

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

March 9, 2010

1:34 p.m.

MEMBERS PRESENT

Senator Joe Paskvan, Chair
Senator Joe Thomas, Vice Chair
Senator Bettye Davis
Senator Kevin Meyer
Senator Con Bunde

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 153

"An Act relating to manufactured homes, including manufactured homes permanently affixed to land, to the conversion of manufactured homes to real property, to the severance of manufactured homes from real property, to the titling, conveyance, and encumbrance of manufactured homes, and to manufacturers' certificates of origin for vehicles; and providing for an effective date."

- MOVED SB 153 OUT OF COMMITTEE

SENATE BILL NO. 302

"An Act establishing the Alaska microloan revolving fund; making loans for commercial purposes from the fund; and relating to the fund and loans; and providing for an effective date."

- MOVED SB 302 OUT OF COMMITTEE

SENATE BILL NO. 129

"An Act relating to state and municipal building code requirements for fire sprinkler systems in certain residential buildings."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 153

SHORT TITLE: MOBILE HOMES AS REAL PROPERTY

SPONSOR(s): SENATOR(s) FRENCH

03/18/09 (S) READ THE FIRST TIME - REFERRALS
03/18/09 (S) L&C, JUD
04/09/09 (S) L&C AT 1:00 PM BELTZ 211
04/09/09 (S) Scheduled But Not Heard
03/09/10 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 302

SHORT TITLE: MICROLOAN REVOLVING FUND

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/26/10 (S) READ THE FIRST TIME - REFERRALS
02/26/10 (S) L&C, FIN
03/09/10 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 129

SHORT TITLE: RESIDENTIAL SPRINKLER SYSTEMS

SPONSOR(s): MENARD

02/27/09 (S) READ THE FIRST TIME - REFERRALS
02/27/09 (S) CRA, STA, L&C
03/17/09 (S) CRA AT 3:30 PM BELTZ 211
03/17/09 (S) Heard & Held
03/17/09 (S) MINUTE(CRA)
03/19/09 (S) CRA AT 3:30 PM BELTZ 211
03/19/09 (S) Moved SB 129 Out of Committee
03/19/09 (S) MINUTE(CRA)
03/20/09 (S) CRA RPT 1DP 2NR
03/20/09 (S) DP: MENARD
03/20/09 (S) NR: OLSON, THOMAS
03/24/09 (S) STA AT 9:00 AM BELTZ 211
03/24/09 (S) Moved SB 129 Out of Committee
03/24/09 (S) MINUTE(STA)
03/25/09 (S) STA RPT 1DP 2NR 2AM
03/25/09 (S) DP: MENARD
03/25/09 (S) NR: MEYER, KOOKESH
03/25/09 (S) AM: FRENCH, PASKVAN
03/02/10 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
03/02/10 (S) Heard & Held
03/02/10 (S) MINUTE(L&C)
03/09/10 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR HOLLIS FRENCH
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Sponsor of SB 153

GEORGE GINSBERG, outside counsel to Wells Fargo
McGlinchey & Stafford

POSITION STATEMENT: Available to answer questions on SB 153.

CARL SPRINGER, Registrar
Division of Motor Vehicles (DMV)
Department of Administration (DOA)

POSITION STATEMENT: Available for questions on SB 153.

TIFFANY KALDOR
Wells Fargo Home Mortgage
Fairbanks, AK

POSITION STATEMENT: Supported SB 153.

MARC LEFSET, McGlinchey & Stafford
Outside counsel for Wells Fargo Bank &
Vanderbuilt Mortgage Clayton Homes
Chair, Finance Lawyers Committee, Manufactured Housing Institute

POSITION STATEMENT: Supported SB 153.

JEFF HARRIS
Wells Fargo Bank

POSITION STATEMENT: Supported SB 153.

PAT GREEN
Wells Fargo Bank

POSITION STATEMENT: Supported SB 153.

GREG WINEGAR, Director
Division of Investments
Department of Commerce, Community & Economic Development (DCCED)

POSITION STATEMENT: Supported SB 302.

PAUL MICHELSON, Jr.
Alaska State Homebuilder's Association

POSITION STATEMENT: Supported SB 129.

CHARLES EDWARDSON, Project Manager
Ketchikan Indian Community Housing Authority
Ketchikan, AK

POSITION STATEMENT: Supported SB 129.

DAVID OWENS, Building Inspector
Owens Inspection Services
Palmer, AK
POSITION STATEMENT: Supported SB 129.

ART CLARK
Alaska Association of Realtors
POSITION STATEMENT: Supported SB 129.

DAVID MILLER, Fire Chief
Sitka, AK
POSITION STATEMENT: Opposed SB 129.

KELLY NICOLELLO, Deputy Director
Alaska State Fire Marshall's Office
Division of Fire and Life Safety
Department of Public Safety (DPS)
POSITION STATEMENT: No position on SB 129.

DAVE HOE, Fire Chief
North Tongass Volunteer Fire Department
Ketchikan, AK
POSITION STATEMENT: Opposed SB 129.

CROSBY GRINDEL, Manager
Northwest Region
National Fire Protection Association (NFPA)
POSITION STATEMENT: Opposed SB 129.

MICHAEL TILLY, Fire Chief
City of Kenai
Kenai, AK
POSITION STATEMENT: Opposed SB 129.

LARRY FLOYD, Building Official
City of Kenai
Kenai, AK
POSITION STATEMENT: Opposed SB 129.

JEFF TUCKER, President
Alaska Fire Chiefs Association
Fairbanks, AK
POSITION STATEMENT: Opposed SB 129.

DENNIS BRAUDIGAN, Director
Emergency Services
MatSu Borough

POSITION STATEMENT: Opposed SB 129

JEREMY DILLARD, representing himself
MatSu Valley

POSITION STATEMENT: Supported SB 129.

DAVE DILLARD

Alaska State Building Association

POSITION STATEMENT: Supported SB 129.

JEFF TWAIT, Director

Alaska State Homebuilding Association

City of Kenai

Kenai, AK

POSITION STATEMENT: Supported SB 129.

ACTION NARRATIVE

[1:34:28 PM](#)

CHAIR JOE PASKVAN called the Senate Labor and Commerce Standing Committee meeting to order at 1:34 p.m. Present at the call to order were Senators Thomas, Bunde, Meyer, and Paskvan.

SB 153-MOBILE HOMES AS REAL PROPERTY

[1:36:30 PM](#)

CHAIR PASKVAN announced SB 153 to be up for consideration. He said Senator Meyer had identified a concern and had already spoken to the bill's sponsor about it.

SENATOR HOLLIS FRENCH, sponsor of SB 153, read the sponsor statement as follows:

SB 129 establishes procedures to convert manufactured homes to real property through a defined process within the Division of Motor Vehicles (DMV). This change will give the owners of manufactured homes better access to traditional mortgage financing which often features lower interest rates, and it will help home owners increase the value of their house by allowing them to convert their manufactured home into real property. The legislation will also prevent clouded titles that often hinder clean transactions involving manufactured homes.

Currently, when a manufactured home is affixed to a permanent foundation on land owned by an individual,

the vaguely defined title surrender procedure currently used by the Division of Motor Vehicles lacks a record notice. Without a record notice, a homeowner is often left with an unmarketable title and an unperfected security interest in their house placing all parties in a real estate transaction - the buyer, the lender, and the seller - at risk.

Many Alaskans live in manufactured homes. This legislation will treat residents that permanently affix a manufactured home to land they own the same way that traditional homeowners are treated in the state. I urge you to support this fair legislation.

SENATOR FRENCH pointed out that Alaska is one of the very few states without a process similar to the one presented in his bill. While it is a simple concept, SB 153 spans several different aspects of state law and requires significant changes.

SENATOR BUNDE said he could think of two kinds of manufactured homes - one was never on wheels and is placed on a foundation and those that are "trailer houses." He asked Senator French if his definition of "manufactured" covers both types.

SENATOR FRENCH said this is meant for "mobile homes" on wheels.

SENATOR BUNDE asked if SB 153 allows traditional mortgages, but does nothing to compel a lending agency to provide a mortgage where it did not feel it was a best business practice.

[1:39:46 PM](#)

SENATOR DAVIS joined the committee.

SENATOR FRENCH answered, "Exactly, there is absolutely no state sort of arm twisting." SB 153 simply allows mobile homeowners to stand on the same footing as any other mortgagee who goes to the bank and asks for financing.

SENATOR MEYER said he was still confused by the difference between a mobile home and a manufactured home. He always thought a mobile home as being something on wheels and a manufactured home as being attached to a foundation. He asked if this bill was saying they are one and the same.

SENATOR FRENCH responded that the definition for both is found in AS 45.29.102.

1:41:36 PM

SENATOR MEYER asked what kind of certification you get from the DMV if you have a mobile home or trailer.

SENATOR FRENCH replied that the point of the bill is to make them the same.

SENATOR MEYER asked if this process change costs the homeowner any more money to get a secure title.

SENATOR FRENCH deferred that answer to Wells Fargo.

CHAIR PASKVAN interjected that "manufactured home" was defined in AS 45.29.102, subsection 65 as:

A structure transportable in one or more sections that is eight body feet or more in width, forty body feet or more in length, and that is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation.

1:43:31 PM

SENATOR FRENCH said he lived in a mobile home when he was 20, and it had wheels that had been placed underneath the skirting. He lived in it for 10 years and then sold it to someone who took it to Girdwood. It was still able to move after all those years, and he thought the chassis was the key aspect.

SENATOR MEYER said his potential amendment has to do with the concern that mobile home transactions will still not be covered by the Real Estate Surety Fund.

SENATOR FRENCH said it would make sense to him to let consumers have access to that Surety Fund.

1:45:50 PM

GEORGE GINSBERG, McGlinchey & Stafford, outside counsel to Wells Fargo, said he didn't have prepared testimony, but wanted to answer one question - that "mobile home" and "manufactured home" refers to the same thing. He explained that it is the common terminology used particularly in Department of Housing and Urban Development regulations. They are not talking about modular homes that are stick built, prefabricated and assembled on site. "These are mobile homes that are made at a factory and then either installed just on blocks or permanently affixed to real estate."

SENATOR BUNDE asked if financing for the mobile home depended on whether it remained on the chassis or was permanently affixed to a foundation.

MR. GINSBERG answered yes. He explained that the whole point of the bill is that Alaska currently has no procedure for converting a mobile home with a certificate of title to real property. A car it is covered by a certificate of title, but a home is financed by having the lender's name listed as a secured lien holder on the title. Unlike a car, a home can be permanently affixed to the real property on which it sits. Once that happens, it is commonly taxed as real property and the intent is to treat it as real property, which means transferring ownership by deed and financing it by a mortgage. The problem is that Alaska currently has no reliable procedure for converting a home covered by a certificate of title to real estate, so that it can, in fact, be transferred by deed and be encumbered by a mortgage.

The bill is designed to create a new section of real estate law which sets forth procedures for converting a home to real property and in order for that to happen the home has to be permanently affixed to land, a certain affidavit has to be recorded in the land records, certain documents have to be filed with the DMV, and depending upon whether the home is covered by a certificate of title, a manufacturer's certificate of origin, or neither, procedures are set forth to surrender the title or surrender the certificate of origin and have the division confirm in its records that conversion had occurred.

MR. GINSBERG said the advantage is that then there will be a record, not only in the DMV, but in the real estate records where deeds and mortgages are recorded that people can rely upon. After that, the home along with the rest of the real estate can be transferred by deed and encumbered by mortgage. Right now, very few people are willing to extend credit for purchasing a mobile home based on a mortgage because there is nothing that establishes the home as part of the real estate. Likewise, it can't be financed as personal property because the division will not issue a title to a mobile home that has been permanently affixed to property. The result is that not only the lender, but the owner of the home, is "in no man's land." He has a home that he can't sell because there is no way to document ownership and he can't encumber because there is no way to secure a lien against it. It's really unmarketable for everybody.

SENATOR BUNDE asked if a mobile home in a trailer court where a space is being rented and not owned would qualify for a mortgage.

MR. GINSBERG replied if the owner had a long-term lease (defined in statute as 20 years or more), the conversion process would apply to them as well.

SENATOR BUNDE said most mobile home parks have month-to-month agreements and not long-term leases. He said he had heard all too often about a park closing and people having no place to take their mobile homes.

SENATOR BUNDE asked if this would apply to manufactured homes on leased land, but not to the more normal month-to-month arrangement.

MR. GINSBERG replied that was correct, and chances were that the mobile home park owner wouldn't permit it anyway, because he owns the real estate and doesn't want anybody else to own a small piece of it.

SENATOR THOMAS asked if these types of homes are still manufactured, because he had not seen any new ones lately.

MR. GINSBERG replied yes; in the 1970s, manufactured housing accounted for 20-25 percent of new housing starts, but demand is way down now.

SENATOR THOMAS asked if SB 153 covers everything that is 8 ft. X 40 ft. or larger.

MR. GINSBERG answered yes.

CHAIR PASKVAN asked how many units converted by this law in Alaska would likely take advantage of the mortgage loans.

MR. GINSBERG said he didn't know.

[1:54:29 PM](#)

CARL SPRINGER, Division of Motor Vehicles (DMV), Department of Administration (DOA), said he was available for questions.

[1:54:46 PM](#)

TIFFANY KALDOR, Wells Fargo Home Mortgage, Fairbanks, said she supported SB 153. She said it would provide a formal method in Alaska for eliminating the certificate of title to a

manufactured home in converting the home to real property when the home is or will be permanently affixed to real property and obtaining a new certificate of title when a home previously affixed to real property is later physically severed from it.

MS. KALDOR said that Alaska, unlike the vast majority of states, has no formal statutory procedure for converting a manufactured home to real property. Under current Alaska law, including the Alaska Uniform Commercial Code (UCC), a security interest in a manufactured home permanently affixed to land can be perfected only by noting it on the home certificate of title and recording a deed of trust with a fixtures clause and an appropriate description of the home. The need for legislation arises from the fact that the Alaska DMV would not issue a title for a manufactured home that is affixed to a permanent foundation. It has created an administratively vaguely defined procedure with no notice of record. The result for many Alaskan manufactured homeowners is an unmarketable title to their home and for many lenders an unperfected security interest in their collateral.

She said they feel the bill will help manufactured homeowners in the state increase the value of their manufactured homes by allowing them to convert them to real property including manufactured homes not covered by certificates of title or for which the certificate of title cannot be found but permanent affixed to real property before the effective date of the legislation. It would also help lenders to gain perfected security interest in manufactured homes and help the DMV by putting a formalized procedure in place for canceling a title when a manufactured home is put on a permanent foundation. And finally, it would increase property tax revenues in the municipalities that levy property taxes.

SENATOR BUNDE asked if she knew of any negative aspects to passing this bill.

MS. KALDOR answered no.

SENATOR MEYER said one negative might be how the owner would be able pay increased property taxes. He asked on the other hand, if it would assist people in getting a better interest rate for their mobile home, since they would have to pay higher interest rate for raw land.

MS. KALDOR said that was not correct.

SENATOR MEYER asked what kind of loan he would get to buy a mobile home on a city lot - the lower interest loan that someone who was buying a single family house would get or the higher interest loan that someone would pay if they were just buying raw land.

MS. KALDOR answered that currently a manufactured home can be financed by Freddie Mac, Fannie May, FHA or VA, and possibly by AHFC depending on the type of foundation and if it sits on its own lot. They insure through a certification process that a home is permanently affixed to a foundation and that the wheels and tongue have been removed. The buyer gets a better rate and loan program than for purchasing raw land.

CHAIR PASKVAN asked how many units might be converted in her area or statewide under this program should it become law.

MS. KALDOR answered that she didn't know.

CHAIR PASKVAN asked the spread in rates and terms of financing between mobile homes and conventional homes.

MS. KALDOR deferred that answer to a technical expert who was online.

[2:00:40 PM](#)

MARC LEFSET, McGlinchey & Stafford, outside counsel for Wells Fargo Bank, said he agreed with Mr. Ginsberg's comments. The only point he would add is that by creating a procedure in Alaska that allows lenders and borrowers to work together to formally convert a manufactured home from personal property to real property would make loans secured by that property eligible for sale to Fannie Mae and Freddie Mac as well as making them eligible for insurance under FHA and VA programs. He said it would open up the market for better interest rates that are available for onsite-built homes.

CHAIR PASKVAN asked if he saw any downside if this law were enacted.

MR. LEFSET said he didn't see any downside.

SENATOR MEYER asked if he was currently buying a mobile home on a 7000 sq. ft. lot, would the loan be primarily for the lot or would it be the same loan as he would get for a residential house on the same-sized lot.

MR. LEFSET answered if this bill is enacted and the homeowner follows the procedures under the law to make the home legally real estate, he would qualify for the same rates as a site-built home. Now when the home is not considered real estate (not affixed to a permanent foundation) it is subject to rates that are typically 3 or 4 points higher like the ones that are available to someone financing a home in a mobile home park.

SENATOR MEYER said he thought this change would assist people in his district in buying mobile homes.

MR. LEFSET offered that manufactured homes are often the only viable form of new housing that is workable in rural areas, because it is fully assembled in the factory and transported to the home site and installed on the foundation. The materials and labor are minimal.

CHAIR PASKVAN asked Mr. Lefset if he did legal work for other financial institutions.

MR. LEFSET answered yes, many financial institutions including most of the major manufactured home lenders and several park operators.

CHAIR PASKVAN said he wanted to make sure they weren't missing something that other institutions would find.

MR. LEFSET responded that he is the chair of the Finance Lawyers Committee of the Manufactured Housing Institute, the national trade association for manufactured housing, and he has been authorized by them to support SB 153. He said he is also counsel to Vanderbuilt Mortgage Clayton Homes, the country's largest manufacturer of manufactured homes, who also favors this legislation.

CHAIR PASKVAN asked if he saw any downside.

MR. LEFSET replied, "Only an upside."

[2:06:42 PM](#)

CHAIR PASKVAN announced an at ease at 2:06 p.m. to 2:07 p.m.

JEFF HARRIS, Wells Fargo Bank, said he agreed with all the previous testimony on SB 153.

[2:07:43 PM](#)

PAT GREEN, Wells Fargo Bank, added to that SB 153 also has the endorsement of the Alaska Bankers Association whose other members include Alaska Pacific Bank, Denali State Bank, First Bank Ketchikan, First National Bank Alaska, Key Bank, Mt. McKinley Bank, North Rim Bank as well as Wells Fargo.

MR. GREEN said from internal conversations he has had with Wells Fargo people and Rod Jackson, their area manager for home mortgages, they anticipate this change affecting 2-3 customers per month for Wells Fargo. So that would translate out to 24-36 per year.

SENATOR MEYER said he didn't see a fiscal note, but was ready to move it on.

Finding no further comments, Chair Paskvan closed public testimony.

SENATOR FRENCH said he didn't think a fiscal note was an absolute requirement, but he pledged to get one and to work with Senator Meyer to incorporate his ideas into the bill. All the members were present and agreed with this understanding.

SENATOR MEYER moved to report SB 153 from committee with individual recommendations and forthcoming fiscal note. There were no objections and it was so ordered.

[2:13:03 PM](#)

CHAIR PASKVAN announced an at ease from 2:13 p.m. to 2:15 p.m.

SB 302-MICROLOAN REVOLVING FUND

[2:16:04 PM](#)

CHAIR PASKVAN announced SB 302 to be up for consideration.

[2:16:11 PM](#)

GREG WINEGAR, Director, Division of Investments, Department of Commerce, Community & Economic Development (DCCED), said he supported SB 302. He said it would really benefit small businesses in the state, which in turn would help the Alaskan economy. As background, he said, his agency had administered a number of different state loan programs for many years and has the infrastructure in place to successfully run this one.

MR. WINEGAR explained that this bill would create a new program aimed at helping small businesses access critically needed capital. This will help them not only start businesses, but grow

existing ones. It is modeled after a very similar program that is available through the Small Business Administration (SBA) in 46 other states, but not Alaska. The reason is that that SBA requires having an intermediary lender, and no one in Alaska has stepped forward to run that program. This is an effort to provide similar types of loans for Alaska businesses that are available through SBA in other states.

He said that essentially the program could loan up to \$35,000 to an individual and up to \$70,000 to two or more individuals; applicants need to be Alaskan residents. The loan proceeds can be used for a variety of things - working capital, equipment, construction or other commercial purposes. The maximum term is six years and they need to be fully collateralized. The interest rate would be based on prime plus one with a floor of 6 percent and a cap of 8. With existing interest rates that would work out to a 6-percent fixed interest rate.

In terms of capitalization, Mr. Winegar said, his division had submitted a fiscal note for \$3.5 million that would come from AIDEA. This funding mechanism is actually contingent on the passage of either SB 301 or its companion, HB 411.

He said the fiscal note also had some operating expenses for one loan officer to process the requests, some start up expenses and a small amount of travel. He said they tried very hard to keep the fiscal note as low as possible, because they wanted the loan fund to "cash-flow" and be successful. They anticipate about 75 loans in the first year and about 100 in the second; then 25 loans thereafter.

[2:20:36 PM](#)

SENATOR BUNDE asked how this loan program would be any different than the current AIDEA program that helps businesses that can't get loans through conventional means.

MR. WINEGAR replied that this is a smaller, much shorter-term program. The maximum term is six years and it doesn't require going through a bank, which an AIDEA loan requires. It's targeted to smaller businesses that need a little bit of working capital.

SENATOR BUNDE asked if rampant inflation occurs and the interest rate goes above 8 percent the state would be in a situation of either subsidizing these loans or not being able to make them, so why the cap?

MR. WINEGAR replied that the thinking was to provide an interest rate that wouldn't get out of hand. The cap could be taken off and the rate could be just prime-plus 1. The division felt that it could successfully administer the program for much less than that.

SENATOR BUNDE said while he was confident they wouldn't go above 8 percent, but if it did, that would either prevent loans from being granted or the dollars that would subsidize them would come from some other essential state service. He was concerned about the state having limited dollars in the relatively near future.

MR. WINEGAR responded that he should have clarified that the original \$3.5 million is actually set up as a revolving loan fund, so it won't need additional funding. The program would continue based on the interest it collects from the initial capitalization.

SENATOR BUNDE asked if for some reason the interest rate went above 8, would running the program cost them more than they would be taking in.

MR. WINEGAR replied that the funding is already there. The loan officer position over time might go up slightly, but he was comfortable that the program could be administered at the 6 percent level including risk.

SENATOR BUNDE said the \$3.5 million to capitalize this loan program comes as an AIDEA dividend and is money that could have been used somewhere else, and asked where that money would have potentially been used.

[2:24:34 PM](#)

MR. WINEGAR replied that basically it reduces AIDEA's dividend, and he is correct that it could be used by AIDEA for something else. But this program ties into AIDEA's purpose, which is to promote economic development and help small businesses, as well.

CHAIR PASKVAN said the interest rate is tied to the concept of being fully collateralized. What does that mean?

MR. WINEGAR replied that they wanted to make sure if someone ends up in a default situation, that the division has a way to recover those funds for the state. So they left a lot of flexibility in terms of collateral to secure each individual project as best they can. It could be a variety of different

things and loan terms plays into that. It could be secured with inventory, but that is fairly high risk. Others might have a building or a second deed of trust on a home.

[2:26:15 PM](#)

CHAIR PASKVAN closed public testimony.

SENATOR BUNDE said the micro-loan idea has done well in third-world countries, but his hesitancy comes from what he has heard that inventories have been left sitting and public funds hadn't been adequately protected.

CHAIR PASKVAN said he believed it was a good bill and should move forward.

SENATOR THOMAS asked what the definition of a small business is.

MR. WINEGAR answered that the bill has a residency requirement; other than that it is pretty general.

SENATOR THOMAS asked if it mentioned businesses over a certain gross amount of sales.

MR. WINEGAR answered no.

[2:29:51 PM](#)

SENATOR BUNDE asked for an estimate of the demand for these loans.

MR. WINEGAR answered that the division estimated about 75 applications in the first year and about 100 in the second year. This capitalization would allow them to continue at the rate of about 25 loans per year.

[2:30:58 PM](#)

SENATOR BUNDE asked for an example of some typical businesses that might be interested.

MR. WINEGAR replied all types of little retail outlets, mom and pop businesses that need working capital or help putting in leasehold improvements, and things like that.

SENATOR BUNDE remembered subsidizing the "made in Alaska program."

CHAIR PASKVAN said he thought it would be important to hear how the program is doing in one and two years.

MR. WINEGAR answered that was an excellent point. He said the division has some experience with other small business programs like the small business economic development program that involves EDA money, and a rural development initiative fund; he could provide delinquency rates on those programs, but they have been very successful.

CHAIR PASKVAN noted letters of support in members' packets and read one from the Fairbanks Economic Development Corporation.

[2:33:55 PM](#)

SENATOR MEYER moved to report SB 302 from committee with individual recommendations and attached fiscal note(s). There were no objections and it was so ordered.

[2:34:18 PM](#)

CHAIR PASKVAN announced an at ease from 2:34 p.m. to 2:38 p.m.

SB 129-RESIDENTIAL SPRINKLER SYSTEMS

[2:38:16 PM](#)

CHAIR PASKVAN announced SB 129 to be up for consideration. [CSSB 129 (L&C), labeled 26-LS0679\M, was before the committee.] He said he was contacted earlier today and was offered a building code adoption procedure for all of the relevant jurisdictions around Alaska, and he would distribute it to the committee so they could see what procedures are in place currently.

[2:39:34 PM](#)

PAUL MICHELSON, Jr., Alaska State Homebuilder's Association, said he has been a builder in Anchorage for 34 years. He belongs to National Association of Homebuilders, is a member of the Construction, Codes and Standards (CCNS) Committee, and has served on the Municipality of Anchorage's Building Code Committee for 17 years where his primary purpose is to decide which code to go with if there is an argument. He added that he sat on the International Code Conference (ICC), its Fire and Life Safety Code for two years and the International Residential Code (IRC) for four years. He had been involved with code review in Anchorage for seven code cycles.

He said he had heard how the code process today is fair and equitable to all concerned, but he disagreed with that, because "being involved for seven code cycles, the public has never been notified." He said that notices are posted, but the average home owner doesn't care about code until it directly affects them. He

said he has been involved with the sprinkler issue on a national level for 10 years.

2:42:40 PM

MR. MICHELSON explained that at the ICC level, the way a code is developed and adopted is that one is appointed to a committee and the codes then are submitted and proposed and the committee votes on them. After that they are passed on to the mother committee that is made up of fire and building officials throughout America. Again, he said, there is no public involvement, and these individuals decide which codes will be in the code book and which ones won't. If it was a true public awareness and a true public process, he didn't think they would be here today.

In the fall ICC board meeting, he stated, the Fire Coalition shipped in an additional 1800 people for one vote, the vote on this issue. Ten minutes before the vote was taken 385 people were in audience; when this vote came up there were 1890. When this vote was over seven minutes later 402 remained.

MR. MICHELSON said he has heard a lot about cost, but the issue of cost is not relevant. Costs will be what they are; once sprinklers are mandated they will have the potential to rise immediately.

MR. MICHELSON said he was asking for transparency in terms of preparing a cost analysis and other listed items for any jurisdiction that chose to mandate installation of fire sprinklers in one and two family dwellings. He estimated that installing sprinklers in 800,000 units in the United States for a year would cost \$1.7 million - and "to save one life."

2:45:29 PM

MR. MICHELSON said the Homebuilders are asking to have three public hearings, and the reason is that the public is not notified and they are not aware of the process. This will give the homebuilders, industry and real estate agents time to educate and bring people forward for a chance to decide whether they want sprinklers or not. He asked if the process was so transparent why so many organizations are against it.

2:46:41 PM

SENATOR BUNDE said Arizona was quoted on how using sprinklers reduced property damage and saved lives, and it occurred to him that a potential downside is if the power goes out in your house and your pipes freeze and you have a sprinkler system.

MR. MICHELSON answered that installing fire sprinklers has a lot of downside. The size of the water line would have to be increased from the state's requirement of .75 inches to 1.5 inches, and right now Anchorage has a 1-inch minimum.

Sometimes pumps will be needed, he said, and the Fire Coalition states that most fires are electrical. If you have an electrical fire and the power shuts off, you don't have power to pump the system. The first thing the fire department does when they approach a house or fire is shut the power off so no one gets electrocuted. He said the Alaska Homebuilders have supported using smoke detectors and educating people on how to use them. Sprinkler systems save buildings and fire sprinklers aren't necessarily lifesaving issues.

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Another downside is the needed increase in the service lines in jurisdictions that already don't have adequate service to supply the houses with the water they might need.

SENATOR BUNDE asked about people with onsite water systems instead of continuous services like in town.

MR. MICHELSON replied that he had installed six sprinkler systems in houses in the last 10 years and the cost has ranged from \$25,000 to \$38,000. On one project he was asked to bring in and eight-inch water main; that alone cost \$12,000. Another project with an off-site well needed two 350-gallon storage tanks for water to operate the fire system.

He also pointed out that these systems need to be inspected, but of all the ones he had installed, he asked, and none of them have had their systems inspected. They range from 7 years to 2.5 years old.

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CHARLES EDWARDSON, Project Manager, Ketchikan Indian Community Housing Authority, Ketchikan, said he teaches construction technology at UAA and is a treasurer for the Alaska State Homebuilders Association. He said he supported SB 129. He said the rural challenges are too numerous to list in both cost and logistics. He agreed with Mr. Michelson that most people don't know what their local community is adopting.

He said they have learned there are two sides to an issue. When the Fire Marshall tried to get this adopted by the City Council,

the issue went away altogether because the Homebuilders Association brought in some facts and figures of their own.

CHAIR PASKVAN remarked that it sounds like the process in Ketchikan worked.

MR. EDWARDSON said it wouldn't have worked if the Homebuilders hadn't intervened. They maintain that the science hasn't been proven yet and that smoke detectors save more lives.

CHAIR PASKVAN encouraged him to focus on the CS that talked about the process.

MR. EDWARDSON encouraged preparing the cost benefit analysis for new residential fire sprinkler systems so that the process has transparency. Another point he raised is that the housing authority he works for provides low income housing for many people. They just completed a 24-unit housing project in Ketchikan and that wouldn't have been possible with the additional cost of sprinkler installation.

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DAVID OWENS, Building Inspector, Owens Inspection Services, Palmer, requested that his email become part of the record. He said he didn't think it was unreasonable to ask for numerous public meetings on big ticket items like sprinkler systems. Providing a cost analysis on something that will cost a lot of money is also not unreasonable. As a building inspector, he said, he gets the brunt of things when they get "railroaded through." For example, the last electrical code - it had one public hearing over the holiday period and the next thing they know, its law. Now they have to put arch-weld circuit breakers in all of their houses; they had something to say about it, but didn't get the opportunity.

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ART CLARK, Alaska Association of Realtors, said using the safety issue as a way to get something passed quickly is very seductive especially when people don't get a chance to understand all the implications. He supported SB 129, because it would allow time for a better understanding of things.

SENATOR BUNDE asked if he could speculate on the value of homes with sprinkler systems versus and those without. Would it have an impact on resale value of the non sprinkler homes or would the cost of the new homes be so high it wouldn't make any difference?

MR. CLARK said it might be a little bit of both. Perhaps the resale value of homes without sprinklers would be impacted, but on the other hand he couldn't see new buyers paying that much more for it. So the people who paid for the initial sprinkler system possibly wouldn't be able to get those dollars out of it down the road.

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DAVID MILLER, Fire Chief, Sitka, opposed SB 129 and said let the communities decide for themselves. He said that most local communities have the process established already.

[3:02:17 PM](#)

KELLY NICOLELLO, Deputy Director, Alaska State Fire Marshall's Office, Division of Fire and Life Safety, Department of Public Safety (DPS), said he did not have a position on SB 129, because as written it has no effect on the state. He offered to answer questions.

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DAVE HOE, Fire Chief, North Tongass Volunteer Fire Department, Ketchikan, opposed SB 129. He said the idea that the sprinkler system saves lives is irrefutable. For instance, numerous studies have shown that kids don't wake up to the normal smoke detectors; they have also shown that by the time the smoke detector goes off late at night, the disorientation of coming out of a deep sleep to the sound of an alarm going off is disorienting at best. A lot of times the heat and smoke by then can make escape a significant challenge.

MR. HOE explained that years ago fire fighters could wear an air pack and could get inside houses with six or eight minutes before "flashover" occurred, but now, because of new construction techniques and the use of synthetic fibers, houses are much tighter and the flashover time has dropped to less than three minutes - not a lot of time. Fire sprinklers will give people more time to get out. He didn't think the state should become involved in the debate about whether to make it more difficult of the local municipalities to decide whether they should be able to enact an ordinance or not.

He stated that all SB 129 does is add cost and bureaucratic challenges to communities that may not have the ability to deal with them to the point that they won't even try.

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CROSBY GRINDEL, Northwest Regional Manager, National Fire Protection Association (NFPA), said the Association opposed SB 129. He said the Association had worked to advance life and safety issues for more than 100 year through research, education and development of consensus codes and standards. The most recent advances in residential sprinkler technology bring in a new era of home fire safety.

He explained that several factors have conspired to cause the greatest risk of fire death and injury to be in the home. In fact, 83 percent of fire deaths and 89 percent of fire injuries occur in the home as per their 2008 fire loss report. He said the NFPA believes that residential sprinklers are the solution. They support the desire of the fire service to have the option to utilize this national standard life safety device in their efforts to protect their communities from the devastating effects of fire. He also pointed out that residential fire sprinklers are significantly different than those found in commercial buildings, and they are now in all national codes.

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MICHAEL TILLY, Fire Chief, City of Kenai, said he opposed SB 129. He said he would be negligent not to consider adding or utilizing a technology that would make his community safer, but this bill is not about a technology that is already recognized, accepted and proven in many communities across the United States. SB 129 attempts to alter the way a community does business and targets a single idea or technology that his city may want to use by adding unnecessary cost and stumbling blocks. He said that communities are deferred for particular reasons - one being that they know their community and the best processes to educate their populace of potential changes in law.

MR. TILLY said that Kenai has adopted many fire codes and the standing process the City Council uses has been in place and seems to have worked well over the years. He failed to see why this topic needed additional legislation from the State of Alaska. The 2006 IBC Codes have hundreds of fire and building codes that a deferred municipality either adopts or excludes from their municipal codes. Not once have they been burdened with doing a cost benefit analysis for any other codes.

He said these codes are adopted for their community with local input from city building officials, fire officials, city management, city council, and the State Fire Marshall's Office through an already established procedure that includes public input and adheres to AS 29.25. Feasibility, enforceability and

applicability to the community are all considered prior to adoption.

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LARRY FLOYD, Building Official, City of Kenai, said he opposed SB 129. He didn't see the issue as being sprinklers, but rather that they, as building officials, know the needs of their community and they should have the authority to determine what is reasonable and necessary within it.

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JEFF TUCKER, President, Alaska Fire Chiefs Association, Fairbanks, who opposed SB 129, said he would stand by for questions.

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DENNIS BRAUDIGAN, Director, Emergency Services, MatSu Borough, said he opposed SB 129. They strongly believe in the public process, and their board strives to be transparent in enacting every borough code. An enhanced public process already exists for those codes carrying greater. In fact, their selection process for the new Goose Creek Correctional Center resulted in a national award because of its transparency and active involvement by the public. Mandating local government to enhance the public hearing process for a single issue is onerous and unnecessary.

MR. BRAUDIGAN said currently if the Matsu Borough were to mandate residential fire sprinkler systems the proposed code would be required to go through the borough's planning process by virtue of the Matsu Borough's second class municipality status as dictated by the 2008 Supreme Court ruling in *Griswold v. City of Homer*. He said this proposed code would be thoroughly reviewed by the borough's planning commission as well as by all borough community councils and all fire service area boards of supervisors, all commissions, councils and boards giving adequate public notice and allowing for public hearings. Once the comments are heard the commissions, councils and boards forward their respective recommendations to the Assembly prior to public hearings. This represents a very thorough and transparent public hearing process.

He said the Matsu Borough believes that SB 129 is not necessary and is trying to address a process that already takes place on an ongoing basis; therefore they oppose it.

SENATOR BUNDE remarked that they already go through the hoops that SB 129 would make them go through, and yet he is opposed to it.

MR. BRAUTIGAN replied that the hearing process is already addressed at a local level.

SENATOR BUNDE retorted that they already go through these processes, but they want the option to not go through the process if they choose to.

MR. BRAUTIGAN replied certainly nothing less than what is in state statute. If this is a process that should be done, maybe it should be done for every public notice they have had. He noted that they have had many multi-million dollar projects throughout the borough recently, and their process was transparent and had sufficiently engaged the public.

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JEREMY DILLARD, representing himself, said he lived in the MatSu Valley and supported SB 129.

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DAVE DILLARD, Alaska State Building Association, asked why the fire department is against having more public testimony. He said sometimes the public doesn't know what is going on; requiring sprinklers is a new thing that will be thrown on to the builders and the cost has to be recognized. He said builders in Alaska build better than most everybody else in the United States. He has a budget when he builds a house and this would be a line item in it. He said maybe people can only afford \$250,000 and wouldn't be able to buy anything with the additional cost of a sprinkler system. The Building Association wants to have more time to teach their clients about what they are getting.

CHAIR PASKVAN asked how this would affect what is currently in place in Interior Alaska.

MR. DILLARD answered that Mr. Tilly represents the Homebuilders through the commission at the city now. Since Alaska is usually a few years behind on issues, this probably won't become an issue until maybe 2011. The difference with the other codes is that Alaskan builders already build beyond them, so people don't need to be concerned.

CHAIR PASKVAN remarked that the issue for the committee members is what the local municipal control is. The CS is a procedural requirement.

MR. DILLARD said he thought the public needed more time to become educated about this issue. Word has to get out.

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JEFF TWAIT, Director, Alaska State Homebuilding Association, City of Kenai, said he supported SB 129. He said for some reason or another, some people don't get a chance to voice their opinions with only three meetings. Transparency is really important.

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CHAIR PASKVAN asked how this process would modify the current process, if at all.

MR. TWAIT said he wasn't sure what the current process is and didn't know if any public testimony was taken from building officials on the current code. But this bill would at least allow public testimony to be heard.

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CHAIR PASKVAN, finding no further comments, closed public testimony on CSSB 129().

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SENATOR MEYER said the previous bill had to do with mobile homes and knew that in Anchorage a large percent of fires were in mobile homes. If mobile homes are going to be treated the same as residential homes and new ones were getting built, he said he assumed they would have to meet the same requirements with the sprinkler systems.

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CHAIR PASKVAN said given the fact that people wanted to present more information to them, he would hold SB 129 and adjourned the meeting at 3:27 p.m.