to get accurate numbers. He then asked whether in the case of higher savings, the loan would be paid off quicker, or if the additional savings would benefit the municipality.

[4:54:37 PM](#)

MR. KRIENHEDER explained that contracts have varying terms; in fact, some do provide for shared savings to be split. He understood that DOT&PF's contract with Siemens Energy did not have a shared savings arrangement and additional savings would go to the state. He said he would confirm whether the loan terms were fixed and the loan payment amount would stay the same; however, in the recent past, the additional savings were used to avoid higher costs due to the spike in oil prices.

[4:57:46 PM](#)

[HB 296 was held over.]

**ADJOURNMENT**

[4:58:26 PM](#)

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 4:58 p.m.