

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

January 31, 2017

3:35 p.m.

MEMBERS PRESENT

Senator Click Bishop, Chair
Senator Anna MacKinnon
Senator Lyman Hoffman
Senator Bert Stedman
Senator Berta Gardner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 39

"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

SENATE BILL NO. 9

"An Act relating to military facility zones."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 39

SHORT TITLE: MUNI ENERGY IMPROVEMNT ASSESSMNTS/BONDS

SPONSOR(s): SENATOR(s) COGHILL

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|----------|-----|-----------------------------------|
| 01/25/17 | (S) | READ THE FIRST TIME - REFERRALS |
| 01/25/17 | (S) | CRA |
| 01/31/17 | (S) | CRA AT 3:30 PM BELTZ 105 (TSBldg) |

BILL: SB 9

SHORT TITLE: MILITARY FACILITY ZONES

SPONSOR(s): SENATOR(s) COGHILL

01/09/17 (S) PREFILE RELEASED 1/9/17
01/18/17 (S) READ THE FIRST TIME - REFERRALS
01/18/17 (S) CRA, FIN
01/31/17 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR COGHILL
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Sponsor of SB 9 and SB 39.

CHAD HUTCHISON, staff
Senator John Coghill
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Commented on SB 9 for the sponsor.

JIM DODSON, President & CEO
Fairbanks Economic Development Corporation
Fairbanks, Alaska
POSITION STATEMENT: Supported SB 9.

JEFF STEPP, Special Assistant to the Mayor
Fairbanks North Star Borough
Fairbanks, Alaska
POSITION STATEMENT: Supported SB 9.

BOB DOLE, Deputy Commissioner
Department of Military & Veterans Affairs (DMVA)
Anchorage, Alaska
POSITION STATEMENT: Supported SB 9.

RYNNIEVA MOSS, staff
Senator John Coghill
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Commented on SB 9.

SEAN SKALING, Assistant Executive Director &
Energy Policy Director
Alaska Energy Authority (AEA)
Anchorage, Alaska
POSITION STATEMENT: Supported SB 39.

GENE THERRIAULT

Alaska Energy Authority (AEA)
Fairbanks, Alaska
POSITION STATEMENT: Supported SB 39.

BRITTANY SMART, Special Assistant to the Mayor
Fairbanks North Star Borough
Fairbanks, Alaska
POSITION STATEMENT: Supported SB 39.

ACTION NARRATIVE

[3:35:23 PM](#)

CHAIR CLICK BISHOP called the Senate Community and Regional Affairs Standing Committee meeting to order at 3:35 p.m. Present at the call to order were Senators Stedman, Gardner, Hoffman, and Chair Bishop.

SB 39-MUNI ENERGY IMPROVEMNT ASSESSMNTS/BONDS

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CHAIR BISHOP announced SB 39 to be up for consideration.

SENATOR JOHN COGHILL, Alaska State Legislature, sponsor of SB 39, introduced the legislation speaking to the following sponsor statement:

Senate Bill 39 would set up a system to allow municipalities and commercial property owners to participate in a Commercial Property Assessed Clean Energy (C- PACE) finance program. The Act allows municipalities to assess a C-PACE fee to a commercial property owner's annual property tax bill to repay a PACE loan by a third party such as a commercial bank or through a program administered by the borough.

Using a successful program from Texas, this legislation sets forth a boiler plate system for creating PACE programs requiring a description of qualified projects, description of the boundaries of a region within the borough, a description of third party programs or municipal funding of qualified projects, description of fees for municipal assessments for third party loaners, a requirement for written contracts, and public notice and public hearing to establish a PACE program.

Creating a uniform process and requiring written contracts between all parties will give credibility to the program and, as experienced in Texas, commercial banks are more willing to finance qualified projects with low interest rates and more assurance that the loans will be paid.

Municipalities will be allowed to issue bonds or notes as a funding source for providing loans. A second-class borough could establish this program by regions either areawide or non-areawide.

The bill prohibits a municipality from issuing a permit, license or other authorization of property based on a contingency that the person enter into a PACE contract.

Liens for PACE loans are paramount to all other liens except municipal tax liens and special assessments.

SENATOR COGHILL said this is a voluntary program that is set up primarily for change-out programs in the Fairbanks area, which is also under a lot of pressure from the particulate matter (PM) 2.5 air quality issue. Getting natural gas into the Interior is very important just for the air quality issue, let alone for the quality of life on different fuels. Right now, fuel sources are very close economically, but by adding the PM 2.5 penalties for non-compliance, some of the change outs are going to have to start being implemented.

SENATOR COGHILL said this issue was brought to him by the Alaska Energy Authority (AEA). It is not a new idea; it went through the legislature and ended up at the final gate last year.

CHAIR BISHOP set SB 39 aside until later in the meeting.

SB 9-MILITARY FACILITY ZONES

[CHAIR BISHOP announced the consideration of SB 9.]

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SENATOR JOHN COGHILL, Alaska State Legislature, sponsor of SB 9, related that Fairbanks is host to two military bases that have approved military facility zones. Setting up these facility

zones entailed the Department of Military & Veterans Affairs (DMVA) approving a comprehensive plan that takes more time to go through than a zoning ordinance. This makes it a less valuable tool for this purpose. So, SB 9 proposes that the DMVA does not have to approve this comprehensive plan. He said these two issues in SB 9 and SB 39 have a huge impact on his district, but they would be helpful anywhere else in the state that deals with military issues.

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CHAD HUTCHISON, staff to Senator Coghill, said SB 9 deals with military facility zones related to the decision to place 54 F-35 aircraft at Eielson Air Force Base. This bill is about maximizing the benefits for the local community and the surrounding areas next to a military installation - more is going on than just the F-35s - particularly in the Interior.

He said some of the action points in the presentation came from the Fairbanks Tiger Team made up of Senator Murkowski, Senator Sullivan, and Congressman Young's office, Fairbanks North Star Borough Mayor Karl Kassel, Fairbanks Mayor Jim Matherly, and the North Pole Mayor, Bryce Ward. Other representatives include the Chamber of Commerce and the Fairbanks Economic Development Corporation headed by Jim Dawson.

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MR. HUTCHISON said the F-35 is a thirsty aircraft and a lot of communities will benefit by having refueling facilities for it. He added that the military industry is an important part of the Fairbanks economy generally, but it also affects other areas of the state. The ones getting the attention now are Eielson Air Force Base and Fort Wainwright that just received the Apaches and the Grey Eagle Squadron, which is the unmanned aerial vehicle that houses the Long Range Discrimination Radar (LRDR). Fort Greely also has 14 new missile interceptors. All these facilities will be a potential benefit to Delta, to Anderson, Fairbanks, North Pole, and a lot of communities around Joint Base Elmendorf-Richardson (JBER).

He displayed slides of planned military construction projects given to them by the Army Corps of Engineers (ACE) saying their number illustrates the need to move quickly, because there is a short window in 2017 in which to maximize the benefits.

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He explained that military facility zones are designated areas established by the Department of Military and Veteran's Affairs

(DMVA), usually close to a military installation, with the key purpose of ensuring that the industrial and economic development capacities in the surrounding area are maximized to the greatest extent possible. If the project is deemed to be helping the greater military mission, it can open up public and private financing, credit guarantee programs, and grants in those zones.

MR. HUTCHISON explained that the DMVA considers a number of different factors in the applications from the local communities; one of them has to do with the comprehensive plan. The last time the Fairbanks North Star Borough did a comprehensive plan was in 2005, which was before military facility zones were analyzed. The problem with comprehensive plans is that they are resource-intensive and take a lot of time and the window of opportunity now is very limited. The suggested change adds the four words: "or local zoning ordinance" because they are quicker than comprehensive plans and will be a better fit for the window of time needed to maximize this benefit for the \$561 million allocated military construction spending in September 2016.

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CHAIR BISHOP said he would hold SB 9 for a future hearing.

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JIM DODSON, Fairbanks Economic Development Corporation, Fairbanks, Alaska, said he supported SB 9. Not only does the current statutory authority cause undue time constraints, he said, but it also causes money constraints that no one has to take. In an effort to be more efficient and diversify the economy, they support the bill.

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SENATOR GARDNER asked if there is any opposition to this bill.

MR. HUTCHISON said he wasn't aware of any.

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JEFF STEPP, staff to Karl Kassel, Mayor of the Fairbanks North Star Borough, Fairbanks, Alaska, supported SB 9. He said the statutory authority for municipalities and the DMVA to create military facility zones was established in HB 316 by the 27th Legislature in 2012. By design these zones are designated areas in close proximity to a military installation where increased industrial activity, economic development, workforce development, or training and educational activities will

directly enhance the base's ability to fulfill its mission. That is what makes them so appealing to a community.

Promoting expansion of infrastructure, such as Civil Defense and Homeland Security, can encourage increased private sector activity near these installations opens the door to state and federal business development tax credits, loans, and other funds. So, military facility zones can help facilitate economic growth and development in communities, regions, and the entire State of Alaska. The synergy created by shared knowledge and leveraged resources focused on these common concepts and goals can yield greater benefits for both the community and the military.

MR. STEPP said the reason adding the language about planning and zoning to this particular legislation is so important is that currently a military facility zone must be determined to be consistent with the comprehensive plan for the area and those have broad land use designations and a wide variety of goals and policies. Military facility zone designation proposals are site-specific locations, which are generally smaller in scale than the broad generalized categories of different types of future land use listed in comprehensive plans. Site selection for a military facility zone is intended to be optimized for civilian/military interface and public/private partnerships.

He explained that comprehensive plans address a wide range of land use elements, and many Alaska communities including the Fairbanks North Star Borough have plans that are outdated and did not anticipate a land-use type such as military facility zone designation and/or do not address military facilities, and sometimes not even economic development at all. Unfortunately, the process to amend a comprehensive plan is lengthy and can be expensive and often difficult.

MR. STEPP said that zoning, however, is a regulatory tool that identifies the appropriate use of each specific parcel of land and the applicable process for obtaining a land use permit. Zoning regulations are required to be adopted in accordance with local comprehensive plans. Zoning is a better, quicker, more specific method for a community to evaluate a specific development proposal, a building site plan, or a military facility zone by applying the detailed standards that are found in both local zoning regulations and the military facility zone legislation. Greater flexibility in how to qualify for the military facilities zone designation provides communities around the state and the Fairbanks North Star Borough with more local

control to decide the best location and process for determining compatibility. That is why this legislation is important to them.

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BOB DOLE, Deputy Commissioner, Department of Military & Veterans Affairs (DMVA), said he supported SB 9 and that since the passage of the original bill they have had "exactly zero applicants for these sorts of zones." They believe the time and expense it takes to get one authorized is why Alaska doesn't have military facility zones. This measure provides a way to make it happen faster, is an opportunity to diversify the economy, and makes Alaska's bases more cost-effective and viable.

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SENATOR MACKINNON joined the committee.

CHAIR BISHOP closed public testimony on SB 9 and held it in committee for future consideration.

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SB 39-MUNI ENERGY IMPROVEMNT ASSESSMNTS/BONDS

CHAIR BISHOP returned attention to SB 39 and invited Ms. Moss to review it for the committee.

RYNNIEVA MOSS, staff to Senator Coghill, Alaska State Legislature, said this bill adds extra powers to home rule municipalities and first and second class boroughs. It allows them to establish commercial properties as clean energy programs. It is completely voluntary. It creates a system that was modeled after Texas that makes each Commercial Property Assessed Clean Energy (C-PACE) uniform in the state, making it more attractive to bonding, federal grants, commercial banks, and commercial loans.

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It allows a commercial facility to borrow money with more attractive terms to make it more energy efficient. The loan payments are collected through the tax assessor's office and are paid to the loan provider whether it be the municipality or the commercial bank.

She explained that there are written contracts between all parties and the holder of the mortgage is required to sign off on approval of the C-PACE loan, because it bumps the mortgage

holder's lien below it, which makes it paramount to all liens except for municipal tax liens and other special assessments.

MS. MOSS said the encumbrance follows the real estate and not the owner. When the property is sold the remaining assessments for the loan go with the property.

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At ease

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CHAIR BISHOP opened public testimony on SB 39.

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SEAN SKALING, Assistant Executive Director and Energy Policy Director, Alaska Energy Authority (AEA), supported SB 39. He said that Ms. Moss gave a great introduction and that C-PACE knocks down barriers that currently exist for commercial buildings to become more energy efficient. It has voluntary payment back through the tax assessment.

He said it would be helpful to go through a scenario of how this would work, and asked them to picture a commercial building in their community that got a commercial energy audit through the Alaska Energy Authority some years ago and had hit the wall he is talking about. This legislation may help them break through.

Using fictitious average numbers, he supposed that some commercial property owners were uncomfortable with the amount of money they were putting into their electric and heating bills and hired an energy auditor to come back with a list of things to do, what each different measure might cost, and the energy saved - so, a line-by-line savings and payoff on each energy measure. This example will save 30 percent on energy bills, which is a fairly typical number. If this property owner had cash, he would probably pay for the improvements, because it is a great return on investment with an average payback period of six years.

But if they want to get a loan, they go to the bank and get a four-year term. Once the efficiency measures are conducted the building is saving 30 percent on energy every day, but the payback time of four years adds up to more than what he was paying originally. So, there is a benefit to stretching out the loan payback time in that the measure could make the cash flow positive immediately.

Following the scenario through, the owners of the building also think they might be growing out of their space within three years, and for that and a couple of other reasons they aren't comfortable making the energy efficiency improvements. So they continue paying the higher energy bills for three years, sell the building, and the new owner comes in; and he is still paying the higher bills. That money is going out of that building and essentially out of the community to pay for the fuel and energy costs.

MR. SKALING explained that C-PACE will allow banks to be more comfortable in making loans because they go through a set process and they can be comfortable enough with the energy savings that can be used to pay back the loan. So, they can offer more attractive loan terms that will stretch out the loan period and make the cash flow positive on day-one after the energy efficiency improvements are completed.

Another concern was moving out of the building in three years, but now both the benefits of the efficiency and the payment is connected to the building. So, the next property owner will own the building and continue paying the loan through his property tax bill. But they will also be getting the benefits and probably have only a couple more years of payments before being able to get all of the energy savings benefits.

MR. SKALING said energy efficiency and alternative energy are available and it must be affixed to the building and therefore be sold with the building. HVAC heating and cooling systems are one of the more common and more expensive measures that offers a lot of savings along with lighting controls and more efficient motors.

The most common alternative energy systems are air or ground source heat pumps, solar, and fuel switching. Those industries employ a lot of local folks in the energy supply community. The debt gets paid through the local city assessor's office, which then pays the investor or bank back.

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C-PACE programs have been enabled in 33 states; Alaska's is modeled after Texas', which has been very successful with about a dozen municipalities exercising PACE. It is a win-win all the way around. Property owners will pay lower utility bills; the property is improved with a better work environment; there is less risk, and lenders will issue new loans that they may have not issued otherwise; and the process is consistent statewide

once this is enabled. Contractors and vendors do more local hiring and are "schooled-up" on best practices and new technologies.

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GENE THERRIAULT, Alaska Energy Authority (AEA), Fairbanks, Alaska, said he looked into programs that allowed states to help their constituents with energy improvements and financing options for them. He identified a couple of funding sources at the Rural Utilities Services (RUS), a division at the U.S. Department of Agriculture. He said a lot of utilities in Alaska have been in the past or are currently RUS-eligible. One is called the Energy Efficiency and Conservation Loan Program (EECLP). The source of money available through this program has an interest rate of 2.5 percent for 10-years. Lending that money out to commercial property makes the interest rate go up to 2.8 percent. This is relatively low interest money that can be made available to businesses in Alaska to make these improvements.

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One thing the EECLP Program is looking for in their regulations is a mechanism that helps assure that default rates are low, and the C-PACE Program is one such mechanism. Last year when AEA was working this piece of legislation they corresponded with the RUS and told them about the specifics of the proposed legislation and got a letter from them basically saying that they understood the PACE mechanism and it would be attractive to them as far as someone making application to get access to the EECLP source of money. The EECLP program is part of RUS's ongoing yearly budget, so if the federal budget gets refreshed it gets about \$250 million per year. From discussions with RUS personnel he has found that the fund is under-utilized, and they are interested in working with states to help constituent groups tap into it as a funding source.

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MR. THERRIAULT said he became aware of a second program that was just funded in CY16, although it had been on the RUS books for several years and that is the Rural Energy Savings Program (RESP). Unlike EECLP it requires a congressional appropriation. An appropriation was passed in December 2015, ultimately about \$50 million was made available nationwide. The interest rate on that source of funding is very attractive. For qualifying state entities and utilities, the interest rate is zero. When it gets lent out to the commercial property owner through the local government a little bit can be added to cover the local expenses. The regulations for that specific program talk about

any additional repayment mechanisms that demonstrate or have demonstrated appropriate risk mitigation features. Because the local government uses its full collection power that it applies to its property taxes and general government assessments to collect the PACE obligation, default rates nationwide are under 1 percent.

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At ease

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BRITTANY SMART, Special Assistant to Fairbanks North Star Borough Mayor, Fairbanks, Alaska, said Fairbanks continues its support for SB 39 and is very eager to use it as a tool to help with their natural gas conversions to help mitigate its air quality issues.

CHAIR BISHOP closed public comment on SB 39 and held the bill for a future hearing.

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CHAIR BISHOP adjourned the Senate Community and Regional Affairs Standing Committee meeting at 4:18 p.m.