

SENATE FINANCE COMMITTEE  
March 10, 2009  
9:06 a.m.

9:06:57 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:06 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Johnny Ellis  
Senator Donny Olson  
Senator Joe Thomas

MEMBERS ABSENT

Senator Charlie Huggins, Vice-Chair

ALSO PRESENT

Sharon Long, Staff, Senator Charlie Huggins; Andy Moderow, Dog Musher/Iditarod Finisher; Dan Fauske, CEO/Executive Director, Alaska Housing Finance Corporation, Department of Revenue; Bryan Butcher, Director, Government Affairs and Public Relations, Alaska Housing Finance Corporation, Department Of Revenue; Joe Dubler, Director of Finance, Alaska Housing Finance Corporation, Department of Revenue; John Anderson, Weatherization Officer, Research and Rural Development, Alaska Housing Finance Corporation, Department of Revenue.

SUMMARY

SB 50 "An Act relating to Iditarod finisher special request license plates."

SB 50 was REPORTED out of Committee with no recommendation and zero fiscal note 1 by the Department of Administration.

Presentation: Alaska Housing Finance Corporation

Co-Chair Stedman reported results of a sub-committee meeting regarding airports.

#sb50

SENATE BILL NO. 50

"An Act relating to Iditarod finisher special request license plates."

[9:10:17 AM](#)

SHARON LONG, STAFF, SENATOR CHARLIE HUGGINS, SPONSOR, read from the Sponsor Statement (Copy on File):

By passage of this legislation, a new provision is added for special issue license plates to honor those who have shown the dedication, perseverance and exemplary athletic ability that finishing the Iditarod Trail Sled Dog Race requires.

Design work for the new plates must be approved by the Department of Administration. The finishers will be able to purchase the exclusive specialty plates by providing specific proof of participation and completion of the race. The race finisher must have an automobile registered in the state of Alaska on which the plates would be displayed.

Senator Huggins requests support for this new category of specialty license plates honoring the mushers who have endured the challenges and shown the courage and ability to complete what is affectionately known as "the last great race," the Iditarod Trail Sled Dog Race.

Ms. Long reminded the committee that the 2009 Iditarod race had just begun and there were over 60 potential finishers on the trail. She thought it fitting that Alaska honor the finishers because of the importance of the race to the state.

Senator Olson asked if the Iditarod Trail Committee had a position on the legislation. Ms. Long replied that Mr. Stan Hooley, executive director of the committee, had testified in support of the bill in another committee.

Senator Olson asked why the race finisher had to have an automobile registered in Alaska. Ms. Long answered that the idea was to keep the license plates on automobiles and in the state to demonstrate pride in Alaska and in the race.

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Senator Olson asked if a person would be allowed to sell a plate to another party. Ms. Long did not know.

Co-Chair Stedman referred to the zero fiscal note and queried revenue expected. Ms. Long answered that the measure was expected to generate positive cash flow. The fiscal note is a zero note because the revenue expected is minimal.

Co-Chair Hoffman asked if it were true that the view never changes for the dogs behind the lead dog. Ms. Long answered that a finisher could speak to the issue.

ANDY MODEROW, DOG MUSHER/IDITAROD FINISHER, spoke in support of the legislation. He reported his experience as a racer in the Iditarod. His mother and father had finished the race as well; all three of them would get the license plates. He informed the committee that from the sled, the view rarely changes.

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Co-Chair Stedman closed public testimony.

Co-Chair Hoffman MOVED to REPORT SB 50 out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 50 was REPORTED out of committee with no recommendation and zero fiscal note 1 by the Department of Administration.

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^PRESENTATION: ALASKA HOUSING FINANCE CORPORATION

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DAN FAUSKE, CEO/EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, introduced a PowerPoint presentation, "Alaska's Housing Market, 2009," (Copy on File), beginning with "Alaska's Housing Market" (Slide 2):

- Interest rates are historically low
- Prices are stable
- New construction
  - Extremely low
  - Contractors busy with remodeling

Mr. Fauske covered Slide 3, "What Happened Outside?"

- Collapse of housing market
  - Economy—Loss of jobs
  - Excessive speculation
    - Buying
    - Construction
  - Subprime mortgages defaulted
  - Depreciating home values

Mr. Fauske reported that he serves on the board of directors of a mortgage bank. He described a phenomenon called "other-than-temporarily impaired" (OTTI) and how it affects the

balance sheet for institutions. He expressed concerns about OTTI related to recording paper losses before an actual economic loss.

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Mr. Fauske turned to Slide 4, "The Good News Is...":

- Alaska is different from the Lower 48
  - Adjustable rate mortgages (ARMS) were a very small proportion of total market
  - Small lending community that didn't participate in riskier loan products
  - AHFC did not participate in them, even though asked
  - Minimal speculative development or buying
  - Continued moderate growth in economy expected

Mr. Fauske talked about areas in the country where speculative buying could result in four or five different people owning a unit before anyone moved in. He questioned how the government would relate to speculation.

Mr. Fauske moved to Slide 5, "Delinquencies—Are we in trouble? 4<sup>th</sup> Quarter 2008":

- Mortgage Bankers Association survey - 7.88 percent nationally
  - In Alaska our rate was 3.81 percent, the second lowest in the nation
  - AHFC's delinquencies - 4.11 percent
- Alaska's delinquency rate reached 5.9 percent in 2000 and 2001

Mr. Fauske emphasized that he is not seeing alarming numbers in Alaska and does not anticipate trouble as long as the economy stays stable.

Mr. Fauske covered Slide 6, "Foreclosures 4<sup>th</sup> Quarter 2008":

- Alaska ranks 50<sup>th</sup> in foreclosures at 0.90 percent
- Less than one-third the national average of 3.3 percent

Mr. Fauske reported that the number of foreclosures in the country is increasing as unemployment rises.

Mr. Fauske turned to Slide 7, "Market is cooling":

- 2008 end-of-year numbers of homes for sale in Anchorage much lower than '90s
- From 1999 to 2005, market hot for sellers
- Now a more moderate pace

Mr. Fauske added that the inventory is good and the length of time on market is fine.

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Mr. Fauske pointed to Slide 8, "Average Sales Price as of Dec. 2008."

- Anchorage: \$326,000 (stable)
- Bethel: \$233,213 (-2.3%)
- Fairbanks: \$214,000 (-.004%)
- Mat-Su: \$221,000 (stable)
- Nome: \$185,000 (-15.9%)
- Sitka: \$295,333 (-12.3%)

Mr. Fauske reported difficultly getting data from all locations.

Co-Chair Stedman asked if the average sale price for December represented homes sold. Mr. Fauske answered in the affirmative.

Co-Chair Stedman asked for a broader list of prices that included other communities around the state. He also wanted to know the number of homes sold in the sample.

Co-Chair Hoffman asked if the numbers were reflective of a one-year period. Mr. Fauske answered in the affirmative.

[9:26:00 AM](#)

Mr. Fauske described a graph on Slide 9, "Average Sales Price Reported by Lenders" representing prices in Anchorage, Fairbanks, Juneau, and MatSu areas between 2000 and 2008.

Mr. Fauske compared sales activity in various areas in the state on "Statewide Housing Market-2008" (Slide 10):

- Anchorage -10%
- Mat-Su -20%
- Fairbanks -14%
- Kenai -17%
- Kodiak -.05%

Mr. Fauske turned to a graph on Slide 11 depicting annual residential sales activity from 2001 to 2008. He assured the committee that the numbers were not alarming, although it would be good if they were higher. The downturn in the graph does not indicate a troubled economy but a slowing down after peaks in 2004 and 2005 when the market was robust.

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Mr. Fauske explained the graph on Slide 12 detailing the number of homes for sale in Anchorage between 1995 and 2008. The peak was close to 1,100 in 1998; the number for 2008 is around 800. Experts have assured AHFC that the current inventory is fairly healthy.

Mr. Fauske turned to Slide 13, "Average Market Days—Statewide Through Dec. 2008," which depicts the average number of days that a home was on the market in various communities in 2007 and 2008:

	<u>2007</u>	<u>2008</u>	
• Anchorage	64	72	(+13 percent)
• Mat-Su	79	92	(+16 percent)
• Fairbanks	50	74	(+48 percent)
• Kenai	103	116	(+13 percent)
• Kodiak	68	85	(+25 percent)

Mr. Fauske pointed to a graph on Slide 14, "How long does it take to sell?" illustrating the average time a house was on the market in Anchorage between 2001 and 2009. The darker line represents active inventory and the purple line represents new sales.

Mr. Fauske turned to a graph on Slide 15 showing annual residential building permit activity for Anchorage between 2001 and 2008. The number peaked at 1039 in 2002 and dropped steadily to 225 in 2008.

Mr. Fauske explained a graph on Slide 16, "Number of Permits by Area" depicting a decline in residential permits in Juneau and Fairbanks between 2000 and 2008.

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Mr. Fauske discussed Slide 17, "Apartment Vacancies Feb. 2009":

• Anchorage	5.0 percent
• Juneau	4.7 percent
• Fairbanks	21.2 percent
• Wasilla/Palmer	2.1 percent
• Kenai/Wasilla	8.6 percent

Mr. Fauske added that the vacancy rate in Fairbanks is high because of the deployment of the striker brigade.

Mr. Fauske segued to a more detailed chart of apartment vacancies in the same communities (Slide 18).

BRYAN BUTCHER, DIRECTOR, GOVERNMENT AFFAIRS and PUBLIC RELATIONS, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, added for comparison that the national vacancy rate for rentals was approximately 10 percent.

Mr. Fauske addressed average interest rates over time and introduced several graphs. He spoke to Slide 20, with a bell curve representing interest rates from 1963 to 2008.

9:31:20 AM

JOE DUBLER, DIRECTOR OF FINANCE, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, explained the graph on Slide 21 as showing what has happened to cost of funds related to the rest of the conventional market. The red line represents the 30-year Municipal Market Data (MMD), an approximation of the corporation's cost of fund, which has stayed consistent at around 5.5 percent. The light blue line represents the U.S. Treasury (UST) and the 30-year London InterBank Offered Rate (LIBOR), an indicator of the conventional mortgage market; the bottom dropped out of the LIBOR around November 2008. Housing finance associations around the country are priced out of the market because they do not have access to the same capital as Fannie Mae and Freddie Mac.

Mr. Dubler described a graph comparing mortgage rates on Slide 22, "AHFC Tax-Exempt 30-year vs. Conventional 30-year." The red line shows how steeply fixed conventional rates dropped in the recent downturn. The blue line represents AHFC rates, which have stayed high enough to price them out of the market.

Co-Chair Stedman asked if the chart ended in the first part of January. Mr. Dubler replied that the chart was compiled the previous month. The indicated rates have remained approximately the same.

Senator Thomas asked why one-quarter federal rate reductions totaling around 4 percent were not reflected in the charts. Mr. Fauske replied that mortgage rates were not affected quickly when the federal government cut the rate. Mr. Dubler added that the federal funds rate is a very short-term rate. The rates AHFC deals with are 30-year rates. When the Federal Reserve System (the Fed) cuts rates, if the rest of the market does not move, the yield curve steepens. Short-term rates get down to a quarter of a percent. If the long-term rates are still at 5 percent, the result is a very steep yield curve. During the past five years, yield curves have ranged from nearly horizontal to almost vertical.

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Mr. Fauske explained that Alaskans are currently refinancing, which is new mortgage activity for AHFC. Some housing finance associations are in dire straits and have had to shut programs down because there is no access to a market to replenish cash or bond resources. Alaska Housing Finance Corporation has not had to shut down programs.

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Mr. Fauske added that 150 basis points translate to 1.5 percent interest. Co-Chair Stedman clarified that AHFC is 2 percent too high to compete in the market.

Mr. Fauske reported that AHFC is trying to figure out ways to access the capital markets, but it would take some time. Alaskans are saving money through refinancing. He thought it would be interesting to track what Alaskans are doing with the money saved. His fear was that people would save the money instead of putting it back into the economy. He expressed dismay that millions of dollars [of stimulus money] would be pumped into a state with the lowest foreclosure rates in the country.

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Mr. Dubler reported that meetings with Freddie Mac and Fannie Mae officials revealed that the process is slow because the federal government is a large bureaucracy. He stated that the current situation is short-term. The Alaska Housing Finance Corporation has long-term objectives. The corporation has been priced out of the market before and their position is to wait for the market to right itself.

Co-Chair Stedman asked for clarification regarding Freddie Mac. Mr. Dubler explained that Freddie Mac is the federal home loan mortgage corporation. Fannie Mae is the federal national mortgage association. Both entities are government-sponsored entities (GSE) of the federal government.

Mr. Butcher added that the president has instructed the U.S. Treasury, Fannie Mae, and Freddie Mac to work with housing finance agencies. He was optimistic that there would be access to cheaper money, but agreed that going through the federal government could be challenging.

[9:40:11 AM](#)

Mr. Fauske stated that the present market also affects student loan corporations, municipal and state governments, and people working with tax-exempt entities. The market for people trying to raise money for capital needs is currently non-existent.

Mr. Fauske directed attention to Slide 23, "Mortgage Rate Trend Survey Predictions as of 2/9/09." The numbers are the result of a survey of 250 mortgage bankers. He noted the wide range of opinion:

- Over the next 30 days:
  - Rates will rise significantly: 0.0%
  - Rates will rise slightly: 17.9%
  - Rates will remain unchanged: 14.3%
  - Rates will decline slightly: 64.3%
  - Rates will decline significantly: 3.6%
- Over the next 90 days:
  - Rates will rise significantly: 0.0%
  - Rates will rise slightly: 17.9%
  - Rates will remain unchanged: 25.0%
  - Rates will decline slightly: 42.9%
  - Rates will decline significantly: 14.3%

Mr. Fauske turned to Slide 24, "Low Interest Rates - What has changed?":

- Eligible borrowers have diminished 30-40 percent
  - Loan investors and mortgage insurance companies tightened credit standards
    - Higher down payment required
    - Higher FICO score required
    - Jumbo loan financing limited
    - No more exotic loans
      - No income; no jobs; no assets; interest-rate teaser; payment option (interest-only, half interest, etc., payments)
  - FHA
    - Increased fees
    - No seller-financed down payment assistance
  - People don't qualify to refinance
    - Decrease in property values
    - Shouldn't have gotten the loan in the first place and don't qualify

Mr. Fauske explained that FICO is an acronym for a credit score [Fair Isaac Corporation]; 680 is considered a good FICO score, but when banks allowed loans such as the "no income, no job, no assets" (NINJA), the FICO score became irrelevant. Loans that had no value were bought as portfolio securities and contributed to the market collapse. He opined that lack of oversight and greed distorted the desire of ordinary people to own homes into making buying homes an investment venture.

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Mr. Fauske returned to Slide 24. The Federal Housing Agency (FHA) increased the fees and eliminated down payment assistance. In addition, people could not qualify to refinance because loan values exceeded the home value. People were unable to get out of higher interest rate loans, creating difficulties in many areas around the country. The situation is aggravated by increasing unemployment.

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Senator Olson asked when and how constituents should refinance homes. Mr. Fauske recommended that constituents call their bankers. He emphasized that people can save significant amounts of money by refinancing.

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Senator Olson asked how AHFC could help. Mr. Fauske replied that refinancing is done by the banks. Mr. Dubler added that AHFC has a streamlined refinancing program in place for people who already have an AHFC loan. People can refinance through AHFC through their bank. The cost is low and paperwork minimal. The corporation already knows the loan and helps by passing cost savings to borrowers.

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Mr. Fauske pointed out that a 1 percent decrease in interest rates roughly translates into a 10 percent increase in homebuyer purchasing power (Slide 25).

Mr. Fauske noted that the demand for housing is not likely to subside; state demographers forecast that population growth in Alaska is likely to increase the demand for housing. The economy is expected to remain steady.

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Mr. Fauske turned to Slide 27, "Alaska Affordability Index: Single-Family Homes, Private and Public Agency Lenders, 1<sup>st</sup> Quarter 1992 - 2<sup>nd</sup> Quarter 2008." The graph illustrates that it takes 1.62 incomes per household to afford a home in Alaska. He said the number was not unusual. He referred to a survey by United Way revealing that 44 percent of Alaskans are spending more than 30 percent of their income on housing. Federal guidelines suggest that people should not spend more than that on housing.

Co-Chair Stedman thought the statistic was that Alaskans spend 28 percent of their income for housing. Mr. Fauske replied that AHFC uses the 30 percent number, based on recommendations by the U.S. Department of Housing and Urban Development (HUD).

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Co-Chair Stedman noted that the graph on Slide 27 stops in the middle of 2008. He asked how adding recent numbers would affect the graph. Mr. Fauske answered that there would not be a difference and promised to upgrade the numbers.

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Mr. Fauske explained that significant increases in energy costs will have an impact on the affordability of housing. Also, personal choices affect how much people spend. The number of people spending more than 30 percent on housing in Alaska is decreasing.

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Mr. Fauske detailed AHFC's loan volume (Slide 28):

- FY2007: 2,808 loans; \$565.7 million
- FY2008: 2,012 loans; \$403.5 million
- Projected through FY2009: 1,500 loans; \$368 million (down 25 percent)

Mr. Fauske pointed out that the lower number of loans is directly related to interest rates. He stressed that AHFC did not believe the situation was permanent.

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Co-Chair Stedman returned to AHFC's loan volume and noted that the average loan increased in 2008. Mr. Dubler responded that there has been an increase in loan balance as the costs of homes has increased, especially in Anchorage.

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Mr. Fauske continued with Slide 29, "Construction Spending 2009 Forecast":

- Total spending: \$7.1 billion, down 3 percent
- Private-sector spending: \$4.3 billion, down 12 percent
- Public-sector spending: \$2.7 billion, up 16 percent

Mr. Fauske stressed that there was still a lot of money being spent for construction, although not in housing construction. Workers have been able to find employment with other construction projects.

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Senator Thomas queried earlier statements regarding the relationship between government spending and Alaska's relatively stable economy.

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Mr. Fauske pointed out that housing makes up 20 percent of the gross domestic product of Alaska. New housing starts and other housing factors are key indicators for the health of an economy; AHFC is comfortable with the current economic situation in Alaska. However, he suggested careful monitoring.

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Mr. Fauske turned to how Alaska compared in 2008 relative to housing and the economic crisis (Slide 30):

- Nationwide: Median home values fell for ninth straight quarter - 15.3 percent of the year
- Anchorage: Median home values up 3 percent
- Nationwide: Existing home sales down 3.5 percent
- Western states: Existing home sales down 31.6 percent
- Alaska: Existing home sales down 9 percent

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Mr. Fauske described the big picture (Slide 31):

- Average home prices stable
- Home sales activity down
- Time on market up
- Delinquencies low
- Foreclosures low
- Interest rates low
- Overall construction outlook good
  - New home construction down
- Additional \$1 billion estimated in Stimulus Package
- Population growth forecasted

Mr. Fauske noted that AHFC participates in a variety of areas for which economic stimulus money is being discussed.

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Mr. Fauske concluded that overall, AHFC was cautiously optimistic. The goal is to remain flexible and committed to the success of the program. He stated that there were good opportunities for Alaskans related to refinancing and weatherization.

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AT EASE  
RECONVENED

Mr. Fauske introduced a PowerPoint presentation, "Energy-Efficiency Programs: Progress Update for Alaska Legislature, 3/4/2009" (Copy on File). He gave a brief overview of AHFC's weatherization program:

- \$200 million for weatherization (income-based, no-cost program)
- \$100 million for rebates (for those NOT qualifying for weatherization program: rebates for eligible improvements - ratings required)
- \$60 million additional for rebates 9/2008 (to carry program into next calendar year)
- Large training component for both programs

Mr. Fauske explained that people above 100 percent of median income go into the rebate program. The rebate program was in place in the 1990s and has been re-introduced. An additional \$60 million was added during the special session.

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Mr. Fauske explained allocations were figured by dividing the state. The formula takes into consideration heating degree days, cost of fuel, and population. The corporation wanted to have enough money in various regions to make a program successful and to have equitable distribution of resource.

REGION	REBATE	WEATHERIZATION
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Mr. Fauske gave an overview of the program start-up (Slide 3):

- April 2008: Programs approved
  - AHFC operates under emergency regulations
  - Training & personnel ramp-up started

- May 2008: Programs launched
- July 2008: Public hearing & final regulations adopted
- Summer 2008: Continued ramp-up & training

Mr. Fauske directed attention to Slide 5, "Weatherization Program Progress Report":

- Previous program weatherized 600 homes.
- This year that number will triple to 1800.
- Year 2: 4000
- Year 3: 7500
- Statewide weatherization providers and housing authorities continue ramping up.

Mr. Fauske pointed out that the previous program operated on a much more limited scale, with \$3 million to \$5 million in corporate receipts and \$1 million to \$2 million in federal money. The level was 60 percent of median income.

Mr. Fauske read more about progress on the weatherization program from Slide 6:

- \$30 million currently on the street.
- \$59.9 million projected for next fiscal year.
- Communities and surrounding areas served: 56 this year and 90 next year.
- Statewide weatherization providers & housing authorities continue ramping up.

Mr. Fauske noted that 700 homes are completed, 500 are near completion, and 600 are in the assessment and early construction phase.

Mr. Fauske listed statewide weatherization providers (Slide 8):

- Alaska Community Development Corporation
- Interior Weatherization
- Municipality of Anchorage
- Rural Community Action Program
- RuralCap-Juneau
- Tanana Chiefs Conference

Mr. Fauske stated that AHFC has worked with the providers for many years. The housing authorities have also been brought in. The Fairbanks North Star Borough, the North Slope Borough, and other government entities have indicated a desire to participate in order to expedite the process in various regions.

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Mr. Fauske listed the housing authorities involved (Slide 9):

- Aleutian Housing Authority
- AVCP Regional Housing Authority
- Baranof Island Housing Authority
- Bering Straits Regional Housing Authority
- Bristol Bay Housing Authority
- Cook Inlet Housing Authority
- Copper River Basin Regional Housing Authority
- Interior Region Housing Authority
- Kodiak Island Housing Authority
- North Pacific Rim Housing Authority
- Northwest Inupiat Housing Authority
- Tagiugmiullu Nunamiullu (TNHA) through North Slope Borough
- Tlingit-Haida Regional Housing Authority
- Ketchikan Indian Community
- Metlakatla Housing Authority

Mr. Fauske pointed out that every entity is actively involved with the program.

Mr. Fauske segued into the Home Energy Rebate Program with Slide 11, "Ratings Processed":

- Estimate: Over 8000 ratings performed by raters
- 7002 ratings processed
- Approximately \$66.3 million committed
- 100-150 applications received per day
- Over 200 inquiries per day
- 417 Post-Improvement rebates paid average: \$5909
- 187 New 5 Star Plus rebates paid totally \$1.4 million

Mr. Fauske noted that a \$7500 rebate is paid to those who build a new home rated "5 Star Plus." Previously there were problems with builders being hesitant to construct the improvements because the improvements were not tallied in the value of the home; the problem has been addressed.

Mr. Fauske turned to Slide 12, "Rater Availability":

- Raters
  - 38 at program start
  - 94 at present
  - 20 in training process
- Roving rater program

- Centralized sign-up list
  - o [www.akrebate.com](http://www.akrebate.com) or call 1-877-AK-REBATE
  - o Ability to check place on waiting list

Mr. Fauske explained that under the roving rater program, raters can go where they are needed around the state. He thought the program was working well.

[10:10:22 AM](#)

Senator Olson asked who citizens should call regarding the roving rater program.

JOHN ANDERSON, WEATHERIZATION OFFICER, RESEARCH AND RURAL DEVELOPMENT, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, answered that people are automatically put on the roving rater list if there is not a rater in the location of a citizen who calls to get on the waiting list. A rater is sent when a community has between ten and fifteen clients on the roving rater list.

Senator Olson requested the toll-free number for people to call to get on the waiting list. Mr. Anderson answered that the number is 1-877-257-3228, or 1-877-AK-REBATE.

Mr. Fauske gave an overview of the wait list (Slide 13), explaining that state-wide, there are 7,724 on the list. He gave a sample of distributed of households on the list:

- Anchorage - 5888
- Kodiak - 182
- Juneau - 128
- Fairbanks - 25
- Dillingham - 6

Mr. Fauske described his personal experience with the wait list. When he first signed up, he was number 5,408 on the list. One and a half months later, he was number 3,400. The list does move. He offered encouragement and stressed that improvements are being made to the program every day.

[10:13:05 AM](#)

Mr. Anderson offered a "Program Snapshot: Rebates vs. Amount Spent by Sampled Homeowners" (Slide 14). A sample was taken of 300 homes that had gone through the entire process. The average spent was around \$9,500; the average rebate was a little over \$5,900. Homeowner investment averaged around \$3,500 per upgrade.

Mr. Fauske added that some people have concerns that they do not have money for the initial investment. Alaska Housing

Financing Corporation offers a fixed rate loan for up to \$30,000. People have borrowed to do additional work to their homes, which he described as a good investment.

Senator Olson asked how much a person eligible for the rebate can borrow. Mr. Anderson replied that the loan could be for up to \$30,000. The rebate amount could be up to \$10,000, and comes off the top of the loan. Mr. Fauske added that the minimum rebate is \$4,000 and the maximum rebate is \$10,000.

[10:15:41 AM](#)

Mr. Fauske directed attention to numbers on a chart on Slide 15, "Energy & CO2 Impacts from Sampled Homes." The energy cost for the entire sample of 260 homes before weatherization was \$1,211,080 and the cost after was \$941,242, totaling \$269,837 in savings, or a savings of \$1,355 per year per home. He called the savings the equivalent of another permanent fund check. In addition, after weatherization 12,228 less pounds of carbon dioxide were released per year per home. Other data is confirming the results. The rating stars increase 1.21 per home. The total energy saved in the sample was 17.2 billion BTUs.

Mr. Fauske added that the life span of the house increased, as well as quality of life. The installation of furnaces using new technology produces the most significant results.

[10:18:08 AM](#)

Co-Chair Hoffman thought the average Alaskan would better understand the extent of the savings if it was stated in terms of barrels of oil conversion. He pointed out that the amount of energy saved over a longer period would be substantial.

Mr. Fauske agreed that the number would be very large. He relayed that the results in Alaska are significant enough that an advisor to the U.S. Department of Housing and Urban Development has asked for the data and software used.

Mr. Fauske added that the following slide would convert the savings to different types of fuel (Slide 16, "Average Savings per Home by Fuel Type"). The savings in the chart are average savings per home by fuel type:

FUEL TYPE	AVERAGE SAVED	SAMPLE SIZE
• Electric	699 kWh	260 homes
• Natural Gas	783 ccf	150 homes
• Number 1 Oil	444 gallons	24 homes
• Number 2 Oil	668 gallons	85 homes

- Propane                            149 gallons                    17 homes
- Spruce wood                        3 cords                        9 homes
- Birch wood                         1 cord                         11 homes
- Coal                                 2 tons                         1

Co-Chair Stedman requested that the numbers be checked regarding the difference between kilowatt-hours and BTUs. Mr. Anderson replied that he would check.

Co-Chair Hoffman queried how 17.2 BTUs savings from the sample on Slide 15 translates to numbers of barrels of oil. Mr. Fauske agreed that translation to barrels of oil would be a good statistic and said he would get the figure.

Co-Chair Stedman also wanted conversion to per million BTU equivalent for the chart on Slide 16, as well as the degree days used in the different regions in the state. Mr. Anderson replied that he would get the data to the committee.

[10:22:45 AM](#)

Mr. Fauske moved to Slide 17, with a breakdown of the rebate allocated by region:

REGION	ALLOCATED	ENCUMBERED
• Anchorage Region	\$26 million	\$19.8 million
• Southcentral Region	\$16 million	\$12.8 million
• Fairbanks Region	\$17 million	\$17.9 million
• Interior Region	\$2 million	\$0.36 million
• Juneau Region	\$4 million	\$4 million
• Southeast Region	\$5 million	\$3.7 million
• Northern Region	\$4 million	\$0.37 million
• Western Region	\$5 million	\$0.25 million
• Southwest Region	\$2 million	\$0.2 million

Senator Olson noted the lower numbers of the encumbered funds proportional to the allocation at the bottom of the list and asked what was different in the Northern, Western, and Southwest regions. Mr. Fauske answered that there had been a slowdown in the Nome region because of a change in management. He added that in some areas the majority of recipients will qualify for weatherization rather than the rebate program.

Mr. Anderson agreed that there are differing levels of participation in some of the rural communities. He did not know why there were less people on the waiting list in Barrow, for example. A large majority of people will qualify and want to participate in the weatherization program. The

corporation is considering advertising in rural communities in order to increase participation.

Co-Chair Hoffman pointed out that private industry had also been advertising in urban areas in order to get some of the business; that is not happening in rural Alaska. He thought another problem is that raters have not been able to get out to smaller villages. When raters have been able to get to rural areas, there are additional challenges to getting the work accomplished.

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Senator Olson wondered how much low participation in some regions is related to the unavailability of raters and equipment. Mr. Anderson responded that unavailability of raters could be a contributing factor. He added that he had a copy of the wait list broken down by community. The wait list for the rebate program is short in outlying communities.

Mr. Anderson reported that extensive training efforts were underway and going well for:

- Weatherization Service Providers
- Housing Authorities
- Energy Raters
- Contractors
- General Public

Mr. Anderson turned to a progress report for training (Slide 20):

- April to December 2008:
  - Professional Classes: 121
  - Professional Students: 2615
  - Consumer Classes: 13
  - Consumer Students: 464
- Total Classes: 134
- Total Students: 3079

Mr. Anderson explained that "students" in the report represented a range of people, from general laborers, to subcontractors, to homeowners participating in either the weatherization or rebate programs. There were four or five different instructor grantees or contractors through AHFC. Training was provided in 14 regional communities:

- Anchorage
- Barrow
- Bethel

- Cordova
- Fairbanks
- Juneau
- Hydaburg
- Ketchikan
- King Salmon
- Kodiak
- Kotzebue
- Nome
- Palmer/Wasilla
- Seward

Mr. Anderson concluded the presentation by listing AHFC training partners (Slide 21):

- Alaska Building Science Network
- Alaska Works
- Alaska Craftsman Home Program
- Northern Building Science Group
- UAF Cooperative Extension
- UAS Building Science Program
- Wisdom & Associates
- Cold Climate Housing Research Center
- Denali Commission
- Opportunity Council
- Building Performance Institute

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Senator Ellis asked why more money was encumbered than was allocated in Fairbanks. Mr. Anderson replied that the \$60 million allocated to AHFC was not allocated for sub-regions. The money is used as contingency in areas that are using up their funding first. Fairbanks is over the limit. The wait list in Fairbanks is nearly non-existent.

Co-Chair Stedman asked for clarification regarding the difference between urban and rural communities in the weatherization program. Mr. Anderson responded that there is discussion about whether there should be a third category for "road remote" locations. He explained that about 600 homes have been done in the existing program at an average of approximately \$4,000 per home. Under the new funding, the limits have been raised to \$11,000 for urban areas and \$30,000 for rural areas. He believed that another category was needed between the two. The first cycle of the grantees and contracts are currently coming to a close; data garnered will help AHFC determine the need for a third category. Historically, the dollar amount that has gone into the units

is low compared to what is being done currently, so there is nothing to compare with. Energy savings are clearly high.

Co-Chair Stedman asked if AHFC would come forward with a proposal if need is established.

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Mr. Fauske provided history regarding investments. The corporation made the decision to not participate through consumers in adjustable rate mortgages (ARMS) and "magic loans," but that they would participate in variable rate debt, an area in which AHFC has expertise and confidence. The variable rate debt market is complicated; there are remarketing agents and bonds are traded on a weekly basis. One of the agents AHFC used was Lehman Brothers. One day, Lehman Brothers was a highly rated company; the next day, they were gone, leaving AHFC with a \$190 million exposure.

Co-Chair Stedman asked for clarification regarding the \$190 million exposure. Mr. Dubler answered that at one point Lehman Brothers was a marketing agent for the corporation. Such an agent has the right every week to put the bonds back to the corporation and the corporation has to purchase them. Lehman Brothers was the agent that resold the bonds every week. If an entity gives the bonds back and does not want them, Lehman Brothers would find another purchaser for the bonds. To the extent the agent cannot find another purchaser, the corporation has to come up with cash to pay off the bondholder.

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Co-Chair Stedman queried the timeframe during which bonds must be repurchased. Mr. Dubler replied that normally the corporation receives a seven-day notice. Until November of 2008, the bonds were always remarketed and AHFC never had to worry about coming up with cash. In November, AHFC received a three-day notice from the agent that they did not think they could sell the bonds. The corporation was given three days to come up with a little over \$60 million. The corporation has significant resources and could have come up with the money, although they would have had to sell investments. The corporation could potentially have had to repurchase \$300 million in bonds.

Mr. Dubler explained that AHFC has a sub-corporation, the Alaska Housing Capital Corporation (AHCC) that was created by the legislature and funded with \$300 million. The money has been invested since the inception of the corporation by the Department of Revenue (DOR) in the GeFONSI Fund (General Fund and Other Non-segregated Investments). The capital corporation's portion of the fund at the end of January was

\$345,554,000, so the return to DOR over the past three years has been almost \$46 million.

Mr. Dubler explained that AHFC approached DOR and made a request to draw some of the money out of the AHCC fund in order to purchase the bonds back. Taking the money out of the capital corporation fund allowed AHFC to keep the cash in its own general account needed to keep mortgage programs operating. If the entire \$300 million in the general account had been drawn out, there may not have been enough liquidity to purchase mortgage loans from Alaskan home buyers.

Mr. Dubler reported that DOR had initially hesitated. The corporation made the argument that the capital corporation is subject to the same fiscal policies as AHFC; the policies allow investment in corporate securities, such as the bonds. The debt of AHFC is highly rated, investment grade securities. The corporation asked DOR to purchase the bonds strictly as an investment. The department did so; \$63 million were purchased in September 2008 and were sold in November of the same year. Another \$75 million block was purchased by DOR in September 2008 and returned in October 2008. Through September and October, another \$43.8 million was purchased and returned in October and November 2008. The Alaska Housing Finance Corporation paid the Alaska Housing Capital Corporation interest on the funds; the rates ranged from 1.7 percent to 10.25 percent in that short period of time.

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Mr. Fauske added that the state average interest rate is approximately 6 percent annual return on the investment through AHCC.

Mr. Dubler stated that during the same time period the remainder of the fund earned approximately 2.78 percent. Part of the reason AHFC wanted AHCC to purchase the bonds was a credit scare in the market; bond holders were requiring exorbitant yields, up to 10 percent. Instead of paying to a third party, AHFC kept the yield. It was a better investment than buying a treasury bill at 30 or 40 basis points. Mr. Fauske added that the interest rate was 0.3 percent at 30 or 40 basis points.

Co-Chair Stedman asked if the return derived from offering the liquidity was calculated into the \$46 million extra in the account. Mr. Dubler answered in the affirmative. Co-Chair Stedman asked for a transaction schedule related to the amounts. Mr. Dubler agreed to provide the information.

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Mr. Fauske revealed that AHFC was pleased with the outcome of the situation. The corporation had operated within its fiscal policies and averted potential disaster.

Co-Chair Stedman asked if the AHCC fund was made whole. Mr. Dubler replied that the vast majority of the funds were returned in the early part of November. He referred to the schedule with every payment made and received. A small portion of the bonds, around \$7,000 had to wait until December 1, but received interest. Mr. Fauske emphasized that the transaction is complete. Mr. Dubler agreed that the last payment was paid into the GeFONSI [AHCC] fund by December 1.

Co-Chair Stedman referred to discussion and difference of opinion regarding the potential use of the \$300 million in case of revenue shortfalls.

[10:43:02 AM](#)

Co-Chair Stedman asked if there would be future need. Mr. Dubler hoped not. He stressed that the November 2008 market was very unique. The corporation has never drawn on a liquidity facility. Mr. Fauske noted that AHFC would have fully reimbursed any loss that may have occurred. In the event that something worse would have occurred, the corporation would not have shorted the state.

Co-Chair Stedman recognized that the situation was extraordinary. He asked if DOR had notified finance committee chairs regarding the issue. Mr. Fauske replied that he was not aware of notification. Mr. Dubler told the committee that the department viewed the interaction as another investment rather than an extraordinary event. Mr. Fauske pointed out that DOR could not buy their own bonds, but could buy those of AHFC as a separate entity.

Co-Chair Stedman referred to a similar issue related to student loans.

[10:46:28 AM](#)

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ADJOURNMENT

The meeting was adjourned at 10:46 AM.