

SENATE FINANCE COMMITTEE

February 6, 2017

9:02 a.m.

9:02:31 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Click Bishop, Vice-Chair  
Senator Mike Dunleavy  
Senator Peter Micciche  
Senator Donny Olson  
Senator Natasha von Imhof

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair

ALSO PRESENT

Jim Shine, Commercial Manager, Division of Oil and Gas, Department of Natural Resources; Senator John Coghill, Sponsor; Rynnieva Moss, Staff, Senator Coghill; Gene Therriault, Deputy Director, Statewide Energy Policy Development, Alaska Energy Authority, Department of Commerce, Community and Economic Development.

PRESENT VIA TELECONFERENCE

Doug Chapadose, President and CEO, Petro Star, Anchorage; Sean Skaling, Deputy Director, Alternative Energy and Energy Efficiency, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Chris Rose, Executive Director, Renewable Energy Alaska Project, Sutton; Brittany Smart, Fairbanks North Star Borough, Fairbanks.

SUMMARY

SB 30      APPROVAL: ROYALTY OIL SALE TO PETRO STAR

SB 30 was HEARD and HELD in committee for further consideration.

SB 39 MUNI ENERGY IMPROVEMNT ASSESSMNTS/BONDS

SB 39 was HEARD and HELD in committee for further consideration.

#sb30

SENATE BILL NO. 30

"An Act approving and ratifying the sale of royalty oil by the State of Alaska to Petro Star Inc.; and providing for an effective date."

[9:03:38 AM](#)

JIM SHINE, COMMERCIAL MANAGER, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, discussed the presentation, "Proposed Sale of the State's Royalty Oil to Petro Star: Senate Bill 30; Senate Finance Committee" (copy on file).

Co-Chair MacKinnon stated that Mr. Chapadose was online for questions.

Mr. Shine looked at slide 2, "Royalty In-kind Versus Royalty In-value":

The State has a choice to take its royalty in-kind (RIK) or in-value (RIV).

When the State takes its royalty as RIV, the lessees who produce the oil also market the State's share along with their own production and pay the State the value of its royalty share.

When SOA takes its royalty share as RIK, the SOA assumes ownership of the oil, and the DNR Commissioner disposes of it through the sale procedures prescribed by AS 38.05.183.

The SOA has regularly taken royalties of ANS oil as RIK (starting in 1979).

The State will receive between \$29 to \$37 million in additional revenue over what the state would receive if the contracted volumes were taken RIV.

Petro Star contract has been through public review and Royalty Board processes.

Mr. Shine addressed slide 3, "Non-competitive RIK Sale Process":

Before taking RIK, the DNR Commissioner must find it is in the State's best interest.

DNR must decide whether to sell RIK pursuant to a competitive auction or a non-competitive, negotiated sale.

Solicitation of Interest issued January 2015 to prospective purchasers to gauge market interest.

DNR determined that there was not competition allowing for a competitive sale, and proposed to enter into two negotiated contracts with Petro Star.

The first contract, in effect for the period January - December 2017, did not need legislative approval under AS 38.06.055(a) and (b)(1), received recommendation of the Royalty Board and was entered into in August 2016.

The second contract, effective for the period January 2018 -December 2021, received the recommendation of the Royalty Board, but requires Legislative approval.

Co-Chair MacKinnon acknowledged Senator Micciche.

[9:08:44 AM](#)

Senator Olson looked at slide 2. He queried the period that the increase of \$29 million to \$37 million took place. Mr. Shine replied that it included the current one-year contract and the four-year contract contained in the legislation. The one-year contract did not need legislative approval. The \$29 million to \$37 million included the one-year and four-year contracts through calendar year 2021.

Senator Dunleavy stressed that the proceeds were deposited into the Permanent Fund. Mr. Shine agreed.

Co-Chair MacKinnon noted that 50 percent of revenue was deposited into the Permanent Fund; 45 percent went to the general fund; and 5 percent went to the Public School Trust Fund. Mr. Shine agreed.

Mr. Shine looked at slide 4, "Commissioner's Decision Criteria":

AS 38.05.183(e) states that the commissioner must sell the State's royalty oil to the buyer who offers "maximum benefits to the citizens of the state." In making this determination, the commissioner must consider:

1. The cash value offered;
2. The projected effects of the sale on the economy of the state;
3. The projected benefits of refining or processing the oil in state;
4. The ability of the prospective buyer to provide refined products for distribution and sale in the state with price or supply benefits to the citizens of the state; and
5. The eight criteria listed in AS 38.06.070(a), as reviewed by the Royalty Board.

In considering these criteria, the commissioner will state which criteria apply to the proposed disposition and discuss the weight given to the applicable criteria in determining the maximum benefits to the state.

Mr. Shine highlighted slide 5, "Approval Process for the RIK Sale":

DNR must make a Best Interest Finding (BIF) in support of the sale.

Preliminary BIF issued July 2016.

Final BIF issued in September 2016.

DNR presented the proposed sale to the Royalty Board on August 31, 2016.

The Board reviewed the Preliminary BIF and the proposed contracts, and unanimously voted to recommend the Legislature approve the sale of ANS royalty oil to Petro Star.

The Board issued a Report to the Alaska Legislature and Resolution 2016-2 stating that the proposed disposition of ANS royalty oil to Petro Star meets the requirements of AS 38.06.070.

Prior to finalizing the RIK contract, the Legislature must pass a bill ratifying the contract with Petro Star (HB 70; SB 30).

Mr. Shine addressed slide 6, "Royalty Board's Decision Criteria":

AS 38.06.070(a) states that the Alaska Royalty Oil and Gas Development Advisory Board must consider:

1. The revenue needs and projected fiscal condition of the state;
2. The existence and extent of present and projected local and regional needs for oil and gas products;
3. The desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale;
4. The projected social impacts of the transaction;
5. The projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transactions;
6. The existence of specific local or regional labor or consumption markets or both which should be met by the transaction;
7. The projected positive or negative environmental effects related to the transactions; and
8. The projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investment.

Senator Dunleavy looked at number 7, and wondered who oversaw that criteria. Mr. Shine replied that the Division of Oil and Gas oversaw that criteria, but he did not know how much consultation was done with other state agencies. He stated that the report indicated that there would be no negative environmental impacts. He stated that it was existing status quo operations for Petro Star.

[9:13:46 AM](#)

Mr. Shine discussed slide 7, "Petro Star RIK Contract Terms":

#### Quantity

1-year contract: from 18,800 bpd to 23,500 bpd for Jan. 2017 -Dec. 2017

4-year contract: from 16,400 bpd to 20,500 bpd for Jan. 2018 -Dec. 2018 from 13,200 bpd to 16,500 bpd for Jan. 2019 -Dec. 2019 from 10,800 bpd to 13,500 bpd for Jan. 2020 -Dec. 2020 from 8,400 bpd to 10,500 bpd for Jan. 2021 -Dec. 2021

Price: the contracts use a netback formula and provides higher revenue to State compared to RIV.

#### Quantity flexibility

Petro Star may nominate zero barrels up to 3 consecutive months if "turnaround clause" is used, otherwise the contract terminates.

The State can cap its delivery amounts to 95 percent of the total ANS royalty oil if the nominations from all RIK buyers is greater than the 95 percent threshold.

Provided that the supply of ANS royalty oil exceeds demand from both RIK buyers, the State can sell Additional Sale Oil as long as the total deliveries are not greater than the 95 percent threshold.

#### Security

Petro Star's guarantor (ASRC) shall provide a letter of opinion from a financial analyst or a stand-by letter of credit or surety bond equal in value to 50 days of delivery.

If guarantor's credit rating falls below investment grade level, then guarantor shall provide a stand-by letter of credit or surety bond described previously.

In-state processing: Petro Star to use "commercially reasonable efforts" to manufacture refined products in-state from the ANS royalty oil.

Employment of Alaska residents: no discrimination against AK companies and residents.

9:19:01 AM

Mr. Shine addressed slide 8, "RIK Contract Price":

ANS Spot Price -\$1.95 -Tariff Allowance +/-Quality  
Bank Adjustments -Line Loss

ANS Spot Price= Average US West Coast Price for Alaska  
North Slope oil (reported by industry trade  
publications Plattsand Reuters)

\$1.95 RIK Differential

This is a deduction used to calculate the price  
of ANS oil sold in Alaska.

The deduction is applied to the price of ANS oil  
at its most common destination market (the U.S.  
West Coast).

It resembles the deduction used in sales of ANS  
oil in Alaska between North Slope producers and  
between North Slope producers and in-state  
refineries.

In contrast, for the ANS royalty oil that is sold  
outside of Alaska and that is taken in-value,  
producers use a deduction that approximates the  
marine transportation cost.

Since deduction that represents the marine  
transportation cost is generally higher than the  
value of the RIK differential, the State has the  
potential to obtain a higher price for its ANS  
royalty oil by taking it in-kind and selling it  
in Alaska.

Senator Micciche queried the range of ANS spot prices for  
the calculation. Mr. Shine replied that the actual spot

price was not included. He remarked that the local in-state differential gave the approximate \$1.50 per barrel benefit over RIV. He stated that the starting point was the same regardless of the price of oil.

Co-Chair MacKinnon wondered if it was fair to consider the revenue from the one-year contract. Mr. Shine replied that the one-year contract did not require legislative approval, so it was not included in the fiscal note. The \$29 million to \$37 million did include the benefit that the state would receive with the four-year contract and one-year contract.

Senator Olson noted the volatility of the oil price market, and queried the advantage of a four-year contract versus a year-to-year contract. Mr. Shine replied that the benefit the state received was that it was not subject to a \$3.50 per barrel deduction for marine transportation from the Valdez Marine Terminal to its west coast destination.

Senator Olson announced that the price did not matter. Mr. Shine agreed.

Mr. Shine continued to discuss slide 8:

Tariff Allowance= Tariffs for TAPS and pipelines upstream of Pump Station 1 (PS-1).

Quality Bank Adjustments= adjustments reported by TAPS Quality Bank Administrator.

Line Loss= loss or mismeasurement of volume between PS-1 and the Valdez Marine Terminal (VMT). It is calculated as 0.09 percent of the amount resulting from the formula above, excluding "Line Loss."

Senator Micciche noted that the differential between \$29 million and \$37 million was the transportation difference between the take-or-pay quantity and the max-quantity of the contract. Mr. Shine agreed. He stated that the \$29 million would represent the benefit to the state if the minimum volumes were nominated in each contract month, versus the \$37 million the state would receive if the maximum volume was nominated each month.

[9:24:37 AM](#)

Mr. Shine looked at slide 9, "Contract is in the State's Best Interest":

The State will receive between \$29 to \$37 million in additional revenue over what the state would receive if the volume of ANS royalty oil the contracts is taken in-value.

1-year contract (Jan. -Dec. 2017): from \$7.6 to \$9.5 million

4-year contract (Jan. 2018 -Dec. 2021): from \$22.3 to \$27.9 million

On average, producers selling ANS royalty oil outside Alaska for the 5-year period of the proposed RIK contracts with Petro Star are expected to deduct from \$3.37 to \$3.70 per barrel as a "marine transportation cost" in arriving at the price for RIV.

This is the deduction used to adjust the price of ANS oil from the U.S. West Coast to Alaska.

The proposed contracts with Petro Star will deduct only \$1.95 as a "location differential" from the west coast ANS value.

The proposed sale provides crude to Petro Star's refineries at North Pole and Valdez with the associated economic and social benefits to Alaska's economy:

Petro Star employs approximately 44 people in its refining operations.

Maximum throughput capacity

North Pole refinery: 22,000 barrels per day (bpd). Valdez refinery: 60,000 bpd.

Of the throughput amounts, approximately 25 percent-30 percent will be refined products.

Petro Star refineries' estimated contribution to the local economy in 2014 was \$25mm

Vice-Chair Bishop felt that the four-year contract was a national security issue. He wanted comments on his concern.

[9:25:54 AM](#)

DOUG CHAPADOSE, PRESIDENT AND CEO, PETRO STAR, ANCHORAGE (via teleconference), stated that Petro Star was the largest supplier of fuel to the Defense Logistics Agency, which was the federal agency responsible for supplying energy in all forms to the Department of Defense (DOD). He stated that the fuel supplied by Petro Star was essential to the war-fighting capabilities of the Pacific forces located in Alaska. He stressed that it was a large factor in determination to base the F-35 fighters at Eielson Air Force Base.

Senator von Imhof noted that Golden Valley Electrical Association felt that the contract would provide a 10 percent or more reduction for the cost of power for approximately 35,000 Interior Alaska residence, because of the new fuel blend. Mr. Shine agreed. He acknowledged the letter of support in the bill packet.

Senator von Imhof queried plans to expand beyond 35,000 customers. Mr. Shine deferred to Mr. Chapadose.

Co-Chair MacKinnon shared that the public testimony portion of the meeting might address that concern.

Co-Chair MacKinnon stressed it a contract which the state had made with Petro Star. She noted that the bill mentioned the Arctic Slope Regional Corporation, and queried the relationship and its inclusion in the statutory bill. Mr. Shine replied that Arctic Slope Regional Corporation was the parent wholly-owned subsidiary was Petro Star Refining.

Mr. Chapadose thanked the efforts in drafting the contract. He stated that it was a long period to come to a resolution, and felt that it was a rewarding period. He was pleased with the contracts.

[9:30:33 AM](#)

Senator von Imhof noted that Golden Valley Electrical Association (GVA) had entered into a contract with Petro Star to provide NAPHTHA fuel costs, which resulted in a 10 percent decrease in costs. She remarked that GVA provided

power to approximately 35,000 Interior Alaska members. She wondered if there were further plans for Petro Star to expand their footprint to provide natural gas to more residents. Mr. Chapadose responded that the 35,000 referenced the number of account holders of Golden Valley Electrical Association. Those individuals would receive the benefit of the new contract; therefore, the lower cost fuel was passed onto the consumers. He could not speak to expanding the GVA membership.

Senator Micciche wondered why the availability of royalty oil to the refineries was not only beneficial to the parent company of the refinery. He queried its importance to the overall economy in Alaska. Mr. Chapadose replied that Petro Star operated the only refinery in the interior. The Flint Hills refinery was currently being demolished. He stressed that Petro Star was the only source of refined products within the interior region, including Valdez. The oil from the Trans-Alaska Pipeline System (TAPS) was the only oil available to refine. He stressed that the ability to source crude was critical to the Petro Star operation. He remarked that acquiring crude from producers was becoming more difficult, as production had decreased on the North Slope. He stated that the source of crude from the state was essential to remain in business.

[9:35:09 AM](#)

Co-Chair MacKinnon CLOSED public testimony.

[9:35:09 AM](#)

AT EASE

[9:36:38 AM](#)

RECONVENED

[9:36:40 AM](#)

Vice-Chair Bishop detailed the fiscal note.

[9:37:05 AM](#)

AT EASE

[9:37:16 AM](#)

RECONVENED

Vice-Chair Bishop readdressed the fiscal note.

SB 30 was HEARD and HELD in committee for further consideration.

[9:38:25 AM](#)

AT EASE

[9:40:00 AM](#)

RECONVENED

#sb39

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."

[9:40:29 AM](#)

Co-Chair MacKinnon read the title of the bill.

[9:40:58 AM](#)

SENATOR JOHN COGHILL, SPONSOR, gave a high-level overview of the legislation.

[9:42:29 AM](#)

RYNNIEVA MOSS, STAFF, SENATOR COGHILL, discussed the Sectional Analysis (copy on file):

Sec. 1. Adds C-PACE financing to powers of Home Rule municipalities.

Sec. 2. Adds C-PACE financing to powers of First Class Boroughs.

Sec. 3. Adds C-PACE financing to powers of Second Class Boroughs on a non-areawide basis.

Sec. 4. Adds C-PACE financing to powers of Second Class Boroughs on an areawide basis.

Sec. 5. Creates a new chapter (Chapter 55) of law under Title 29 - Municipal Government which

establishes the Municipal Property Assessed Clean Energy Act, sets the requirements for establishing the program:

(b)(1) Adopt a resolution of intent with findings, intent, description of eligibility of property owners and projects, repayment, third-party financing, municipal debt servicing procedures for third-party financing.

(2) Provide a notice of the report regarding assessment program with location of the report, time and place of public hearing, name of local administrator of program, and name of the assessor.

(3) Hold a public hearing taking public comment.

(4) Adopt an ordinance establishing the program and the terms of the program.

(c) A municipality may hire a program director or contract for professional services to administer the program.

(d) A municipality may set an application fee, an interest rate, or a combination of both to offset costs of administering the program.

Sec. 29.55.105. (a) Allows for an assessment to be imposed to repay the financing of qualified projects on commercial real property in the municipality that adopts the program.

(b) All parties to the loan must have a written contract.

(c) Identifies qualifying costs.

(d) Qualified projects do not include undeveloped lots or lots undergoing development at the time of assessment or the purchase of products or devices that are not a permanent part of the property.

(e) Provides that a municipality can create programs in more than one region of the municipality.

Sec. 29.55.110. To create a program a municipality must prepare a report with the following items:

- (a)
- (1) A map showing the boundaries of each region of the municipality in the program.
  - (2) A form for written contracts between municipality and property owner.
  - (3) A form for written contracts between the municipality and third-party financiers.
  - (4) A description of qualified projects.
  - (5) A plan ensuring third-party financing sources(s) and, if applicable, raising capital for municipal funding (such as bonding).
  - (6) Setting perimeters for issuance of bonds.
  - (7) Justifying the period of assessment.
  - (8) Description of application process and eligibility for funding.
  - (9) Solvency requirements for applicant.
  - (10) Process municipality will use to assess the property and collect assessments.
  - (11) Method of notice to mortgage holder required for participation.
  - (12) Method of review by third party.
  - (13) Description of marketing and participant education provided by the municipality.
  - (14) Description of quality assurance and antifraud measures.

(b) The report will be made available on the Internet website of the municipality and at the primary administrative office of the municipality.

Sec. 29.55.115. Requires the municipality to give 30-day notice to any mortgage holder on the property and obtain written consent from them to enter into a written contract with the property owner.

Sec. 29.55.120. Requires the property owner to hire an independent third party to prepare:

- (1)
  - (A) a review of the baseline conditions, savings;

- (B) outline the projected reduction in energy costs, energy consumption or demand, or a reduction in emissions affecting local air quality; and
- (2) verification of completion of project.

Sec. 29.55.125. Allows property owner to purchase equipment and materials directly; and contract directly for services.

Sec. 29.55.130. Requires the municipality to record in the appropriate recording district details of a C-PACE assessment.

Sec. 29.55.135.

- (a) C-PACE assessments are paramount to all other liens except municipal tax liens and other special assessments.

- (b) Assessment liens run with the property and remaining balances are not eliminated by foreclosure.

- (c) Penalties and interest can be added to delinquent installments.

- (d) Allows municipalities to recover costs and expenses of a lawsuit to collect delinquent PACE assessments.

Sec. 29.55.140. Allows a municipality to issue bonds or notes to finance PACE projects.

Sec. 29.55.145. Allows a municipality to enter into an agreement with a third party or one or more municipalities to administer a C-PACE program.

Sec. 29.55.150. A municipality may not coerce a property owner by making the issuance of a permit, license, or other authorizations from the municipality contingent on that property owner entering into a PACE contract.

Sec. 29.55.155. Applicability section.

Sec. 29.55.160. Definitions.

Sec. 29.55.165. Short title.

Sec. 6. Immediate effective date.

Co-Chair MacKinnon remarked that the current version of the bill was version J.

Senator Micciche looked at 29.55.150, and noted that a municipality could only use it as a "carrot and not as a stick" on other municipal processes. He asked that the issue be addressed. Ms. Moss asked for a repeat of the concern.

[9:47:12 AM](#)

Senator Micciche looked at page 3, Section 29.55.150.

Co-Chair MacKinnon wondered if Senator Micciche was referring to the Sectional Analysis. Senator Micciche replied in the affirmative.

Co-Chair MacKinnon queried the page number of the bill.

Ms. Moss explained that the issue was on page 10, line 7. She stated that it was a coercive clause that outlined that a municipality may not issue a permit, license, or other authorization to a person on the condition that they enter into the PACE program.

Senator Dunleavy wondered if there were any anticipated costs to the state. Ms. Moss replied in the negative. She noted that page 7, line 16, which stated that if there was a mortgage on the property the mortgage holder must sign off on the loan as they were waiving some of their rights for collection.

Senator von Imhof wondered whether the act could create a fund that could be comingled with other sources of money other than bond money such as federal or private grant money. Ms. Moss replied in the affirmative, and declared that there were federal loan and grant programs. She stated that there was a speaker from the Alaska Energy Association (AEA) who would address loans and grants available from the USDA and rural utilities programs that had zero interest and other programs at approximately 3 percent interest.

Senator von Imhof wondered whether the program could be comingled with municipal bond money for one program; or were there separate programs that a homeowner could use on each source of funds. Ms. Moss deferred to AEA.

Co-Chair MacKinnon asked whether municipalities could access the State Municipal Bond to provide similar loans. Ms. Moss replied in the affirmative.

Co-Chair MacKinnon queried a requirement that the applicants have a good credit rating. Ms. Moss responded that she assumed that would be a requirement. She stated that the banks required good credit.

Co-Chair MacKinnon announced that she wanted clarification from AEA as to how potential borrowers met a credit standard. She wondered whether there could be a manipulation to a construction loan to someone who would not otherwise qualify. Ms. Moss replied that the municipality would create the rules for the loans.

[9:51:46 AM](#)

AT EASE

[9:54:25 AM](#)

RECONVENED

[9:54:29 AM](#)

Co-Chair MacKinnon noted that there was a similar bill in the previous session, which included a letter dated March 16, 2015. She wondered if there was a letter from the Alaska Bankers Association on the current legislation. Ms. Moss replied that there was not yet a letter, but they had met the week prior and anticipated sending a new letter.

Senator Dunleavy wondered whether the bill put an existing lienholder in a lower position. Ms. Moss replied in the affirmative. She looked at page 7, line 16, which noted that the mortgage holder was required to approve the loan before the loan was issued. The value of the investment of the loan-held property would increase.

Co-Chair MacKinnon felt that the issue may speak to the credit worthiness issue. She remarked that the remaining

consideration would be related to the maximum dollar value of a loan. Ms. Moss looked at page 7, line 3, and noted that there had been appropriate ratio between the amount of the assessment and the assessed value of the property.

Co-Chair MacKinnon queried an appropriate ratio, and wondered if that was approved by the local municipality. Ms. Moss replied that it was approved by the municipality.

Co-Chair MacKinnon felt that there should be work with the Alaska Energy Authority (AEA) to streamline some best practices, rather than a variety of best credit practices adopted individually by multiple municipalities.

[9:58:22 AM](#)

GENE THERRIAULT, DEPUTY DIRECTOR, STATEWIDE ENERGY POLICY DEVELOPMENT, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, introduced himself.

SEAN SKALING, DEPUTY DIRECTOR, ALTERNATIVE ENERGY AND ENERGY EFFICIENCY, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT (via teleconference), discussed the presentation, "Commercial Property Assessed Clean Energy (C-PACE)" (copy on file).

Mr. Skaling addressed slide 2, "Commercial Property Assessed Clean Energy":

C-PACE is a financing mechanism for cost-effective energy improvements to commercial building.

Energy improvement loans are repaid through a separate, voluntary line on the property tax bill.

Mr. Skaling looked at slide 3, "C-PACE Scenario." He remarked that AEA had provided partial reimbursement for commercial energy audits to commercial building owners, and many took advantage of that program. He stated that the scenario was typical of the businesses that received an energy audit.

[10:03:27 AM](#)

Senator Micciche stressed that the four-year payback challenged the cash flows of a commercial property owner

and provided an appropriate ratio between the amount of the assessment and the assessed value of the property. He asserted that the bill did not define an appropriate ratio. He queried a definition of an appropriate ratio. Mr. Skaling replied that the typical investments in PACE programs in the country were all cost-effective measures. The energy cost savings would pay back the loan period.

Co-Chair MacKinnon stressed that Senator Micciche's comments were a concern for the committee.

[10:05:07 AM](#)

Mr. Skaling looked at slide 4, "How C-PACE Works":

Voluntary

Long-term financing

Attractive loan terms

Less Risk

Positive cash flow

Seamless transfer if building sold

Repayment attached property

Mr. Skaling addressed slide 5, "C-PACE Eligible Improvements":

Energy efficiency

Heating/Cooling system

Lighting

Controls

Building envelope/insulation

Motors/pumps

Mr. Skaling addressed slide 6, "C-PACE Eligible Improvements":

## Alternative energy

Heat pumps

Solar

Fuel switching with efficiency

Mr. Skaling looked at slide 7, "Cash Flow from Energy Improvements." He explained that the green was the energy cost that the building owner was paying. He noted the energy efficiency improvements, and noted a roughly 30 percent savings in the energy costs of the building. He noted that, through the savings, a loan could be repaid as long as the loan was stretched out long enough to provide positive cash flow in the yellow area. He explained that they were trying to achieve a loan repayment that was cash-flow positive after the improvements.

Mr. Skaling highlighted slide 8, "PACE: How Loan is Repaid." The slide showed how the program functioned. He noted the property owner in the middle. The property owner made improvements to the building, therefore hiring the supplier community. The funding was made by the investors, banks, or financial institutions. The property owner paid back the loans through a voluntary line on the property tax payment to the city or local government, which then paid the investor.

Mr. Skaling addressed slide 9, "33 States Enabled PACE." He stated that Alaska's PACE program was modeled after Texas, which had continued success. He stated that Texas had a program called, "PACE in A Box" which helped Texas communities to quickly establish uniformed programs between communities.

Co-Chair MacKinnon wondered which states originated the program. Mr. Skaling deferred to Mr. Therriault.

Mr. Therriault agreed to provide that information.

[10:11:39 AM](#)

Co-Chair MacKinnon wanted to know best practices on whether the program was misused by commercial buildings in depressed areas. She queried the unintentional consequences of the program. She wondered if the bill could be improved.

Mr. Therriault replied that the first PACE program was established in California in 2008. He stated that there was advice from the nationwide group, PACE Nation, who tried to pull information and education from all the involved states to determine the best practices. He felt that the abuse would drive default rates, but the default rates were less than one percent.

Senator von Imhof wondered whether there were any programs that were rescinded. Mr. Therriault replied that was not aware of any programs, but agreed to provide information. He stated that there were some initiated programs that did not see any uptake, and those programs were amended.

Senator von Imhof noted that Texas had requested uniform rules to apply to all the municipalities, but there would be flexibility in each municipality under the legislation. She queried a better best practice. Mr. Therriault replied that the language was adopted straight from the Texas statute. The uniformity was related to the community's establishment of the program, and how it communicated with banks and businesses. It also outlined a broad framework of the interworking of the program.

[10:16:30 AM](#)

Senator von Imhof assumed that there would be an evaluation of the loan-to-value, debt-to-equity ratio, ability to pay credit, etc. She stressed that there would be an assumption that the municipality had done its own due diligence in providing the loan. She wondered if the municipality would be in a second position. Mr. Therriault replied in the affirmative. The PACE repayment obligation was an assessment on the tax bill. All property tax and assessments were superior liens to mortgages.

Senator von Imhof surmised that no signature meant no deal. Mr. Therriault agreed.

Senator Micciche noted that line 2 said "obtain written consent from the holder of a mortgage lien on the property." He noted that there could be two lenders on one piece of property, and the ratio could be satisfied by one lender. He wondered if there should be clarification that each holder of a mortgage must approve. He felt that it could put the primary lender as a secondary payee, and they

may increase the loan with a secondary lender. He wanted to ensure that each mortgage holder have approval.

Co-Chair MacKinnon encouraged Senator Micciche to communicate his concerns with the sponsor of the bill.

Senator Micciche understood that there was a recommended ratio recommended by the PACE program. He stressed that there were energy policies that were often based on hope or political rhetoric rather than established science on the proven practices to improve efficiencies.

Co-Chair MacKinnon stressed that the case previously made sense because of the previous high energy costs. She stressed that Fairbanks had air quality issues, whether the prices were high or not. She stressed that the program could benefit the Interior for other reasons than costs. She wondered how active the programs were in the country now that energy prices were decreased.

10:21:19 AM

Senator Olson wondered how the communities who were suffering with a debt load would take advantage of the program. He remarked that Galena was facing financial strain, and wondered whether that community could take advantage of the PACE program. Mr. Therriault replied that the program would not be available in Galena. He explained that the legislation allowed for a local government that levied a property tax to use the bill to collect to repay a PACE loan. The statute would apply across the state, but only be available to those municipalities that levied a property tax.

Senator Olson wondered if a community with great strain would be able to use the program. Mr. Therriault responded that the mechanism allowed for the community to use the existing relationship with the property owner to collect a PACE.

Co-Chair MacKinnon noted that there were approximately 11 or 12 of the 33 states did not have programs established, but had passed enabled legislation. She noted that there were even more. She wondered if the comparison to Texas only showed one program. Mr. Therriault replied that there were 12 municipalities in Texas who had initiated the program under the refresh of the program.

Co-Chair MacKinnon surmised that there were many states in the starting stages of the program.

[10:26:07 AM](#)

Mr. Skaling looked at slide 10, "Time to Add Alaska to the Map." He stressed that there was no cost to the state and the program was voluntary.

Mr. Skaling discussed slide 11, "C-PACE is a Win-Win-Win":

Property owners

Lenders

Contractor, vendors

Energy auditors

Alaska economy

Mr. Skaling highlighted slide 12, "Easy Win for Alaska":

Fully vetted last session

Strong support

Completely voluntary

No cost to state

Mr. Therriault addressed slide 13, "Financing Options":

Bank loan

Muni revenue bond

Energy Efficiency and Conservation Loan Program  
(EECLP)

Rural Energy Savings Program (RESP)

Other federal sources

[10:33:24 AM](#)

Senator Micciche remarked that he would examine other legislation, and compare the other programs in the country.

Co-Chair MacKinnon noted that the bill would benefit private sector ownership. Mr. Therriault agreed.

Co-Chair MacKinnon announced that school districts could not qualify, because they were not paying property taxes. Mr. Therriault agreed.

Co-Chair MacKinnon wondered whether school districts or other government owned buildings could qualify for the Energy Efficiency and Conservation Loan Program or for the Rural Energy Savings program. Mr. Therriault replied that he was not sure. He explained that the funds were available to help with efficiency.

Co-Chair MacKinnon noted that there were schools in climate regions that were suffering from lack of weatherization or energy efficient opportunities. She was curious about programs that schools, or other government organizations could use to lower the energy use and consumption.

Senator von Imhof wondered who paid for and conducted the energy audits. Mr. Therriault replied that the customer would pay for that expense, but it could be rolled into the financing.

Senator Olson stressed that the auditors were the general raters in the winterization program, so those people could be qualified to conduct the assessment. Mr. Therriault agreed.

Mr. Skaling furthered that the commercial properties required an additional certification for the auditors.

[10:37:34 AM](#)

CHRIS ROSE, EXECUTIVE DIRECTOR, RENEWABLE ENERGY ALASKA PROJECT, SUTTON (via teleconference), spoke in support of the bill.

Co-Chair MacKinnon wondered whether they both served on the Alaska Energy Advisory. Mr. Rose replied in the affirmative.

BRITTANY SMART, FAIRBANKS NORTH STAR BOROUGH, FAIRBANKS (via teleconference), testified in support of the bill.

Co-Chair MacKinnon CLOSED public testimony.

Vice-Chair Bishop discussed the fiscal note.

Co-Chair MacKinnon announced that amendments were due by 5pm the following day. She discussed the following day's schedule.

SB 39 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:44:04 AM

The meeting was adjourned at 10:44 a.m.