

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

February 14, 2012

8:03 a.m.

MEMBERS PRESENT

Representative Cathy Engstrom Munoz, Chair
Representative Neal Foster, Vice Chair
Representative Alan Austerman
Representative Alan Dick
Representative Sharon Cissna
Representative Berta Gardner

MEMBERS ABSENT

Representative Dan Saddler

COMMITTEE CALENDAR

HOUSE BILL NO. 264

"An Act allowing a deferral of municipal property taxes on the increase in the value of real property attributable to subdivision of that property; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 312

"An Act creating a low-interest loan program for homeowners who convert their homes to natural gas-fired heating; and creating the natural gas home heating conversion loan fund."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 264

SHORT TITLE: MUNI PROPERTY TAX DEFERRAL: SUBDIVISIONS

SPONSOR(S): REPRESENTATIVE(S) MUNOZ

01/17/12	(H)	PREFILE RELEASED 1/13/12
01/17/12	(H)	READ THE FIRST TIME - REFERRALS
01/17/12	(H)	CRA, FIN
02/14/12	(H)	CRA AT 8:00 AM BARNES 124

BILL: HB 312

SHORT TITLE: NATURAL GAS CONVERSION PROGRAM/FUND
SPONSOR(s): REPRESENTATIVE(s) T.WILSON

02/03/12 (H) READ THE FIRST TIME - REFERRALS
02/03/12 (H) CRA, FIN
02/14/12 (H) CRA AT 8:00 AM BARNES 124

WITNESS REGISTER

CHRISTOPHER CLARK, Staff
Representative Munoz
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 264 on behalf of the sponsor,
Representative Munoz.

ALAN WILSON, Chair
Juneau Affordable Housing Commission
Juneau, Alaska

POSITION STATEMENT: During hearing of HB 264, discussed housing
needs in Juneau.

DARRELL BOURNE, President
Interior Alaska Building Association
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 264.

DAVE HANNA
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 264.

DAVID OWENS, Legislative Chair
Alaska State Homebuilders Association
Palmer, Alaska

POSITION STATEMENT: Testified in support of HB 264.

FRED MARINO (PH)
D.J.G. Development
Juneau, Alaska

POSITION STATEMENT: Provided comments on HB 264.

MICHAEL SATRE, Chair
Planning & Zoning Commission
City & Borough of Juneau
Juneau, Alaska

POSITION STATEMENT: Urged passage of HB 264.

BRUCE GRIGGS, Developer
Juneau, Alaska

POSITION STATEMENT: Provided comments on HB 264.

REPRESENTATIVE TAMMIE WILSON
Alaska State Legislature

POSITION STATEMENT: Spoke as the sponsor of HB 312.

STACY SHUBERT, Director
Governmental Affairs & Public Relations
Alaska Housing Finance Corporation
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: During hearing of HB 264, spoke to AHFC's fiscal note.

PAUL KAPANSKY, Director
Mortgage Operations
Alaska Housing Finance Corporation
Anchorage, Alaska

POSITION STATEMENT: During hearing of HB 264, answered questions.

ACTION NARRATIVE

[8:03:30 AM](#)

CHAIR CATHY ENGSTROM MUNOZ called the House Community and Regional Affairs Standing Committee meeting to order at 8:03 a.m. Representatives Austerman, Foster, Gardner, and Munoz were present at the call to order. Representatives Dick and Cissna arrived as the meeting was in progress.

HB 264-MUNI PROPERTY TAX DEFERRAL: SUBDIVISIONS

[8:03:48 AM](#)

CHAIR MUNOZ announced that the first order of business would be HOUSE BILL NO. 264, "An Act allowing a deferral of municipal property taxes on the increase in the value of real property attributable to subdivision of that property; and providing for an effective date."

[8:03:52 AM](#)

CHRISTOPHER CLARK, Staff, Representative Munoz, Alaska State Legislature, speaking on behalf of the sponsor, Representative Munoz, paraphrased from the following sponsor statement [original punctuation provided]:

Passage of House Bill 264 will give municipalities the option to provide an incentive to develop land for housing by deferring for up to five years a property tax increase associated with subdividing a piece of property into three or more parcels.

The measure would give municipalities the flexibility to defer increases in property taxes on subdivided parcels until a lot is sold or a city grants a building permit for that piece of property. It would allow a local government to adopt the optional deferral for all or a portion of a subdivided portion. It would let a municipality decide the terms of paying the tax deferral and when those payments would be due.

Supporters of this measure say it would remove a disincentive for developing privately owned property by holding taxes at the undeveloped land value until improvements occur that lead to a parcel's being developed and sold - thus becoming more valuable and capable of generating more revenues for local governments that choose to exercise this option.

The purpose of the bill is to encourage land development for more housing and let local governments decide whether a property tax deferral will benefit them.

MR. CLARK then noted his appreciation for how this legislation was drafted. Section 1 creates the proposed tax deferral and when it would expire. The property tax deferral could last up to five years, but would end for a particular parcel after it's sold or the municipality grants a building permit for it. He noted that there will be an amendment to address the fact that not all boroughs in Alaska issue building permits. He then pointed out that HB 264 provides for an effective date of July 1, 2012.

[8:07:13 AM](#)

REPRESENTATIVE FOSTER asked if this proposed property tax deferral is primarily for residential property versus commercial property.

MR. CLARK answered that although it could be either, the sponsor's intent is to focus on residential property.

[8:07:54 AM](#)

REPRESENTATIVE FOSTER inquired as to whether there is a tracking mechanism to ensure the first five years of the property tax are deferred correctly to taxes. He then mentioned the time value of money and questioned whether that has been taken into account.

MR. CLARK responded that in some ways how to defer and implement the property tax deferral is being left to the municipalities. The local government of Juneau seemed to be receptive to that flexibility.

[8:08:58 AM](#)

REPRESENTATIVE GARDNER pointed out that backup material in the committee packet speaks to the need for residential housing and the need to make it easier [to develop], but there is no such documentation for commercial properties.

CHAIR MUNOZ related that commercial property is a broad application that includes commercial rentals, homes that could be rented, and subdivisions that are mixed/multiple use.

[8:09:59 AM](#)

ALAN WILSON, Chair, Juneau Affordable Housing Commission, noting that he is also a builder in Juneau, informed the committee that the Juneau Affordable Housing Commission was formed in 2007 to address the tight housing situation in Juneau. The Juneau Assembly established the group for three years, during which the commission was then changed to be an ongoing commission. Mr. Wilson emphasized that housing is a complex problem, and thus the commission has reviewed the issue from various angles with some success. The commission has reviewed how to motivate the private sector while acknowledging the land costs, development costs, and construction costs all of which amount to the cost of a house. In 2010, the Juneau Affordable Housing Commission's analysis found the need for 343 housing units in Juneau to reach a 5 percent vacancy rate. The aforementioned breaks down to 205

single family homes with an entry level price of about \$250,000 as well as 138 multi-unit residences. Mr. Wilson pointed out that providing municipalities the ability to defer the costs of land from the front of the project to the end of the project can make a substantial difference. He told the committee that tools such as the proposed deferral are used in various parts of the country, albeit in different ways. In the five years working with the Juneau Affordable Housing Commission, Mr. Wilson said that HB 264 is the first private sector based proposal. He indicated that nonprofit developers are good at utilizing cheap money while the private sector is not. He characterized HB 264 as a major step for obtaining affordable housing in Juneau.

[8:14:34 AM](#)

REPRESENTATIVE AUSTERMAN asked if a municipality's ability to divide into service districts is presumed, although it isn't specifically spoken to in HB 264.

MR. WILSON said that in discussions with Juneau's planning and revenue departments, those sorts of concepts were discussed. The sentiment was that there was enough flexibility to accomplish such. The discussions progressed to the extent that there was the belief that incentives could be given to targeted sectors.

[8:15:32 AM](#)

CHAIR MUNOZ requested a real example of development seeking to subdivide a parcel into six to eight lots and the carrying cost with additional taxation after development.

MR. WILSON deferred that question to others present.

[8:16:07 AM](#)

REPRESENTATIVE CISSNA highlighted the varying situations in Alaska and inquired as to how many communities Mr. Wilson would estimate the proposal in HB 264 would work.

MR. WILSON informed the committee that since the introduction of HB 264, he has been surprised with how many communities have expressed interest. In fact, after presenting this proposal to the Alaska Homebuilder's Association about a month ago, he was further surprised to hear Interior builders expressing interest, particularly in terms of commercial land. He opined that it's a larger need than is known. Mr. Wilson told the committee that

the deferral of municipal property taxes is a common, often-used tool in the Lower 48. He characterized HB 264 as an economic stimulus.

8:18:38 AM

REPRESENTATIVE CISSNA expressed the need to keep a log of this process because it may be applied in other locales that haven't been developed or have had federal housing development.

MR. WILSON confirmed that the commission keeps good records and it has been at the forefront of developing new tools. While some concepts may be new to Juneau, they're not always new elsewhere.

8:20:52 AM

DARRELL BOURNE, President, Interior Alaska Building Association, said that as a 30-year building contractor in Fairbanks, he supports HB 264. He told the committee he is a partner in a 52-acre subdivision that sits on a paved road that is a 10-minute drive from Fairbanks and for which all the roads and most of the power were completed five years ago. There are 18 river lots on which he wants to build homes for package sales. In 2007, 10 lots were subdivided on a cross street that travels through the subdivision. The intention was to build on those 10 lots and subdivide 10 more lots in order not to pay the high tax on the individual divided lots. However, due to the downturn in the economy in the last five years only three houses have been sold and six lots for which he has to pay full borough taxes remain. Mr. Bourne told the committee that there are the following two types of buyers. Most homebuyers are on a fixed and limited income and want a nice home, but aren't very particular in terms of the location of the home. There are also homebuyers who want to live in a particular location, such as the Chena River, and have the money to make it happen. He related that in the last five years, he has missed five sales because he hasn't had a river lot available. Mr. Bourne said that he can't afford to subdivide the river lots and pay the taxes on them because if they didn't sell for some time, it would cost too much. If the borough adopted this amendment as proposed, he could move forward easily to provide more saleable home lot packages on the river. He told the committee that if HB 264 passed, he was confident he and his partner would subdivide eight or more lots on the river and accommodate people who are waiting. The aforementioned would be a great economic boost to his business

and eventually place more homes in the borough's tax base. In conclusion, Mr. Bourne encouraged the passage of HB 264.

8:24:45 AM

REPRESENTATIVE GARDNER inquired as to the residential housing vacancy rate in Fairbanks, Alaska.

MR. BOURNE responded that he didn't know.

8:25:05 AM

DAVE HANNA related his support for HB 264. He then informed the committee that it can be a fairly lengthy process to bring online a new subdivision, particularly in an area where available land is lacking and land costs are high. Once land is obtained, a jurisdictional determination, which requires a botanist, regarding how much of the property is wetland is performed. Afterwards, the U.S. Corps of Engineers has to approve the jurisdictional determination. Also, geologists have to be hired to perform a topographical survey and sometimes a traffic study is necessary. Moreover, engineering is often involved. Mr. Hanna related that often it takes one to two years before one is even ready to apply for a permit to develop a subdivision. During this time, a developer has spent lots of money, sometimes hundreds of thousands of dollars. Even after applying for a permit, there can be lots of review. Furthermore, adjacent landowners can bring up concerns that delay the process. Mr. Hanna highlighted that the land is being developed because there is demand/need for it, but time passes during the aforementioned processes. Once the permit is received and the plat is recorded, the property taxes increase. Unfortunately, what frequently happens is that during the time in which it took to complete the process for development, the market disappears; as was exemplified by Mr. Bourne's situation. Not only is someone in this situation paying interest on money that might have been borrowed, but he/she is paying increased property taxes on lots that can't be sold. He mentioned that for some such a situation doubles the carrying costs. He then directed the committee's attention to a document entitled "Ramifications of Proposed Tax Legislation" that provides a rough example of what results under the existing tax structures and what could result if taxes on newly developed lots were abated. Mr. Hanna related his observation that there was only one letter in opposition to HB 264, which was from the Alaska Municipal League (AML). The letter from AML related that the developer could just elect to wait to develop property until

[there is demand]. Waiting until the demand is present isn't an option for developers because by the time the subdivision is online, the demand may very well be gone. Therefore, there needs to be additional incentives so that developers begin the process prior to the demand/need. There has been a lot of support for the proposal in HB 264, including from the Juneau Assembly. In conclusion, Mr. Hanna urged the committee to strongly consider approving HB 264 because there is a need in many of Alaska's small communities.

[8:31:23 AM](#)

REPRESENTATIVE CISSNA related that in Anchorage she has seen large developments constructed without considering the larger picture and planning for it. With regard to river front property, she surmised that one would want to maintain some sense of the environment prior to construction, such as with public spaces, in order to keep the value high. He inquired as to whether there is a manner in which to integrate planning in a way that is supportive of people being able to develop land in a quality fashion without going broke.

MR. HANNA stated that the aforementioned is exactly what HB 264 can help address because it provides broad flexibility to municipalities in terms of how it's applied. In many municipalities down South, similar tax incentives are used to encourage in-field development, planned unit development, or larger park spaces. This legislation, he opined, would provide municipalities a tool to have development occur in their area as they see fit.

[8:34:17 AM](#)

REPRESENTATIVE FOSTER, referring to the document entitled "Ramifications of Proposed Tax Legislation" provided by Mr. Hanna, inquired as to the number of lots upon which the example is based.

MR. HANNA answered that the example used an average of 56 lots. The example illustrates how bringing property online sooner provides a net revenue increase for the municipalities. He characterized HB 264 as a stimulus for increased cash flow to municipalities.

CHAIR MUNOZ, in response to Representative Foster, explained that AML isn't present today, but was invited and aware of the

meeting. She offered to ensure that AML is present at the next meeting on HB 264.

[8:36:17 AM](#)

DAVID OWENS, Legislative Chair, Alaska State Homebuilders Association, related support for HB 264, which he opined is a great option for municipalities and developers. He further opined that [Alaska's] economy needs to be stimulated and do so in as innovative a manner as possible. This legislation is a step in the right direction.

[8:37:23 AM](#)

FRED MARINO (PH), D.J.G. Development, stated that real estate is a commodity and should be treated like other commodities, and thus shouldn't be taxed until it's sold. He opined that no matter the location in Alaska, the development process would be assisted by the proposal embodied in HB 264.

[8:38:27 AM](#)

REPRESENTATIVE GARDNER pointed out that in Anchorage there is an inventory tax that's payable annually. Although she didn't know the rate, she knew it has to reach a certain threshold.

MR. MARINO highlighted that Anchorage's inventory tax isn't 100 percent on value, whereas these real estate taxes are 100 percent on value. He then suggested that [developers] would be willing to invest in commercial or residential property development, if they knew for five years they would have the opportunity to fluctuate with the economy and build housing without additional taxes.

[8:40:10 AM](#)

MICHAEL SATRE, Chair, Planning & Zoning Commission, City & Borough of Juneau, clarified that since the entire commission hasn't taken official action on this proposal, he would speak to his experiences on the commission over the last seven years. Juneau and many other communities in Alaska have a need for affordable housing, which he interpreted to mean there are a range of options in all housing sectors. Mr. Satre acknowledged that there is no single solution and that strong economic drivers, control of energy costs, and a variety of housing types are needed. Over the years, the Planning & Zoning Commission has identified the need for the ability to defer taxes on

subdivided land. As has been clearly related, the developers bear the initial financial burden of developing property. He recalled observing the rush to subdivide land when housing markets are good, but by the time the process was complete the market had changed and developers ended up sitting on large lots on which the developers were taxed as if the lots were developed. The aforementioned, he recalled, caused developers to consolidate the lots and take them off the market, which is how it remains today. This legislation would address one small part of the problem and would place control in the hands of the local boroughs to decide if the proposed deferral would fit their situation and adapt to current market conditions. In a case such as Juneau where there is stagnate demand for certain levels of the housing market and it results in blocking the development of a wide range of housing options, this deferral could work nicely. He acknowledged that some would say that HB 264 doesn't go far enough and want to see an exemption to the property taxes. With regard to the concerns about commercial/industrial property versus residential property, he encouraged the committee to take care if it amends the legislation to differentiate between the two. In Juneau, some of the commercial property has the option for residential development, and therefore he wouldn't want to preclude that by amending the legislation. He noted that sometimes commercial property is an opportunity for mixed use development, such as having retail space at the ground level and high density residential units above. Since industrial property doesn't generally have a housing [option], [the differentiation] might be addressed there. Although AML believes that HB 264 creates a special class of taxpayers, he disagreed and said that it encourages development. Furthermore, the taxes will be paid, they will just be deferred. In closing, Mr. Satre urged passage of HB 264.

[8:46:30 AM](#)

REPRESENTATIVE CISSNA recalled when Northern Lights Boulevard was all cleared and ready for development for 30 years. She asked if there is a way to complete permitting on a site close to development, while keeping a moderate amount of flora to avoid just having fields. She inquired as to how fast units and buildings can be constructed.

MR. SATRE opined that it's incumbent on everyone to become involved in comprehensive planning processes so that values they might have can be incorporated into the local plan. However, he wasn't sure how that could be integrated into HB 264. Mr. Satre

reminded the committee that the tax deferral is only for five years. Therefore, it will allow a developer to subdivide, implement improvements, meet the requirements of the local subdivision ordinances, and develop the land in a short period of time as opposed to subdividing it and letting it sit foul for many years.

[8:51:36 AM](#)

BRUCE GRIGGS, Developer, told the committee that he has developed two subdivisions in the last few years. One was a 27-lot residential subdivision that went fairly quickly and thus the property taxes weren't an issue. However, three years ago he finished a light commercial subdivision and was hit by the [real estate] crash, which left him still sitting on some of the lots. The property value of the raw land was roughly \$800,000, which increased four-fold as soon as the land was approved and plated. The property tax increased from \$800 to \$3,500 per month. Although he sold some of the lots, they sold for more than they were assessed, which resulted in an increase in the property tax of the other lots. Mr. Griggs then related that he has a 75-lot subdivision for which he has paid for the engineering, surveying, and other costs. Although he is ready to move forward with permitting, he said he is afraid to do so because it's a larger subdivision and there isn't any tool to develop smaller portions of it. The current property taxes for it are roughly \$1,000 per month and would likely increase to about \$6,000 a month once it's permitted. Furthermore, he estimated that it will take about two years to get through [the permitting] process during which he would face a \$6,000 per month tax bill.

[8:55:11 AM](#)

CHAIR MUNOZ announced that HB 264 will be held over.

[8:55:29 AM](#)

The committee took an at-ease from 8:55 a.m. to 8:57 a.m.

HB 312-NATURAL GAS CONVERSION PROGRAM/FUND

[8:57:12 AM](#)

CHAIR MUNOZ announced that the final order of business would be HOUSE BILL NO. 312, "An Act creating a low-interest loan program for homeowners who convert their homes to natural gas-fired

heating; and creating the natural gas home heating conversion loan fund."

[8:57:18 AM](#)

REPRESENTATIVE TAMMIE WILSON, speaking as the sponsor, explained that HB 312 proposed to create a low-interest loan program for Alaskans to convert their homes to natural gas-fired heating and creates a natural gas home heating conversion loan fund. The legislation would also allow the option for Alaskans to take out a low interest loan to replace their oil, coal, or wood home heating devices. Furthermore, the natural home heating conversion loan program isn't subject to income limitations and will be set at 1 percent interest for 10 years. She highlighted that natural gas is a cleaner burning fuel than is currently offered in many communities.

REPRESENTATIVE T. WILSON then informed the committee that per the Environmental Protection Agency (EPA) the Fairbanks North Star Borough is a nonattainment area for PM 2.5, which is a particulate level. Thus far, models have shown that [the designation] is due to Fairbanks' home heating, whether it's by wood, coal, or heating oil. The aforementioned are the only choices for residents of Fairbanks, save a small amount of gas and some district heat within the City of Fairbanks. Therefore, one would question why this proposed loan is necessary. She explained that the EPA is going to require Fairbanks to prove that it's taking steps to lower its particulate level, which is called a state implementation plan. Fairbanks residents have already been asked to upgrade their wood or coal burners, and are also being asked to upgrade their oil furnaces when affordable through the rebate program or other programs while the area waits for natural gas to get to Fairbanks, which hopefully will be less than 30 years because this proposal isn't implemented until gas is available. She then related that according to the EPA's emission factor data, switching from a conventional wood stove to natural gas will reduce the PM emissions in Fairbanks by 99.7 percent, which is very substantial, and switching from oil to gas will reduce it by 38.6 percent.

REPRESENTATIVE T. WILSON then informed the committee that if Fairbanks can't decrease its PM 2.5 to 35 parts per billion, assuming the EPA doesn't change that, the EPA can eliminate that Northern region's transportation funding. More locally, the matter is about air quality and Fairbanks can't do much about the inversion rate. Ultimately, Fairbanks can't reach [the

EPA's goal] without natural gas. Therefore, HB 312 provides another tool that illustrates to the EPA a better way than fining residents for heating their homes. She noted that the Alaska Housing Finance Corporation (AHFC) would monitor this loan program, for which there would only be funds once natural gas is available to Fairbanks.

[9:01:07 AM](#)

REPRESENTATIVE T. WILSON, in response to Representative Gardner, specified that this natural gas home heating conversion loan program is modeled after the [energy] rebate program and stays within its existing definitions and program.

REPRESENTATIVE GARDNER asked if the sponsor anticipates having adequate funds to meet the needs of those homeowners who want to participate or have income level guidelines been considered.

REPRESENTATIVE T. WILSON clarified that interior weatherization is the program based on income and it's expected that many Fairbanks residents will be able to use that program to upgrade heating. This proposal targets the middle class which currently can't afford to do the rebate program, but don't qualify for the interior weatherization.

[9:02:49 AM](#)

REPRESENTATIVE CISSNA related her understanding that it's possible for furnaces to be able to run on various sources of energy such that a furnace could be converted to use natural gas and then back to another source.

REPRESENTATIVE T. WILSON responded that at this point, she hadn't considered that because in the Fairbanks area oil furnaces or wood stoves couldn't be converted. She did acknowledge that conversions to propane or natural gas might allow converting [to another energy source] and she opined that such conversions aren't quite as expensive as it would be to convert an entire unit.

[9:04:44 AM](#)

REPRESENTATIVE FOSTER mentioned that propane cooking stoves come with a part that can switch to natural gas, but he wasn't sure how that would apply to heating equipment. He then inquired as to the percentage of residents that use wood and oil.

REPRESENTATIVE T. WILSON specified that 60-65 percent of Fairbanks residents use wood or coal burning devices, which has been identified by the EPA as the main issue. Therefore, Fairbanks has a program [to encourage] changing out wood [furnaces]. Within the City of Fairbanks, it's about 55 percent and growing as energy costs have increased.

[9:06:11 AM](#)

REPRESENTATIVE FOSTER then asked if HB 264 applies to just the change out of appliance or does it also include the connections.

REPRESENTATIVE T. WILSON answered that it applies just to the appliance. She expressed her belief that if the program covered the cost of the appliance, then the homeowner could fund the remainder of the process.

[9:06:58 AM](#)

REPRESENTATIVE AUSTERMAN related his assumption that in the Railbelt there are many commercial buildings that currently burn oil. If the goal is to reduce emissions, he questioned why the legislation doesn't address commercial buildings as part of the program.

REPRESENTATIVE T. WILSON explained that commercial buildings weren't included because modeling has found that residential buildings are causing the majority of the problem, mostly because of the burning of wood and/or coal. She said she hadn't wanted to broaden the legislation too much initially. Furthermore, there are programs available for commercial buildings. Representative T. Wilson offered to consider broadening the legislation to include commercial buildings.

CHAIR MUNOZ opined that it would be more inclusive for the program to include commercial buildings.

REPRESENTATIVE T. WILSON said she wasn't opposed to doing so.

[9:08:20 AM](#)

REPRESENTATIVE AUSTERMAN pointed out that HB 264 is basically written for the Railbelt since it speaks to an issue specific to Fairbanks and that is where the natural gas will be. Therefore, he inquired as to what happens if Wantana is built or emissions could be lowered by burning wood pellets rather than oil.

Representative Austerman also inquired as to whether the sponsor had considered statewide issues.

REPRESENTATIVE T. WILSON stated that any community can use the program if it had access to natural gas. The legislation does focus on Fairbanks because of the need for Fairbanks to have its state implementation plan submitted to the Alaska Department of Environmental Conservation (DEC) by 2014 to ultimately be submitted to the EPA. Representative T. Wilson reiterated that HB 264 illustrates to the EPA that Fairbanks is serious about wanting natural gas and what it would do for the area. She reiterated that this proposed program would be available to other areas currently burning oil that have access to natural gas.

[9:10:08 AM](#)

REPRESENTATIVE AUSTERMAN informed the committee that by the end of next year Kodiak will be using about 98 percent alternative energy and will have electric rates of about \$.14-\$.15 per kilowatt hour. Therefore, if there was a movement to convert homes from diesel to electricity, perhaps the legislation should include other energy sources beyond natural gas. Representative Austerman said that he is considering a more holistic view of the state.

REPRESENTATIVE T. WILSON related that with the Railbelt's high cost of electricity, \$.23-\$.24 per kilowatt hour, she didn't think of electricity as cheap enough to include in the program. She said that she would be interested in an amendment to include electricity because she wanted the program to apply statewide.

CHAIR MUNOZ related that much of the discussion of the Southeast Alaska Integrated Resource Plan includes discussion of conversion to wood pellets for home heating in some of the smaller communities in Southeast Alaska.

[9:12:30 AM](#)

REPRESENTATIVE CISSNA recalled conversations that have led her to believe that one can easily convert a gas-fired furnace to propane. If that's the case, she indicated that it would be [helpful for] HB 264 to include such options.

[9:14:09 AM](#)

REPRESENTATIVE GARDNER asked if the 1 percent interest on the loan covers the overhead of establishing and administering such a program or would the corpus of the fund be used for that.

REPRESENTATIVE T. WILSON deferred to AHFC, which will administer the program.

[9:15:30 AM](#)

STACY SHUBERT, Director, Governmental Affairs & Public Relations, Alaska Housing Finance Corporation, Department of Revenue (DOR), highlighted that AHFC submitted an indeterminate fiscal note. Although AHFC estimates that the cost to administer the program would be 1 percent, it really depends upon the demand of the overall program.

[9:16:14 AM](#)

CHAIR MUNOZ inquired of the committee the direction it wants to provide to the sponsor.

[9:16:42 AM](#)

REPRESENTATIVE AUSTERMAN opined that the sponsor should add sections addressing conversion to electricity and those areas outside of the electrical grid or natural gas grid.

REPRESENTATIVE T. WILSON surmised then that instead of specifying all types of energy, perhaps there could be a broader reference to [alternative energy] to allow expansion as other types of energy arise. She said she could do that.

[9:18:10 AM](#)

REPRESENTATIVE GARDNER recalled that Fairbanks faces the possible loss of federal highway funds, and therefore she wanted to evaluate the cost of the program versus the potential loss in federal funds.

REPRESENTATIVE T. WILSON agreed to provide the committee with the loss in transportation funds, but emphasized that this legislation is addressing the restrictions that will be implemented because Fairbanks is designated a nonattainment area.

REPRESENTATIVE GARDNER said she is thinking of making a stronger case for doing it now.

[9:19:47 AM](#)

CHAIR MUNOZ asked if the committee wants to expand the legislation's 25 percent allowance for commercial structures.

REPRESENTATIVE GARDNER remarked that she is comfortable with it, in the absence of any other testimony about it.

REPRESENTATIVE AUSTERMAN suggested that this issue may need to be posed to AHFC.

[9:20:28 AM](#)

CHAIR MUNOZ asked if it would be overly burdensome or costly to expand the program to include small businesses.

[9:21:00 AM](#)

PAUL KAPANSKY, Director, Mortgage Operations, Alaska Housing Finance Corporation, Department of Revenue, specified that at this point statute is severely limiting in terms of making loans to commercial enterprises. Therefore, a change in statute would be necessary to expand it to commercial enterprises. If there was a change in statute and commercial enterprises were included, he said the administrative cost and burden would depend upon the need and demand. Currently, the residential small loan program is administered via a contract through Alaska USA. However, he wasn't sure how commercial loans would be handled because AHFC doesn't do direct lending, per se.

CHAIR MUNOZ surmised then that perhaps that section should be left as it is in the legislation.

REPRESENTATIVE T. WILSON noted that the 25 percent definition was taken from the existing rebate program.

[9:22:21 AM](#)

REPRESENTATIVE FOSTER commented that the health impacts are certainly immediate in terms of the particulates. However, he asked if the fiscal impact in terms of the federal funds is eminent or not.

REPRESENTATIVE T. WILSON said, "The EPA wants us to believe that it's immediate." However, she related her understanding that the odds are that in 2014 Fairbanks can't meet the deadline and

can ask for a five-year extension. She emphasized that it's not just the highway funds that are at stake. For instance, if the natural gas pipeline wanted to go through the Fairbanks North Star Borough, because Fairbanks is a nonattainment area more permitting would be required than would be necessary in other communities. The economic impacts would be immediate, she opined. She also noted that military bases and the movement of troops would receive more scrutiny. Representative T. Wilson related that she has been working directly with Region 10 EPA through Seattle and has ascertained that as long as the area is working toward the goal [of reducing emissions]⁵, the EPA is usually "pretty good about it, but sometimes it depends on who is the President of the United States at the time."

[9:23:49 AM](#)

CHAIR MUNOZ announced that HB 312 would be held over.

[9:24:11 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:25 a.m.