

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

March 16, 2018

3:24 p.m.

MEMBERS PRESENT

Representative Sam Kito, Chair
Representative Andy Josephson
Representative Louise Stutes
Representative Colleen Sullivan-Leonard

MEMBERS ABSENT

Representative Adam Wool, Vice Chair
Representative Chris Birch
Representative Gary Knopp
Representative Mike Chenault (alternate)
Representative Bryce Edgmon (alternate)

COMMITTEE CALENDAR

HOUSE BILL NO. 329

"An Act relating to the registration and regulation of real estate appraisal management companies; relating to the establishment of fees by the Department of Commerce, Community, and Economic Development; relating to the Board of Certified Real Estate Appraisers; relating to real estate appraisers; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 374

"An Act relating to on-bill financing by an electric or gas distribution utility for certain energy efficiency and conservation improvements."

- HEARD & HELD

COMMITTEE SUBSTITUTE FOR SS FOR SENATE BILL NO. 4 (FIN) AM

"An Act relating to the Board of Barbers and Hairdressers; relating to a limited license to practice non-chemical barbering; relating to a license to practice hair braiding; relating to the Department of Environmental Conservation; and providing for an effective date."

- BILL HEARING CANCELED

PREVIOUS COMMITTEE ACTION

BILL: HB 329

SHORT TITLE: REAL ESTATE APPRAISAL MNGMT. COMPANIES

SPONSOR(s): REPRESENTATIVE(s) JOSEPHSON

02/05/18	(H)	READ THE FIRST TIME - REFERRALS
02/05/18	(H)	L&C, JUD
03/09/18	(H)	L&C AT 3:15 PM BARNES 124
03/09/18	(H)	<Bill Hearing Canceled>
03/16/18	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 374

SHORT TITLE: ON-BILL FINANCING OF ENERGY IMPROVEMENTS

SPONSOR(s): REPRESENTATIVE(s) WOOL

02/21/18	(H)	READ THE FIRST TIME - REFERRALS
02/21/18	(H)	ENE, L&C
03/01/18	(H)	ENE AT 10:15 AM CAPITOL 17
03/01/18	(H)	Heard & Held
03/01/18	(H)	MINUTE(ENE)
03/08/18	(H)	ENE AT 10:15 AM CAPITOL 17
03/08/18	(H)	Moved CSHB 374(ENE) Out of Committee
03/08/18	(H)	MINUTE(ENE)
03/09/18	(H)	ENE RPT CS(ENE) 2DP 1NR 2AM
03/09/18	(H)	DP: CLAMAN, WOOL
03/09/18	(H)	NR: JOHNSON
03/09/18	(H)	AM: JOHNSTON, RAUSCHER
03/16/18	(H)	L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

THOMAS ATKINSON, Staff
Representative Andy Josephson
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 329 on behalf of
Representative Josephson, prime sponsor.

DAVID DERRY, Chair
Board of Certified Real Estate Appraisers
Soldotna, Alaska

POSITION STATEMENT: Testified in support of HB 329.

MARK SCHIFFMAN, Executive Director

Real Estate Valuation Advocacy Association (REVAA)
Minneapolis, Minnesota
POSITION STATEMENT: Testified in the hearing on HB 329.

ROB EARL, Staff
Representative Adam Wool
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Presented HB 374 on behalf of
Representative Wool, prime sponsor.

GENE THERRIAULT
Alaska Industrial Development and Export Authority (AIDEA);
Interior Energy Project (IEP)
Juneau, Alaska
POSITION STATEMENT: Testified in the hearing on HB 374.

JOMO STEWART, General Manager
Interior Gas Utility
Fairbanks, Alaska
POSITION STATEMENT: Testified in support of HB 374.

ALEC MESDAG, Director
Energy Services
Alaska Electric Light and Power (AEL&P)
Juneau, Alaska
POSITION STATEMENT: Testified in support of HB 374.

STUART COHEN
Interfaith Power and Light
Juneau, Alaska
POSITION STATEMENT: Testified in support of HB 374.

CEAL SMITH
Alaska Climate Action Network
Eagle River, Alaska
POSITION STATEMENT: Testified in support of HB 374.

CORY BORGESON, CEO
Golden Valley Electric
Fairbanks, Alaska
POSITION STATEMENT: Testified in support of HB 374.

ACTION NARRATIVE

[3:24:53 PM](#)

CHAIR SAM KITO called the House Labor and Commerce Standing Committee meeting to order at 3:24 p.m. Representatives Sullivan-Leonard, Stutes, Kito, and Josephson were present at the call to order.

HB 329-REAL ESTATE APPRAISAL MNGMT. COMPANIES

[3:26:14 PM](#)

CHAIR KITO announced that the first order of business would be HOUSE BILL NO. 329, "An Act relating to the registration and regulation of real estate appraisal management companies; relating to the establishment of fees by the Department of Commerce, Community, and Economic Development; relating to the Board of Certified Real Estate Appraisers; relating to real estate appraisers; and providing for an effective date."

[3:26:35 PM](#)

THOMAS ATKINSON, Staff, Representative Andy Josephson, Alaska State Legislature, presented HB 329 on behalf of Representative Josephson, prime sponsor. He explained one of the causes of the nationwide recession in 2008 was bad mortgages bundled with stocks. He stated one of the things that was bad about the mortgages was appraisals that were wrong. He indicated it has been reported that this was due to lending institutions leaning on appraisers, ending up with some appraisals that were way above market value. He explained that Congress devised the Dodd-Frank Wall Street Reform and Consumer Protection Act. The act inserted another layer into the mortgage process, creating an arm's length mortgage by using an appraisal management company (AMC). The federal legislation set up an appraisal subcommittee which promulgated federal regulations and gave all the states a certain amount of time to set up their own regulations. He underlined the states are not required to do so; however, AMCs cannot handle federally related transactions if the states do not. He explained federally related transactions constitute about 10 percent of the market. He added AMCs want the state to regulate them and the appraiser want the state to regulate AMCs. He said the process helps "Joe and Jane Alaskan" as well. He remarked that getting a mortgage is complex and it happens in a hurry. Typically, a lending institution doesn't hold a mortgage for the full period but turns around and sells it to an underwriter. The mortgage originator does not necessarily know whether the transaction is federally related. He highlighted the process only relates to residential property. He stated HB 329 has a companion bill in

the Senate. He added there is a federal deadline on 10 August 2018, but there may be an extension.

[3:31:27 PM](#)

CHAIR KITO asked for confirmation that AMCs are not currently regulated by the state of Alaska.

MR. ATKINSON answered in the affirmative.

CHAIR KITO asked whether the proposed bill would be adding a provision under the Real Estate Commission.

MR. ATKINSON answered the federal regulations stipulate that when a state regulates AMCs, it is done through the board of certified real estate appraisers.

[3:32:29 PM](#)

REPRESENTATIVE STUTES said she thinks the proposed bill is trying to solve a problem that doesn't really exist. She said she does not see what the benefit is.

MR. ATKINSON answered that Congress, in the wake of the 2008 financial meltdown, thought it would be a good idea to add that layer so that the lending institutions don't contact the appraisers directly. Using a middleman avoids collusion between appraiser and lender.

CHAIR KITO explained the proposed bill would be following up from a situation from ten years ago. He said Dodd-Frank was the result of what happened with the subprime mortgage market in which the appraisers were working in collusion with real estate agents or banks to acknowledge real estate values that may not have been accurate because there was not an arm's length relationship with the appraisers. He explained HB 329 would be putting the structure in place so that when real estate management companies do come into the state, they will be required to work through an AMC.

[3:35:56 PM](#)

REPRESENTATIVE STUTES asked how many other states have implemented similar legislation.

MR. ATKINSON shared his understanding that 46 other states have implemented something similar.

3:36:28 PM

REPRESENTATIVE SULLIVAN-LEONARD asked Mr. Atkinson to review the fiscal note (FN). She shared her concern that the state would be adding a position specifically to process the legislation and to collect funds that would go to the federal government.

MR. ATKINSON answered the department would need to write regulations and therefore incur some costs. He said the legislature has asked departments to pay for their own programs. He indicated DCCED is particularly good at covering their own programs and has board staff that would be paid for through assessing fees. He added the federal government requires that some of the fees are put towards the appraisal subcommittee.

3:37:52 PM

REPRESENTATIVE SULLIVAN-LEONARD asked for examples of issues occurring in Alaska.

MR. ATKINSON deferred to Mr. Derry.

REPRESENTATIVE SULLIVAN-LEONARD asked what a private appraisal business would have to pay annually to be covered.

MR. ATKINSON asked whether Representative Sullivan-Leonard referred to an AMC or an appraiser.

REPRESENTATIVE SULLIVAN-LEONARD answered, "Both."

MR. ATKINSON said he understood it costs \$1,100 every two years to remain certified with the state. He said for an AMC it depends on the state requirement for a surety bond. He surmised with the current draft of the proposed bill, it would cost around \$2,400 per year to be certified and have a controlling person who would be the single point of contact for the board.

3:40:31 PM

REPRESENTATIVE SULLIVAN-LEONARD asked whether the proposed bill would mandate that a private appraiser would have to be under an appraisal company.

MR. ATKINSON answered that it would not. He added the ultimate responsibility for certifying the appraisal is on the lender.

He said they can skip the AMC. He mentioned that Mr. Derry can list at least three lenders in Alaska that do not use AMCs.

[3:41:26 PM](#)

REPRESENTATIVE STUTES referenced a letter [included in committee packet] dated February 12, 2019 [sic], from Wells Fargo which reads, "If a state does not set up a compliant regulatory system for AMCs by August of 2018, then home loan lenders cannot use AMCs for federally related transactions." She asked whether the proposed legislation is in response to a federal mandate.

MR. ATKINSON answered the mandate from the federal government states that if states want to regulate AMCs, it has to be done by a certain date and regulations must include certain items, but states are not required to regulate AMCs. He said if they are not regulated, mortgages will still be possible, but it might be more difficult, and AMCs would not make money on certain transactions.

REPRESENTATIVE STUTES shared her concern that the proposed bill would be creating a niche for another small business at the expense of a homeowner or an individual looking for a mortgage. She added the appraiser would "jack up his price" to belong to the organization that the state is not mandated to have.

MR. ATKINSON answered the state is not mandated by the federal government to regulate AMCs. He stated the costs can be passed on to the appraiser or the lending institution and appraiser can split the cost. He said the proposed bill would not mandate any shared costs.

REPRESENTATIVE STUTES asked what the other states that are regulating AMCs charge.

MR. ATKINSON deferred to Mr. Derry.

[3:46:05 PM](#)

REPRESENTATIVE JOSEPHSON suggested if the state does not regulate AMCs, it will not fully benefit from the effort to insulate appraisals from lender/appraiser collusion.

MR. ATKINSON answered that the Dodd-Frank Act is about consumer protection.

[3:46:44 PM](#)

REPRESENTATIVE SULLIVAN-LEONARD asked whether Representative Josephson knows of any instances in Alaska of such a thing occurring.

REPRESENTATIVE JOSEPHSON said he does not but that there is the issue of federally related transactions as well.

MR. ATKINSON added that the term, "federally related transactions" is a quagmire. He said it's a complex environment and Alaska Housing Finance Corporation (AHFC) would seem to be a federally related transaction, but he said he can't state with any certainty that it is. He remarked there is a definition of federally related transactions on BASIS, but it is very difficult to understand.

[3:48:23 PM](#)

DAVID DERRY, Chair, Board of Certified Real Estate Appraisers, testified in support of HB 329. He stated the board supports the AMC legislation and oversight proposal. He added that while the board is not looking for more work, oversight is an important function that should happen in Alaska. He reiterated some lenders use AMCs and some do not. He said the easiest way to describe an AMC is as an entity used to find appraisers in the process of a mortgage transaction. He explained this is for people who are looking for mortgages. He mentioned Rocket Mortgage in the Lower 48. He added there are no Alaska-based AMCs. He said if someone applies for a loan in Anchorage, Alaska, or Fairbanks, Alaska, using an AMC is an expeditious way to comply with the requirement that there be a separation between the entity making the loan and the appraiser. He added one of the impetus to pass this legislation is to provide that separation between loan officer and appraiser. He said he didn't know of any cases brought to the board.

MR. DERRY said appraisers in Alaska are paid \$1,050 and \$80 dollars is paid to the federal appraisal subcommittee. He added there would also be a fee for management companies which is \$25 per appraiser. He said one of the criteria is that the AMC has 15 appraisers in 1 state or a total of 25 appraisers in 2 states. He spoke to fees and costs to the consumer and to the state. He said there should not be any cost to the consumer. He said some lenders use AMCs (Wells Fargo, Alaska USA Federal Credit Union) and some do not (First National Bank of Alaska, Northrim Bank, Mount McKinley Bank). He specified the lenders

can set up within the bank how to operate under Dodd-Frank [Act].

[3:56:45 PM](#)

REPRESENTATIVE STUTES mentioned the appraiser's license is a rigorous process. She asked whether the board would take action against an appraiser who was seen to be colluding.

MR. DERRY answered the board would take action against the AMC and the appraiser or, where there is no AMC, it would take action against the appraiser. He said he agrees that it is an onerous process to get licensed. He underlined the Alaska requirements for certification mirror those of other states. He said there is a nationwide effort to make it somewhat easier to become certified as a residential appraiser. He stated it was the result of a change in federal regulations established in early March 2018.

REPRESENTATIVE STUTES suggested having an AMC would not preclude the occurrence of collusion.

MR. DERRY answered the proposed bill would allow the board to go after the AMC. He explained that without legislation, there would be no oversight at all.

REPRESENTATIVE STUTES said she cannot believe that the AMC will "eat that cost" and not pass it on to the consumer.

MR. DERRY reminded that the lender is the originator of the loan. He stated most of the AMCs are fairly large entities and \$2,400 is not a big cost.

[4:02:54 PM](#)

MARK SCHIFFMAN, Executive Director, Real Estate Valuation Advocacy Association (REVAA), testified in the hearing on HB 329. He said AMCs support being regulated in Alaska. He clarified 46 states have passed similar legislation. He listed Alaska, New York, Massachusetts, and Ohio as the final four and informed there is legislation being proposed in all four states. He asked on behalf of the AMCs to be regulated in Alaska. He added it is a self-paid regulation and there would be no cost to the state. He said AMCs are already working in the state, and the difference would be there would be a revenue generator. He said the primary role of an AMC is public safety and consumer protection. He indicated the lender has the same

responsibilities. He added most American lenders have outsourced appraisal services to AMCs.

[4:06:20 PM](#)

CHAIR KITO opened public testimony on HB 329. Upon ascertaining that no one was available to testify, he closed public testimony.

CHAIR KITO held over HB 329.

HB 374-ON-BILL FINANCING OF ENERGY IMPROVEMENTS

[4:06:46 PM](#)

CHAIR KITO announced that the final order of business would be HOUSE BILL NO. 374, "An Act relating to on-bill financing by an electric or gas distribution utility for certain energy efficiency and conservation improvements."

[4:07:06 PM](#)

ROB EARL, Staff, Representative Adam Wool, Alaska State Legislature, presented HB 374 on behalf of Representative Wool, prime sponsor. He paraphrased the sponsor statement [included in committee packet], which reads as follows [original punctuation provided]:

HB 374 would allow a utility to voluntarily create an on-bill financing or on-bill repayment program to help customers finance energy improvements. The improvement must utilize renewable energy or include switching to a more efficient device or fuel that does not increase greenhouse gas emissions. This legislation will be particularly useful as the Interior Energy Project expands its reach and a large number of Fairbanks residents choose to convert from oil to natural gas to heat their homes.

The on-bill financing program allows a utility customer to borrow money for an energy improvement and then repay it through a "meter conservation charge" on their utility bill. A customer's utility bill, even with the meter conservation charge, is often immediately lower due to savings in energy costs due to increased efficiency.

Examples of energy improvements that would qualify under HB 374 include: adding solar panels to a house; converting to a cleaner burning wood stove; and converting a boiler or furnace to natural gas. Weatherization projects such as upgrading windows or insulation would not qualify under this legislation.

HB 374 allows for utilities to create either an "on-bill financing" or an "on-bill repayment" program. Under the former type of program, the utility provides the capital for the loan to the customer and under the latter a third party financial institution would provide the capital.

A utility may recoup all of their costs associated with the program through a line item on the bill of a customer who has elected to utilize the program for an energy improvement. The balance of the costs on an on-bill financing agreement may be recovered by the utility when a property is sold.

HB 374 provides an optional tool for utilities and their customers to lower energy costs and improve air quality in Alaska.

[4:10:10 PM](#)

REPRESENTATIVE SULLIVAN-LEONARD asked how the transactions would work if she decided to put a wind turbine on her property.

MR. EARL answered the electrical company would have to implement the program. He suggested it may engage a bank and if wind turbine was included in the options for things that can be financed, the utility would act as "pass-through" for the repayment. He said there would probably be an additional charge on the utility bill to repay the costs. He said it's not specified in the bill what the rate of interest on repayment would be.

REPRESENTATIVE SULLIVAN-LEONARD surmised the whole premise is to lower electricity costs. She asked how the bill would lower costs.

MR. EARL explained the lending institution has extra assurance that if the loan is behind, the utility will shut off power to the customer. He gave the example of a \$5,000 improvement with a 10-year loan, at 3 percent the payment added to the monthly

bill would be around \$48. He said once the charge is paid off, the total bill would almost certainly be lower going into the future.

4:14:02 PM

GENE THERRIAULT, Alaska Industrial Development and Export Authority (AIDEA); Interior Energy Project (IEP), testified in the hearing on HB 374. He said Alaska Energy Authority and AIDEA had worked together with Interior communities for a more affordable, cleaner source of fuel. He informed the Property Assessed Clean Energy Act (PACE) legislation put in place to target businesses and the on-bill mechanism of HB 374 has many of the same attributes of the PACE legislation. He explained the monthly bill would be used as a means to recapture a loan payment for converting property to natural gas or solar panels. He said that by attaching or borrowing the strength of that relationship, it could lower rates of default. He added lower default leads to lower interest rates.

MR. THERRIAULT referred to a working group that was set up in the Interior to examine ways of incenting customers to avail themselves of the mechanisms for transferring to natural gas. He said the participants were asked to bring in recent bills and then answer questions. He stated he was surprised that an on-bill repayment mechanism was more popular than a lower interest rate for a loan. He said the ability to finance an improvement on their property and enjoy the benefit of the improvement and pass on the obligation attached to the meter to the next owner was popular.

MR. THERRIAULT spoke to research done with the Rural Utilities Service (RUS) program at the United States Department of Agriculture (USDA) for federal funds that could provide financing to the consumer. He said he was surprised to find that on-bill financing was proposed as a way to ensure low default rates associated with the lending. He said if the federal program was to offer low interest money, it would want to ensure it is involved in low risk lending.

MR. THERRIAULT said a lot of arrangements made between the parties would be put down in contracts to ensure that the utility passes on the repayment to the lending institution. He stated that on behalf of AIDEA and IEP, it is an important tool for utilities. He spoke to further research on other states' approach to on-bill financing and on state statutes to determine if legislation is absolutely necessary. He indicated Alaska

state statute is silent on the issue. He said the proposed bill would clarify in state law that on-bill financing is available on a voluntary basis.

[4:22:06 PM](#)

JOMO STEWART, General Manager, Interior Gas Utility, testified in support of HB 374. He thanked the sponsor for the legislation.

[4:22:43 PM](#)

ALEC MESDAG, Director, Energy Services, Alaska Electric Light and Power (AEL&P), testified in support of HB 374. He explained this bill will provide a valuable tool, particularly among consumers that have limited options. He surmised the proposed bill wouldn't create an initial decrease in bills but that there is still a lot of value in it. He suggested there is a tendency to underestimate comfort as a defining factor. He stated updating windows may not directly decrease bills, but the added comfort would impact how high the heat is kept. He mentioned it would be important to review how fuel switching is defined in the proposed bill. He suggested it may be useful to include some language to grant discretion to utilities to preclude certain measures that could be a detriment to the system.

[4:27:14 PM](#)

REPRESENTATIVE JOSEPHSON asked how the sponsor would know about what AEL&P would accept as a conservation measure.

MR. MESDAG said his concerns were very system-specific, so it would need to be a general allowance.

[4:28:16 PM](#)

CHAIR KITO opened public testimony on HB 374.

[4:28:35 PM](#)

STUART COHEN, Interfaith Power and Light, testified in support of HB 374. He said Interfaith Power and Light was attempting to implement a program that replaces inefficient oil and electric heating systems with air source heat pumps. He explained a heat pump is like an air conditioner and can reduce heating bills by 40 percent to 70 percent. He said it costs about \$4,100 to install. He said they are used in China because the systems are

cheap. He spoke to modelling in Juneau, Alaska, on 8,901 private buildings. He said if Juneau, Alaska, were to convert all 8,901 buildings in the model, the energy savings would amount to nearly \$10 million a year. He said the company who carried out the modelling said that quick finance system is crucial. He said that for those with a low income, it could be hard to come up with the money for a heat pump. He said the proposed bill, by enabling third party financing, would reduce the risk for both borrower and lender.

[4:32:47 PM](#)

CEAL SMITH, Alaska Climate Action Network, testified in support of HB 374. She stated her organization is very happy to see the proposed bill. She mentioned the language in the proposed bill is not clear regarding weatherization.

[4:35:43 PM](#)

CORY BORGESON, CEO, Golden Valley Electric, testified in support of HB 374. He stated his is a not-for-profit electric utility. He said he thinks the proposed bill is "fairly broad." He indicated he was not certain that Golden Valley "would jump into this," but that there are opportunities to provide financing for its consumers to move into renewable energy products.

[4:37:45 PM](#)

CHAIR KITO held over HB 374.

[4:38:46 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:38 p.m.