

**SB**

**223**

<target><bill>SB 223</bill><subject>SB  
223</subject><comm>HENE26</comm></target>



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## **Senate Bill 223 Sponsor Statement**

Senate Bill 223 will establish an energy efficiency revolving loan fund in the Alaska Housing Finance Corporation and authorize the Corporation to sell up to \$250 million in bonds to fund the program.

The federal ARRA bill appropriated \$28.3 million to Alaska for the State Energy Program. Of that, Governor Parnell recommended spending \$18 million to make energy efficiency improvements to public buildings. Of this, \$10 million would go for energy efficient improvements to state facilities and \$8 million would go for energy efficient improvements to school and municipal facilities.

SB 223 would use this \$18 million to leverage up to \$250 million in bonds to fund the program. The bill also establishes an energy efficiency revolving loan fund in AHFC.

As an example, a municipal government or school district would have an energy audit done on their building. Let's say the building needs \$120,000 to make it more energy efficient and that those improvements would reduce their energy costs by \$20,000 a year. They would take a loan out with AHFC to do the work and then pay the loan back with the funds available due to the savings achieved through the energy efficiency improvements. After the loan is paid back those funds would be available to that government for other purposes or to reduce the size of its budget. This would result in less energy used by public buildings as well as ultimately saving public money.

This type of program has proven to be successful in other states as well as by the Alaska state Department of Transportation and Public Facilities.



**"HOUSING FOR ALASKANS"**



# FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: SB 223  
(S) Publish Date: 1/19/10

Identifier (file name): 0903-DOR-AHFC-1-6-10  
Title: AHFC Energy Efficiency Bonds/Revolving Loan  
Sponsor: Rules  
Requester: Request of Governor  
Dept. Affected: Revenue  
RDU: Alaska Housing Finance Corp.  
Component: Operations  
Component Number: 110

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>							
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>							
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<b>CHANGE IN REVENUES ( )</b>							
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
AHFC Receipts							
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2010) cost: \_\_\_\_\_

**POSITIONS**

Full-time							
Part-time							
Temporary							

**ANALYSIS:** (Attach a separate page if necessary)

This bill will set up an energy efficiency revolving loan fund and authorize AHFC to sell up to \$250 million in bonds to fund the program.

Costs associated with the issuance of these bonds are anticipated to be covered with annual operating budget authorizations. Operational costs for issuing and monitoring these bonds will be done with existing personnel and within the authorized operating budget for FY11 and beyond.

Prepared by: Bryan Butcher, Director, Gov't Relations/Public Affairs Phone 330-8445  
Division: Alaska Housing Finance Corporation Date/Time 12/30/09 12:00 AM  
Approved by: Ginger Blaisdell, Director Date 1/6/10; 11:37am  
Administrative Services Division

# FISCAL NOTE

**STATE OF ALASKA**  
**2010 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: SB 223  
 (S) Publish Date: 1/19/10

Identifier (file name): 09030-DOT-SPF-01-04-10 Dept. Affected: DOT&P  
 Title Establishing Alaska Energy Revolving Loan Fund etc RDU Design, engineering & construction  
 Component Statewide Public Facilities  
 Sponsor \_\_\_\_\_  
 Requester \_\_\_\_\_ Component Number 2882

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>								
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2010) cost: \_\_\_\_\_

**POSITIONS**

Full-time								
Part-time								
Temporary								

**ANALYSIS:** (Attach a separate page if necessary)

Since all this bill does is create the ability for DOT&PF to participate in loan a program, there is no fiscal impact.

Prepared by: Mary Siroky, Legislative Liaison Phone 465-4772  
 Division: DOT&PF, Commissioner's Office Date/Time 1/4/10 4:00 PM  
 Approved by: Frank Richards Date 1/4/2010  
Deputy Commissioner, DOT&PF



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**FROM A SUMMARY OF HOW THE FEDERAL ARRA STATE ENERGY PROGRAM FUNDS, THAT WILL BE USED TO LEVERAGE BONDS FOR THE ENERGY EFFICIENCY REVOLVING LOAN FUND IN SB 223, WILL BE ADMINISTERED:**

**State facilities energy efficiency projects -- \$10,000,000:** This program will continue and expand DOT/PF's successful energy performance contracting project to further reduce energy costs in State facilities. The list of buildings and specific projects to be included will be determined based on energy audits. High profile buildings that will be included if cost effective are: the Atwood Building, the Governor's residence, and the Fairbanks Regional Office Building.

The \$10 million in ARRA energy funds allocated for this program will be leveraged with debt financing to accomplish the maximum number of energy efficiency projects and corresponding energy cost savings to the State. This is similar to the approach the State of Arizona is using for its ARRA energy funds and State buildings. Up to \$150 million in energy efficiency projects can be funded, using a combination of the \$10 million in ARRA funds and \$140 million in debt financing. The debt service will be paid entirely through the cost savings from the energy efficiency projects, and the savings will be guaranteed by the contractor, so there is no financial risk to the State.

**Schools and municipal facilities energy efficiency projects -- \$8,000,000:** Under this program, every school district and municipality in the State will be offered the ability to use the State's energy performance master contract to reduce their energy costs. The suggested approach is that DOT/PF manage the actual contracts, and AHFC provide project management support and outreach efforts to provide a turn-key energy savings program. This approach will avoid the need for school districts and municipalities to reinvent the wheel. As with the State building program described above, the ARRA energy funds will be leveraged with borrowed funds – either private financing or AHFC bonds – to increase the number of projects that can be funded. Using the same ratio as for State buildings, the \$8 million in ARRA funds could pay for \$118 million in energy projects for schools and municipal facilities. The emphasis in expending the \$8 million will be on schools.



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## Energy Savings Performance Contracting Summary

Prepared by DOT/PF

- Under an Energy Savings Performance Contract (ESPC), an Energy Savings Contractor (ESCO) is selected through a competitive Request for Proposal process to complete an energy audit, recommend, design and implement Energy Conservation Measures (ECM's), and guarantee energy savings.
- The contractor will first complete an investment grade energy audit that identifies conservation measures, along with their payback periods, and present it to the facilities owner or manager. The manager will select a set of conservation measures that meets their desired financial goals, and will negotiate the implementation cost with the ESCO.
- When selecting the ECM's to be implemented, it is critical to avoid "cherry picking" quick payback measures, such as lighting upgrades, and ignoring longer payback items such as heating and ventilation system upgrades. Since lighting upgrades are typically the quickest payback for an ECM, they can help to offset the cost of a longer payback ECM, such as a boiler upgrade, when accomplished under an ESPC.
- Example: Lighting Upgrade will pay back in 3 years. Boiler Upgrade will pay back in 12 years. Combined the payback will be 7 years. It is also common for an owner to package several buildings together under one agreement to leverage savings in one facility towards another, providing that the buildings have the same funding source. This allows for a greater amount of work to be accomplished.
- Capital funding can be used to fund the entire contract; however, more typically, financing is obtained from either the ESCO or third party financing. The amount financed, plus the interest charges, are paid back over time from the dollar savings that are realized from the reduction in energy consumption. The financing period may range from 8 to 25 years, depending upon the ECM's chosen and the owner's financial requirements (our contract with Siemens utilized third party financing with a payback ranging from 12 to 15 years).
- A combination of capital funding – such as the ARRA energy funds – and financing may be chosen to fund the project. Arizona is leveraging \$10 million in ARRA energy funds with about \$40 million in private financing to accomplish \$50 million in energy efficiency projects in state facilities. This approach will also work for Alaska. Under any of these scenarios, a limited amount of capital or operating funding is required to pay personnel cost to implement the contract.
- The ESCO guarantees that the ECM's will reduce the energy consumption in the facility. If the energy savings are less than what the ESCO guarantees, the ESCO will monetize the difference in guaranteed versus actual savings and will reimburse the owner this amount. Example: ESCO guarantees a savings of 30,000 Btu's, but only 25,000 Btu's are saved, the ESCO will write a check for the cost of the missing

5,000 Btu's. Under some performance contracts, if the energy savings are greater than that which the ESCO guaranteed, the owner is required to share the monetized cost of the excess savings with the ESCO. Our contract with Siemens did not have this language, i.e. excess savings belong to the State.

- The U.S. Department of Energy guidance regarding the ARRA energy funds specifically encourages the use of these funds for energy performance contracting, as a method of leveraging and extending the life of the funds.