

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

February 4, 2010

11:36 a.m.

**MEMBERS PRESENT**

Senator Lesil McGuire, Chair  
Senator Albert Kookesh  
Senator Bill Wielechowski

**MEMBERS ABSENT**

Senator Lyman Hoffman  
Senator Bert Stedman

**COMMITTEE CALENDAR**

SENATE BILL NO. 223

"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 AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 223

SHORT TITLE: ENERGY EFFICIENCY BONDS; LOANS; FUND

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/10	(S)	READ THE FIRST TIME - REFERRALS
01/19/10	(S)	ENE, FIN
02/04/10	(S)	ENE AT 11:30 AM BUTROVICH 205

**WITNESS REGISTER**

Dan Fauske, CEO  
Alaska Housing Finance Corporation (AHFC)  
Alaska State Capitol  
Juneau, AK

**POSITION STATEMENT:** Provided information for SB 223.

BRYAN BUTCHER, Public Affairs Director  
Alaska Housing Finance Corporation (AHFC)  
Alaska State Capitol  
Juneau, AK

**POSITION STATEMENT:** Provided information for SB 223.

JOE DUBLER, CFO and Finance Director  
Alaska Housing Finance Corporation (AHFC)  
Alaska State Capitol  
Juneau, AK

**POSITION STATEMENT:** Provided information for SB 223.

JOEL ST. AUBIN, Chief  
Statewide Public Facilities  
Department of Transportation and Public Facilities (DOT/PF)  
Anchorage, AK

**POSITION STATEMENT:** Provided information for SB 223.

#### **ACTION NARRATIVE**

[11:36:19 AM](#)

**CHAIR LESIL MCGUIRE** called the Senate Special Committee on Energy meeting to order at 11:36 a.m. Present at the call to order were Senators Kookesh, Wielechowski, and McGuire.

#### **SB 223-ENERGY EFFICIENCY BONDS; LOANS; FUND**

[11:36:33 AM](#)

**CHAIR MCGUIRE** said the first order of business to come before the committee was SB 223.

**DAN FAUSKE**, CEO of Alaska Housing Finance Corporation (AHFC), said SB 223 would establish an energy efficiency revolving loan fund in AHFC and authorize AHFC to sell up to \$250 million in bonds to fund the program. As a part of the American Recovery and Reinvestment Act (ARRA,) the state received \$28.323 million in federal stimulus money. He reported that \$18 million was designated for the Alaska Department of Transportation and Public Facilities (DOT/PF,) was divided into \$10 million for state facilities energy efficiency projects and \$8 million for energy efficacy projects for schools and municipal facilities managed under AHFC.

**MR. FAUSKE** said AHFC recommended that a contract performance mechanism be utilized, leveraging \$18 million into \$250 million

in bonds. Energy savings produced through building retrofits, developed and guaranteed by the contractor, are sufficient enough to pay the debt service on the bonds. Arizona has utilized this system and DOT/PF has utilized performance-based contracting in some of their facilities already.

BRYAN BUTCHER, Director, Public Affairs, Alaska Housing Finance Corporation (AHFC), said the US Department of Energy (DOE) approved the plan a couple of weeks ago and said turning this part of the ARRA funds into something long-term would be beneficial.

MR. FAUSKE said the DOE is very impressed with Alaska's weatherization rebate program and this program.

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CHAIR MCGUIRE said Alaskans are looking for ways to improve energy efficiency in their buildings. Every cent that a school saves can go into the classroom; every cent saved on a building can go into other government functions like fire and rescue. She said it is innovative and her intent is to make it part of the Omnibus Energy Package.

CHAIR MCGUIRE asked if Mr. Butcher and Mr. Fauske are confident that \$10 million and \$8 million are the right amounts for state facilities energy efficiency projects and schools and municipal facilities energy efficacy projects, respectively.

MR. BUTCHER replied yes, \$18 million can be leveraged in up to \$250 million because it is a revolving loan fund; it should go in perpetuity. He explained that when the legislature overrode former Governor Palin's veto and the \$28 million became available, municipalities worried that only a few of them would get anything done before the money was gone. A lot of people have been calmed knowing that the money will go farther.

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CHAIR MCGUIRE agreed and said she saw the same situation and heard the same feedback from those who applied for an Alaska Energy Authority (AEA) Renewable Energy Grant.

SENATOR WIELECHOWSKI agreed and asked how a \$250 million program can come out of \$18 million.

MR. FAUSKE said that it is similar to the tobacco settlement money which came in annual payments of \$20 or \$22 million that were leveraged into \$300 million for building rural schools.

Rather than annual payments, however, this plan would utilize annual savings, generated by contracting, that would go to service the debt.

JOE DUBLER, CFO and Finance Director, AHFC, said this revolving loan fund would be structured similarly to mortgage bond deals: the \$18 million would represent a small debt service reserve fund, and the rest would rely on the corporation's general obligation pledge. Loans, made to municipalities to make repairs, would pay 100 percent of the debt service on the bonds. The contractor guarantees an energy savings which equates to cash savings every year. The cash saved would be used to pay off the loan that AHFC used to pay the contractor.

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SENATOR WIELECHOWSKI proposed an example for clarification: a school in Angoon wants to get weatherized and retrofitted and applies to AHFC. He asked what happens next.

MR. DUBLER said an initial assessment would be done on the building to determine if savings would be achieved.

SENATOR WIELECHOWSKI asked who pays for the assessment.

MR. BUTCHER replied that the program would pay for an energy performance contractor to do the initial audit. For example, a contractor determines that \$100,000 worth of work would create a 20 percent energy savings. The school district would borrow the \$100,000 from the program and pay the contractor. If the weatherization saved \$20,000 per year, the school would then pay the loan back with that \$20,000 per year. Once the loan was repaid, the school could use that energy savings of \$20,000 per year as it saw fit.

MR. BUTCHER explained that energy performance contractors assure a savings amount, 20 percent in this example, and if the work does not save this amount, the contractor pays the difference. This system assures that the loan will be paid back and has been working in many states, such as Washington. The Department of Transportation (DOT) has used it in eight buildings over the last decade.

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SENATOR WIELECHOWSKI asked who pays if Angoon takes out the loan and defaults. He asked if the loan for \$100,000, taken out by the school, is paid to the construction firm.

MR. DUBLER replied yes, the school would take out a loan with AHFC for \$100,000 and AHFC would pay the contractor directly. The annual energy savings money would come directly to AHFC. It is assumed that the school would pay but if not, AHFC would have some sort of mortgage on the property and could take the property back.

MR. BUTCHER said the contracting mechanism is in place and is similar to AHFC's involvement with teacher housing. The energy revolving loan plan is based on the energy savings; the money saved by the resulting reduced utility costs is earmarked to service the debt on the loan until the loan is paid off.

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CHAIR MCGUIRE asked if energy auditors are licensed and bonded.

SENATOR KOOKESH asked the difference between a performance contractor and an energy auditor.

MR. BUTCHER said that an energy performance contractor is an employee of that contractor; it is all one company.

SENATOR KOOKESH said he knows that an energy auditor goes and audits homes. He is not familiar with an energy performance contractor.

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MR. FAUSKE said the energy rater does the pre-audit on a home but does not do the work. The homeowner hires a contractor to do the work based on the energy rater's study of the house. A post-audit examines what was done and assesses the home's increased energy rating, verified by utility bills. Mr. Fauske explained that the difference in this program for state and municipal buildings is that the energy auditor is doing the assessment and energy savings forecast which determine the loan amount and debt service repayment.

SENATOR KOOKESH asked if such people are in the state already.

JOEL ST. AUBIN, Chief, Statewide Public Facilities, DOTPF, said the licensing and bonding of energy auditors is covered under the Alaska State Procurement Code, AS 36.30. Those requirements are part of the energy performance contracts. The state has at least four contractors that do energy savings performance contracting and interest will also come from Washington. An energy savings performance contractor has energy engineers on staff who are trained and experienced in energy audits and

investigating the facility to create a project and a project cost.

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SENATOR WIELECHOWSKI said he sees SB 223 potentially creating hundreds of jobs across Alaska. He is concerned that Alaska has only four contractors and asked if the work force can be ramped up quickly to ensure most or all jobs would go to Alaskans.

MR. ST. AUBIN said the four main contractors subcontract out the bulk of the physical work to mechanical, electrical and specialty contractors. He felt the work force is in place in Alaska.

CHAIR MCGUIRE asked if a weight increase for Alaskan-owned businesses is still in place under the Procurement Code.

MR. ST. AUBIN believed there is a 5 percent preference.

MR. FAUSKE said Alaska had 25 energy raters when the energy weatherization and rebate program began; Alaska now has 130. He expressed the opinion that once the legislature takes makes the funding available, the private sector will see it as an opportunity to expand business. The weatherization rebate program created approximately 2,500 jobs. He said this new program would generate interest from the private sector and create good, high paying and long-term work with a good funding source.

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CHAIR MCGUIRE said that in light of the Omnibus and its incentives, perhaps the committee should bring in Associated General Contractors (AGC), plumbers, pipefitters, mechanical engineers, and other groups for a two hour summit to increase awareness about the kinds of jobs that will come out of these bills. She said it would be great to get the information to Alaskans early.

MR. FAUSKE suggested that some ramp up time be allowed, ensuring that an adequate work force is available when the money and work are introduced, to prevent people from getting frustrated.

[11:59:47 AM](#)

CHAIR MCGUIRE said hers and Senator Wielechowski's main goal is to create and foster a new energy economy. Conservation efficiency and renewable energy were previously seen as antithetical to oil and gas hydrocarbon development. She said it

is good to have some synergy now and she would like to see growth and increased Alaskan jobs in renewable energy, energy efficiency and conservation technology. She said AHFC could be involved in a hearing on jobs and job training, ensuring that relevant agencies are ready.

MR. FAUSKE said weatherizing one school can accomplish the same amount of energy savings as 20 to 25 houses in a village. The two types of projects together greatly impact a community's overall energy usage and the associated costs.

12:02:15 PM

SENATOR MCGUIRE said giving handouts to the private sector causes some discomfort, however, if the overhead is reduced, especially in a small market, the benefit goes on to the consumer. A lot of Alaskan businesses are competing with outside groups and a reduced overhead makes them more competitive.

CHAIR MCGUIRE said Bob Brean, Director for Research and Rural Development, AHFC and Scott Waterman, Energy Specialist, AHFC, were on line for questions.

CHAIR MCGUIRE asked Mr. Fauske and Mr. Butcher to come back and do a presentation to help educate Alaskans about what they can do.

MR. FAUSKE said that AHFC has been sharing data with Enstar [Natural Gas Company] and other energy suppliers and the predicted energy bill reductions are proving to be accurate. He said the system is working and this plan is just on a larger scale.

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SENATOR KOOKESH said a lack of energy auditors is one of the biggest problems with weatherization in rural Alaska. He has asked the Denali Commission if they can put energy auditors into the housing authorities or train existing housing authority employees. Most rural Alaskans do not participate in state energy programs because they cannot get an energy auditor out there.

MR. BUTCHER said that AHFC will pay energy raters to go to rural Alaska and this is improving now that the urban areas no longer have waiting lists. He explained that the energy rater that does the rating for the home energy rebate program and the energy auditor that works on the weatherization program have previously been separate. AHFC is working to train them together so every

regional housing authority and weatherization provider in rural Alaska will also be qualified to work for the weatherization company and to do energy rebates in rural Alaska.

SENATOR KOOKESH said the message is not out there yet and that must be the next step.

[12:07:02 PM](#)

MR. FAUSKE said the legislature will soon need to discuss and determine if the program will continue and at what level. He said 7200 homes are scheduled for weatherization next year. The rebate side is fully encumbered. He said he would hesitate to do large scale advertising without funding to support ongoing work. He said he has met with the Association of Housing Authorities (AHA) and delivering the message is a priority.

MR. BUTCHER explained that the first group to have received ratings is nearing the end of the process; 70 percent used the program and received a rebate by the end of 18 months. AHFC is contacting people who signed up but did not use the program to find out why. AHFC is also tracking the program by community to determine which communities should be targeted with a second wave of information.

[SB 223 was held in committee.]

[12:10:26 PM](#)

With no further business to come before the committee, Chair McGuire adjourned the meeting at 12:10 p.m.