

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

January 26, 2017  
11:09 a.m.

**MEMBERS PRESENT**

Representative Adam Wool, Chair  
Representative Ivy Spohnholz, Vice Chair  
Representative Matt Claman  
Representative DeLena Johnson  
Representative Jennifer Johnston  
Representative George Rauscher

**MEMBERS ABSENT**

Representative Dean Westlake

**COMMITTEE CALENDAR**

HOUSE BILL NO. 80

"An Act adopting the Municipal Property Assessed Clean Energy Act; authorizing municipalities to establish programs to impose assessments for energy improvements in regions designated by municipalities; imposing fees; and providing for an effective date."

- HEARD & HELD

OVERVIEW: PROPERTY ASSESSED CLEAN ENERGY (PACE) ENERGY  
EFFICIENCY FINANCING

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 80

SHORT TITLE: MUNI ENERGY IMPROVEMNT:ASSESSMNTS/BONDS  
SPONSOR(S): REPRESENTATIVE(S) WOOL

01/25/17 (H) READ THE FIRST TIME - REFERRALS  
01/25/17 (H) ENE, CRA  
01/26/17 (H) ENE AT 11:00 AM CAPITOL 17

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**WITNESS REGISTER**

ROB EARL, Staff  
Representative Adam Wool  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 80 on behalf of the bill sponsor, Representative Wool.

SEAN SKALING, Assistant Executive Director  
Energy Policy Director  
Alaska Energy Authority (AEA)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented a PowerPoint on Property Assessed Clean Energy (PACE) Energy Efficiency Financing and answered questions.

GENE THERRIAULT, Energy Policy Assistant  
Alaska Energy Authority (AEA)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during discussion of HB 80.

CHRIS ROSE, Executive Director  
Renewable Energy Alaska Project (REAP)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 80.

KATHIE WASSERMAN  
Executive Director  
Alaska Municipal League  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 80.

JIM DODSON, President  
Fairbanks Economic Development Corporation (FEDC)  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 80.

BRITTANY SMART, Spokesperson  
Office of the Mayor  
Fairbanks North Star Borough (FNSB)  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 80.

JACK WILBUR, Vice-Chair  
Board of Directors  
Interior Gas Utility (IGU)  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 80.

**ACTION NARRATIVE**

[11:09:36 AM](#)

**CHAIR ADAM WOOL** called the House Special Committee on Energy meeting to order at 11:09 a.m. Representatives Wool, Spohnholz, Claman, Johnson, Johnston, and Rauscher were present at the call to order.

**HB 80-MUNI ENERGY IMPROVEMNT:ASSESSMNTS/BONDS**

**HB 80-MUNI ENERGY IMPROVEMNT:ASSESSMNTS/BONDS**

[11:10:05 AM](#)

CHAIR WOOL announced that the only order of business would be HOUSE BILL NO. 80, "An Act adopting the Municipal Property Assessed Clean Energy Act; authorizing municipalities to establish programs to impose assessments for energy improvements in regions designated by municipalities; imposing fees; and providing for an effective date."

[11:10:39 AM](#)

ROB EARL, Staff, Representative Adam Wool, Alaska State Legislature, clarified that HB 80, with a zero fiscal note, was also known as PACE, the Municipal Property Assessed Clean Energy Act, which would allow local municipal governments to create a property assessed clean energy financing mechanism. He explained that local PACE financing would incentivize energy efficiency improvements to commercial buildings, as it would allow use of the existing property tax collection mechanism as a means of servicing loans for energy efficiency improvements and alternate energy installation on commercial property. He stated that local governments would work with interested business owners to identify energy improvements under the PACE program. He reported that the PACE financing resulted in low default rates, which facilitated low interest lending, allowed for

longer financing periods, and offered seamless transferability with sale of the property.

[HB 80 was taken up later in the meeting.]

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**Overview: Property Assessed Clean Energy (PACE) Energy Efficiency Financing**

[11:12:48 AM](#)

SEAN SKALING, Assistant Executive Director, Energy Policy Director, Alaska Energy Authority (AEA), directed attention to a PowerPoint presentation titled, "C-PACE Scenario." He presented slide 3, "How C-PACE Works," and detailed a scenario in which the owners of a commercial building had high energy costs, and even after an energy audit which listed the potential changes and associated costs with a measureable energy savings of 30 percent, the business was not able to afford a bank loan because of the loan payment schedule. He pointed out that the proposed efficiency changes were cost effective, and with cash, would have been a great investment. He added that this was a growing business, with the possibility of a move from the building before the financial return from those savings would be recognized. He declared that AEA had found this business to be "fairly typical," noting that when AEA had run a commercial energy audit program, the difficulty faced by the businesses had been the hurdles with financing. He emphasized that the C-PACE program was voluntary, offered long-term financing, low-interest, and less risk for the bank and investor. The C-PACE program created positive cash flow and allowed for seamless transfer upon sale of the loan, the building, and the efficiency improvements. He explained that energy efficiency measures such as heating and cooling systems, lighting, and insulation were included as eligible improvements, slide 4, "C-PACE Eligible Improvements." He added that alternative energy, such as heat pumps and solar, were also eligible, slide 5. Moving on to slide 6, "Cash Flow from Energy Efficiency," he reported that a typical business would have a lower payment after the energy efficiency work with PACE refinancing.

CHAIR WOOL asked if AEA would limit the loan payment to help with the cash flow.

MR. SKALING explained that the system was designed to keep the loan "long and low" as the program allowed a 20-year term.

11:18:37 AM

MR. SKALING added that most places where the PACE program was in place extended the loan a bit past the payback period, and that the energy efficiency savings lasted for years after the loan was re-paid. He detailed that a property owner interested in doing efficiency measures would go to an energy contractor and get an energy efficiency audit report, which they would take to an investor for the upfront project capital to pay for the energy improvements, slides 6 and 7, "PACE: How Loan is Repaid." He explained that the loan payments were made along with the existing property tax bill, as a separate line item, and the local government would forward the payment to the investor. He pointed out that there was security from the contracts between the property owner and the city, and the city with the investor. He added that there could also be a performance contract with the energy company, in which the energy savings was guaranteed. He declared that this was voluntary, as the proposed bill allowed municipalities and banks the option, noting that Fairbanks, Anchorage and Juneau were interested in the program. He reported that PACE was enabled in 33 state, slide 9, and that it was time to add Alaska, slide 10. He emphasized that this created a program for property owners to have lower payments and offered lenders more assurance that the energy efficiency improvements were real, while contractors, energy auditors, and vendors were kept working.

11:23:19 AM

GENE THERRIAULT, Energy Policy Assistant, Alaska Energy Authority, shared that he had a long-time interest in the PACE program since he had served on a national board for energy officials. During this time, his search for sources of low-cost capital that could help Alaska constituents with energy improvement had discovered that the PACE mechanism was effective in other states. He directed attention to slide 12, "Financing Options," and relayed that, with some local banks, a portion of the loan portfolio could be made available at a lower interest rate, although these needed to be assured of a low default rate. While working with a local government for the issuance and collection of the property tax bill, with an assessment added to make the loan repayment, the banks felt assured that there would be a very low default rate. He pointed out that a municipality could also issue revenue to be repaid under this same mechanism. He read from some of the Rural Utility Service (RUS) regulations, including the energy efficiency and conservation loan program, which was a recurring fund source in RUS. He

shared that this program was underutilized, and, consequently the program was interested in finding ways to link users with the funding. He reported that the current loan interest rates for ten-year financing was 2.5 percent, whereas the PACE program allowed repayment over a ten to twenty-year period. He reiterated that the long loan repayment period was key. He shared that the regulations for the energy efficiency and conservation loan program were looking for a mechanism which would lower default rates, noting that the PACE program would most likely qualify. In response to Chair Wool, he clarified that RUS was a Rural Utility Service.

[11:28:44 AM](#)

REPRESENTATIVE RAUSCHER asked if there was a risk assessment and default history for these loans.

MR. THERRIAULT replied that he would provide that information, directing attention to an organization, PACE Nation, which worked with the various PACE programs nationally. He relayed that the Alaska program had been modeled after the Texas program, as it had protections for existing mortgage holders and local governments. He shared that the requirement for audit recommendations, as well as a follow-up audit to prove the improvements were done correctly, had cut down on defaults. He pointed out that this was similar to the home energy improvement program under Alaska Housing Finance Corporation.

REPRESENTATIVE RAUSCHER asked if profit margin affected everyone equally.

MR. THERRIAULT asked if this was regarding credit worthiness.

REPRESENTATIVE RAUSCHER explained that sometimes an applicant could make too much money, or have too much profit, to qualify for a program.

MR. THERRIAULT replied that this was not a requirement of the proposed legislation. He explained that should a local government, when implementing the program, want to direct monies to lower-profit businesses, there could be a "profit test" to ensure the money went to an applicant with a higher need. He declared that this decision would be made at the local level, and that it would still be necessary to follow the steps in the legislation for implementation of the program.

MR. THERRIAULT added that a local government could charge a fee to cover the local costs or build up the loan reserve to protect against defaults. He pointed out that a limiting factor to fees would be to keep the cost for participation low enough to incentivize. He opined that a local government would not "jack up fees."

[11:34:34 AM](#)

REPRESENTATIVE CLAMAN asked if the assessment process with a municipality would put the energy improvement loans ahead of collection of other loans in the event of default, and whether this was a problem with the banks.

MR. THERRIAULT replied that with the commercial PACE there appeared to be "a growing acceptance of that," pointing out that the proposed bill had protection for the bank. He explained that with an existing commercial mortgage on the property, a PACE applicant had to receive permission from that lender. He relayed that many lenders gave permission as there was an improvement being made to the collateral property.

REPRESENTATIVE CLAMAN asked for clarification that the PACE loan required permission from the existing lender.

MR. THERRIAULT added that, should there be a default, the entire remaining PACE loan did not have to be repaid, only the current year payment, as the new owner received the ongoing benefit with the ongoing payment. He stated that the federal funds available under the aforementioned energy efficiency and conservation loan program was about \$250 million annually. He spoke about the federal Rural Energy Saving Program (RESP) which funded \$50 million nationwide, with good loan terms for "repayment mechanisms that are demonstrated to have appropriate risk mitigation features." He relayed that this was another program looking for a mechanism similar to PACE. He added that there was a zero-interest rate for the RESP money to the utility.

[11:38:13 AM](#)

REPRESENTATIVE JOHNSTON asked which congressional delegations supported these programs and whether these programs had sustainability.

MR. THERRIAULT, in response, said that the energy efficiency and conservation loan program, as part of the United States Department of Agriculture (USDA) RUS program, annually had about

\$250 million built into its base budget. He reiterated that this was underutilized, and that USDA was "anxious to get the money out." He compared this program to Alaska Industrial Development and Export Authority (AIDEA), as it had a portfolio and paid money back to the federal government. In further response to Representative Johnston, he allowed that he was not sure whether that program received new dollars, although it had "a fair amount of congressional support."

[11:39:27 AM](#)

CHAIR WOOL asked for the reason that the proposed bill only covered commercial properties.

MR. THERRIAULT explained that a PACE loan would bump an existing mortgage into a secondary position. He declared that the residential loans from the Federal Home Loan Mortgage Corporation, known as Freddie Mac, and the Federal National Mortgage Association, known as Fannie Mae, were not willing to take a secondary position, and would not purchase any residential property loan portfolios from banks. He added that although some states had attempted to maneuver around this, it had been found to necessitate giving up main attributes of PACE, including the senior loan position and the seamless transferability of the loan. He offered a recommendation to keep the proposed bill for PACE loans to commercial properties, with the possibility of expansion in the future.

CHAIR WOOL asked if a goal of the proposed legislation would include an owner who wanted to convert to natural gas, as the savings might be undetermined although the air quality would be improved.

MR. THERRIAULT acknowledged that federal agencies were requiring higher air quality in Fairbanks by imposing stricter requirements on the community. He stated that the current program targeted energy savings, and he pointed out that a natural gas appliance was more energy efficient, hence would generate a savings for fuel and efficiency. He pointed out that as the use of wood burning was often low cost, a shift to another energy source may not "clear the hurdle of the economics." He declared, however, that the mechanism should not be available and considered as a means to improve the air quality.

CHAIR WOOL opined that the restriction to commercial properties would narrow the number of facilities using wood.

[11:44:34 AM](#)

MR. SKALING directed attention to slide 13, "Easy Win for Alaska," and declared that this had already been fully vetted in the 29th Legislative Session, had strong support, and achieved economic goals for the communities. He pointed to the impacts of the PACE program for lower bills and an increase to property value by supporting the proposed bill.

^#hb80

**HB 80-MUNI ENERGY IMPROVEMNT:ASSESSMNTS/BONDS**

[11:46:44 AM](#)

CHAIR WOOL announced the committee would open public testimony on HB 80.

[11:47:02 AM](#)

CHRIS ROSE, Executive Director, Renewable Energy Alaska Project (REAP), reported that REAP was a statewide non-profit coalition comprised of about 80 organizations, which included electric utilities, developers, and independent businesses. He referred to the written testimony previously submitted. He declared support for HB 80 and PACE legislation. He emphasized support for state supported weatherization programs which provided savings from energy efficiency. He stated that PACE was a financing tool to allow the money necessary for a return on investment, adding that it was a voluntary program and an opportunity for business owners. He declared that the program would keep money in the community and would add many jobs for qualified workers. He reiterated his support for the proposed bill.

[11:50:46 AM](#)

KATHIE WASSERMAN, Executive Director, Alaska Municipal League, declared that the Alaska Municipal League (AML) had supported previous iterations of the proposed bill, and she expressed her surprise that the proposed bill had not been passed sooner. She stated that it was not a mandate, as the commercial owner and the municipalities could opt in if they so choose. It provided protections for the public as the municipality was required to have a resolution of intent, with boundaries identified, and the public would be aware of the program. She opined that municipalities would get support from its residents. She stated

that, as energy issues were some of the most difficult for the state, the proposed bill was a tool to help overcome the deficit. She declared that the members of AML were in support of HB 80.

[11:52:55 AM](#)

JIM DODSON, President, Fairbanks Economic Development Corporation (FEDC), stated that this was the right type of legislation for the new economic era in Alaska. He pointed out that it was voluntary for the municipality, the borrower, and the lender, and that it gave the community a tool to effectively contribute to lowering the cost of energy. He reiterated that the cost of energy was a barrier to growth of the economy in Alaska. He encouraged support for the proposed bill.

[11:54:21 AM](#)

BRITTANY SMART, Spokesperson, Office of the Mayor, Fairbanks North Star Borough (FNSB), declared that this was a very important piece of legislation, especially with regard to its air quality issues.

CHAIR WOOL asked if there was concern for any administrative burden or costs.

MS. SMART acknowledged that there were questions for the best path to implementation of the program, although the proposed bill did offer risk protections.

[11:55:45 AM](#)

JACK WILBUR, Vice-Chair, Board of Directors, Interior Gas Utility (IGU), stated support of the proposed bill. He explained that the Interior Gas Utility had been created to bring low cost energy in the form of liquefied natural gas (LNG) to the Fairbanks North Star Borough, as it was important to reduce the current air pollution issues. He reported that Alaska Industrial Development and Export Authority (AIDEA) had purchased Pentax Assets, which included a liquefaction facility in Southcentral Alaska, as well as a fleet of trucks and trailers to bring the LNG to Fairbanks. He shared that funding appropriated through the Alaska State Legislature had allowed IGU to install a distribution system in North Pole with subsequent distribution in the City of Fairbanks. He declared that IGU was ready to continue with additional improvements, including storage facilities and further expansion of the

distribution system. He shared that a key to additional expansion was for customers to be connected to the distribution system and to generate revenue to pay off the loans and finance further expansion. He acknowledged that it was difficult for businesses to come up with the capital for these conversions. He pointed out that the PACE legislation allowed for low cost financing for energy cost saving measures and would incentivize commercial conversions to LNG.

[11:58:41 AM](#)

CHAIR WOOL closed public testimony on HB 80. He announced that HB 80 would be held over.

[11:58:57 AM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 11:58 a.m.