

HB

80

<TARGET><BILL>HB 80</BILL><SUBJECT>HB
80</SUBJECT><COMM>HENE30</COMM></TARGET>

Representative Adam Wool

Alaska State Legislature • District 5 Fairbanks



Chena Ridge • College • University West • Geist • UAF Campus • South Van Horn • Cripple Creek
Richardson • Parks Highway • Airport • Dale • Lakeview

HB 80 Property Assessed Clean Energy (PACE) Financing Sponsor Statement

Recent temperatures across Alaska have reinforced the need to continue to encourage energy efficiency improvements and utilization of alternative energy sources as a means of lowering annual energy costs. Passage of HB 80, An Act adopting the Municipal Property Assessed Clean Energy Act will allow local governments access to a voluntarily financing mechanism that can incentivize and assist commercial property owners to make energy improvements.

HB 80 establishes a uniform process that local governments would follow to create a Property Assessed Clean Energy (PACE) financing mechanism at their discretion. Local PACE financing would incentivize energy efficiency improvements to commercial buildings by allowing use of the existing property tax collection mechanism as a means of servicing loans for energy efficiency improvements and alternative energy installation on commercial property. Thirty-two other states have enabled PACE financing structures and use of the mechanism is growing across the nation.

Under a PACE program, local governments work with interested business owners to identify economic energy improvements, and connect with sources of low interest financing. PACE repayment using the existing tax and assessment collection mechanism:

- results in low default rates which facilitate low interest lending;
- allows for longer financing periods which reduces overall annual business expenses; and
- offers seamless transferability of the remaining obligation if the commercial property is sold.

Commercial property owners that choose to utilize PACE would first have their buildings audited to determine potential improvements to make and quantify anticipated annual energy savings. They would then work with their local PACE program to line up local lending to perform the improvements. It is up to the local PACE program to identify and facilitate access to funds for the lending itself. The PACE obligation is then repaid through a voluntary assessment added to the annual property tax assessment that may be in place for up to 20 years.

As state funds continue to tighten, it is incumbent upon the Legislature to identify other means to assist Alaskans with high energy costs. Authorizing local governments to consider offering commercial properties access to PACE financing represents a sensible step that can be taken with no obligation to the state. In addition PACE financing will stimulate local economies thru increased business for contractors.

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: January 25, 2017 FURTHER REFERRALS: Community and Regional Affairs

Date of Committee Action: 2.2.17

The HOUSE SPECIAL COMMITTEE ON ENERGY considered:

HB 80

HOUSE BILL NO. 80

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

HB 80 MUNI ENERGY IMPROVEMNT:ASSESSMNTS/BONDS

Recommends it be replaced with HCS or CS for HB 80 (ENC)
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

- List of Abbrev for Depts.:
- ADM
 - AJS
 - CED
 - COR
 - EED
 - DEC
 - DFG
 - GOV
 - DHS
 - LWF
 - LAW
 - LEG
 - MVA
 - DNR
 - DPS
 - REV
 - DOT
 - UA

NEW FISCAL NOTES				
*FN# is assigned by Chief Clerk's Office				
*FN#	List by Dept(s):	Fiscal	Indet.	Zero
	CED			X

PREVIOUS FISCAL NOTES				
FN#	List by Dept(s):	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Johnstone	/			
	Westlake	✓			
	Rauscher	/		✓	
	Spohnholz	✓			
	Delena Johnson			✓	
	Cleaver	✓			
Chair:	WOOL	✓			
Chair:					

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 80
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB080-DCCED-AEA-01-25-17
Title: MUNI ENERGY
IMPROVEMNT:ASSESSMNTS/BONDS
Sponsor: WOOL
Requester: (H) ENE

Department: Department of Commerce, Community and
Economic Development
Appropriation: Alaska Energy Authority
Allocation: Statewide Project Development, Alternative
Energy and Efficiency
OMB Component Number: 2888

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2018 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES	FY 2018	FY 2018					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? n/a

Why this fiscal note differs from previous version:

Not applicable; initial version

Prepared By: <u>Michael Lamb</u>	Phone: (907)771-3009
Division: <u>Alaska Energy Authority</u>	Date: 01/25/2017 01:00 PM
Approved By: <u>Catherine Reardon, Director</u>	Date: 01/26/17
Agency: <u>Division of Administrative Services, DCCED</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. HB 80

Analysis

The legislation would provide the opportunity for local governments to create a Property Assessed Clean Energy (PACE) financing mechanism. PACE would incentivize energy efficiency improvements to commercial buildings by allowing a local government financing option as part of property tax assessments.

Thirty-three other states have created similar financing structures. Under a PACE program, interested business owners first have their buildings audited to determine potential energy savings. Then, they can apply for financing, including from traditional lending sources (loan programs, local lenders, etc.), that is repaid through an addition to their property tax assessment that may be in place for up to 20 years.

This legislation would allow local governments and businesses to opt-in on a voluntary basis to adopt PACE financing mechanisms. Lenders are provided with additional certainty of repayment while business owners are traditionally supportive because it allows them to finance improvements over an extended period of time with low-cost capital.

There is no fiscal impact to the Alaska Energy Authority, or the State of Alaska, with the passage of this proposed legislation.



Fairbanks North Star Borough

Mayor's Office

907 Terminal Street P.O. Box 71267 Fairbanks, AK 99707-1267 T.(907)459-1300 F.(907)459-1102

January 25, 2017

House Energy Committee
Attn: Chair, Representative Adam Wool
Alaska State Capitol Building
Juneau, Alaska 99811

RE: HB 80 – Municipal Property Assessed Clean Energy Act

The Fairbanks North Star Borough offers our support to HB 80 regarding the adoption of the Municipal Property Assessed Clean Energy Act (PACE).

The FNSB faces some of the highest energy costs in the nation. Additionally, the FNSB has some of the worst air quality in the nation and faces re-designation by the EPA from “moderate” to “serious” non-attainment within the coming year. Natural gas distribution throughout our community could help alleviate challenges related to energy costs and air quality. With the recent signing of the MOU by the Interior Gas Utility (IGU) and the Alaska Industrial Development and Export Authority (AIDEA) regarding the potential purchase of Pentex, the Borough is optimistic of natural gas being more readily available in the foreseeable future. The adoption of PACE would provide the Borough the ability to offer a financing structure for the numerous commercial entities in our community to convert to natural gas.

While the current price of oil means that natural gas may not be as cost effective as it has been in the recent past, the efficiency and cleanliness of natural gas compared to oil as a fuel source will help improve our local air quality. We also acknowledge that PACE programs can fund other energy efficiency and cost saving measures or retrofits, which results in energy cost savings due to reduced energy demand.

Similar programs in other states have seen numerous benefits to PACE programs being established, including the reduction of energy costs, reduction of energy demand on local utilities, enhanced property values, and economic stimulation and development.

For these reasons, I heartily support HB 80.

Thank you,

Karl W. Kassel, Mayor

Representative Adam Wool
Alaska State Capitol
Juneau, Alaska

January 26, 2017

Dear Representative Wool:

On behalf of Renewable Energy Alaska Project (REAP), I am writing to support the PACE financing legislation contained in House Bill 80 and its companion, SB 39. As you know, REAP is a statewide non-profit coalition of over 80 electric utilities, independent power producers and developers, Alaska Native organizations, businesses and NGOs with the goal of increasing renewable energy development and promoting energy efficiency in Alaska.

REAP has been advocating for the creation of a Publicly Assessed Clean Energy (PACE) program for several years to help Alaska businesses finance retrofits on their buildings to make them more energy efficient. There are currently few state programs aimed at helping commercial buildings become more efficient and this legislation would create another tool to increase the energy efficiency of the state's building stock.

PACE would give business owners the opportunity to *voluntarily* borrow from their local tax assessment district, and then pay the loan back through an additional tax assessment on their property. The program would be revenue neutral for the municipality, and would allow the loan to be attached to the building, rather than the building owner.

PACE programs in other states are already providing important benefits including reduction of energy costs, reduction of energy demand on local utilities, enhancement of property values and economic stimulation and development.

Thank you for introducing this important legislation to help Alaskans be more efficient, and keep energy dollars circulating in the state's economy.

Sincerely,



Chris Rose
Executive Director

Representative Adam Wool

Alaska State Legislature • District 5 Fairbanks



Chena Ridge • College • University West • Geist • UAF Campus • South Van Horn • Cripple Creek
Richardson • Parks Highway • Airport • Dale • Lakeview

SECTIONAL ANALYSIS

HB 80 - Commercial Property Assessed Clean Energy Act

- 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 nonareawide 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 devises 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 a review from an independent third party of the baseline conditions, savings, and 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.

APPROVED

30-LS0337J.1
Shutts
2/1/17

AMENDMENT

OFFERED IN THE HOUSE
TO: HB 80

BY REPRESENTATIVE WOOL

1 Page 7, lines 25 - 30:

2 Delete all material and insert:

3 "Sec. 29.55.120. Review required. The record owner of eligible property shall
4 obtain from an independent third party the following:

5 (1) for each proposed qualified project,

6 (A) a review of the energy or emissions baseline conditions, as
7 appropriate; and

8 (B) the projected reduction in energy costs, energy
9 consumption or demand, or emissions affecting local air quality, as
10 appropriate; and

11 (2) for each completed qualified project, verification that the qualified
12 project was properly completed and is operating as intended."
13

14 Page 9, following line 22:

15 Insert a new paragraph to read:

16 "(4) reduction of emissions affecting local air quality;"
17

18 Renumber the following paragraphs accordingly.
19

20 Page 10, line 16:

21 Delete "decrease energy consumption or demand, including"

22 Insert "reduce energy consumption or demand, energy costs, or emissions affecting
23 local air quality, and includes"

Commercial Property Assessed Clean Energy (C-PACE)

Sean Skaling, Asst. Executive Director
& Energy Policy Director
Alaska Energy Authority

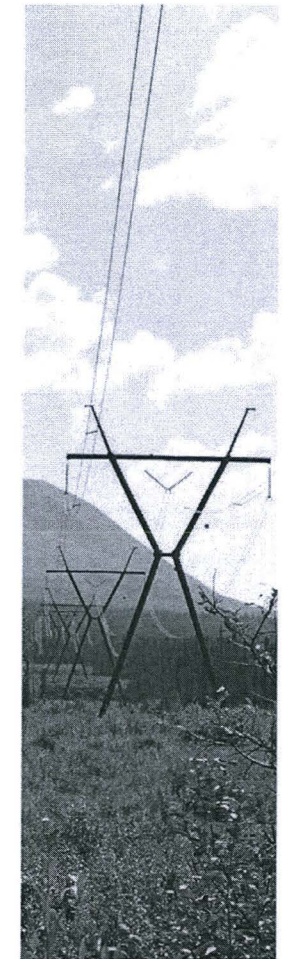
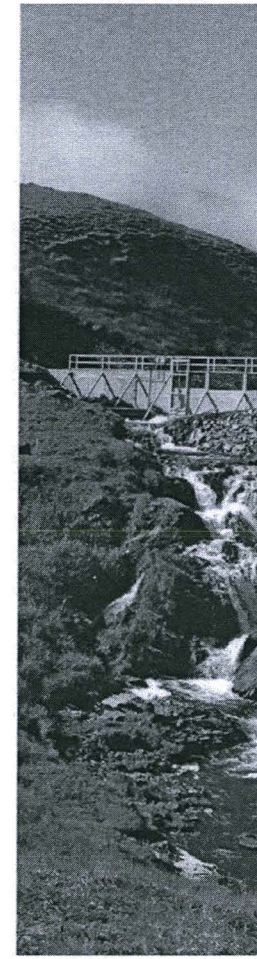
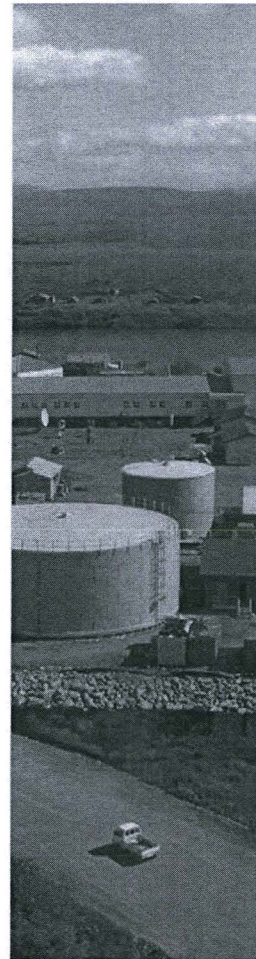
Gene Therriault, Energy Policy Assistant
AEA/AIDEA

House Energy Committee

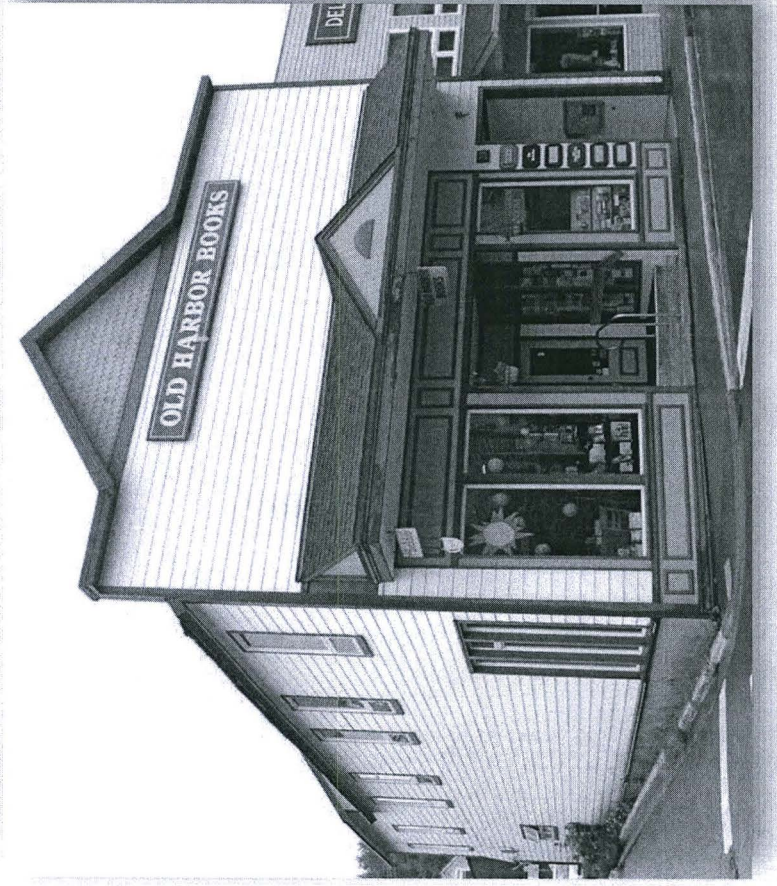
January 26, 2017



www.akenergyauthority.org

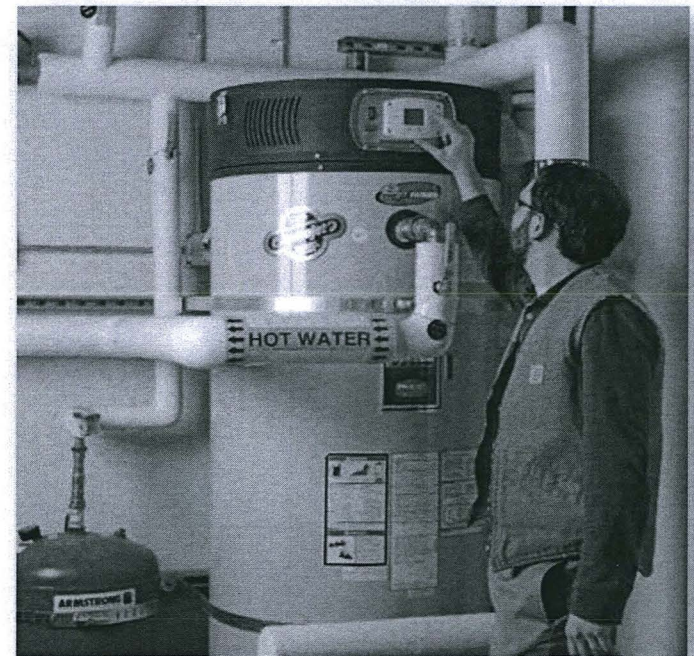


C-PACE Scenario



How C-PACE Works

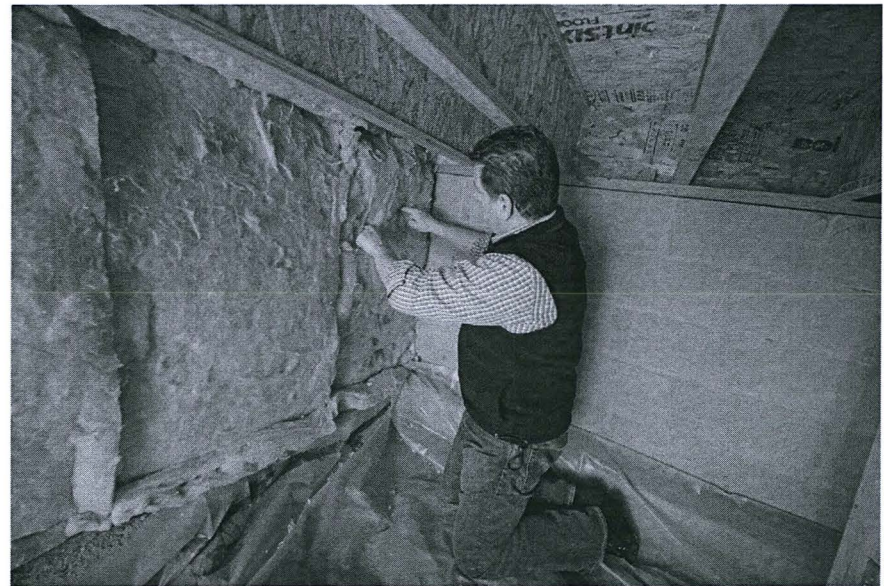
- VOLUNTARY
- Long-term financing
- Attractive loan terms
- Less risk
- Positive cash flow
- Seamless transfer if building sold
- Repayment attached to property



C-PACE Eligible Improvements

Energy efficiency

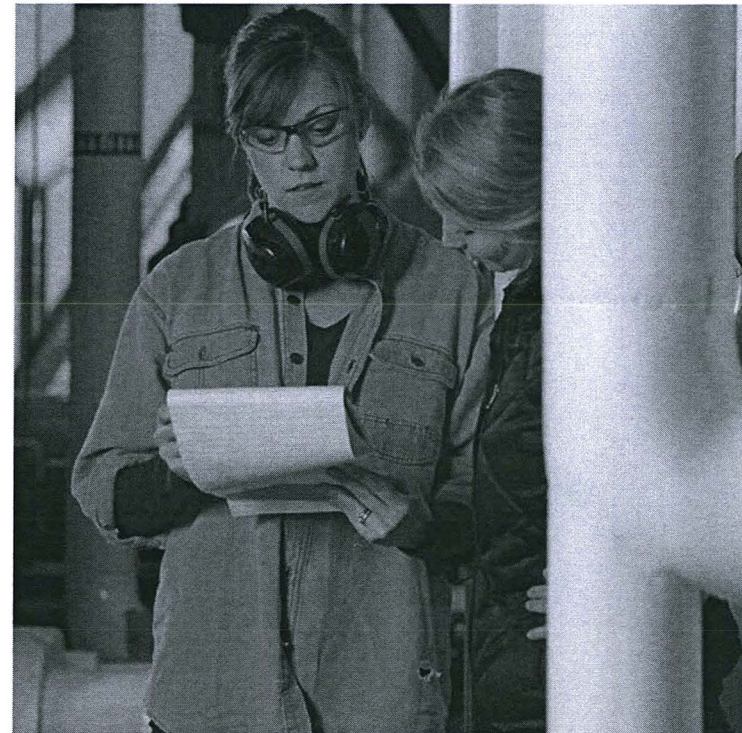
- Heating/cooling system
- Lighting
- Controls
- Building envelope/insulation
- Motors/pumps



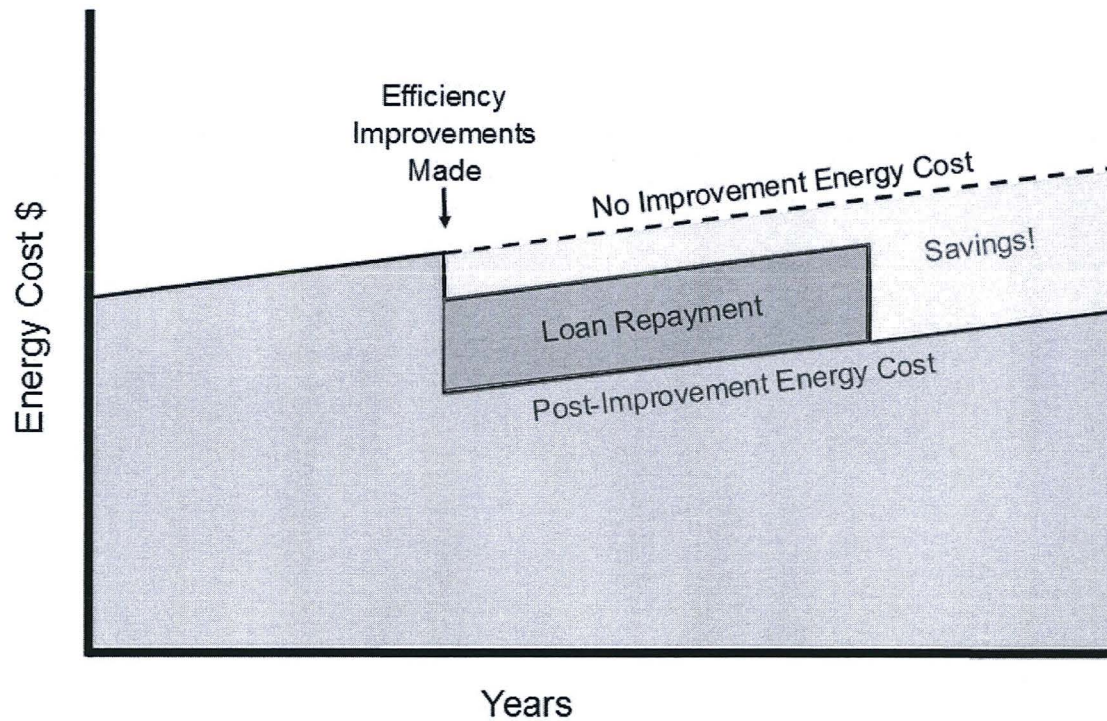
C-PACE Eligible Improvements

Alternative energy

- Heat pumps
- Solar
- Fuel switching with efficiency

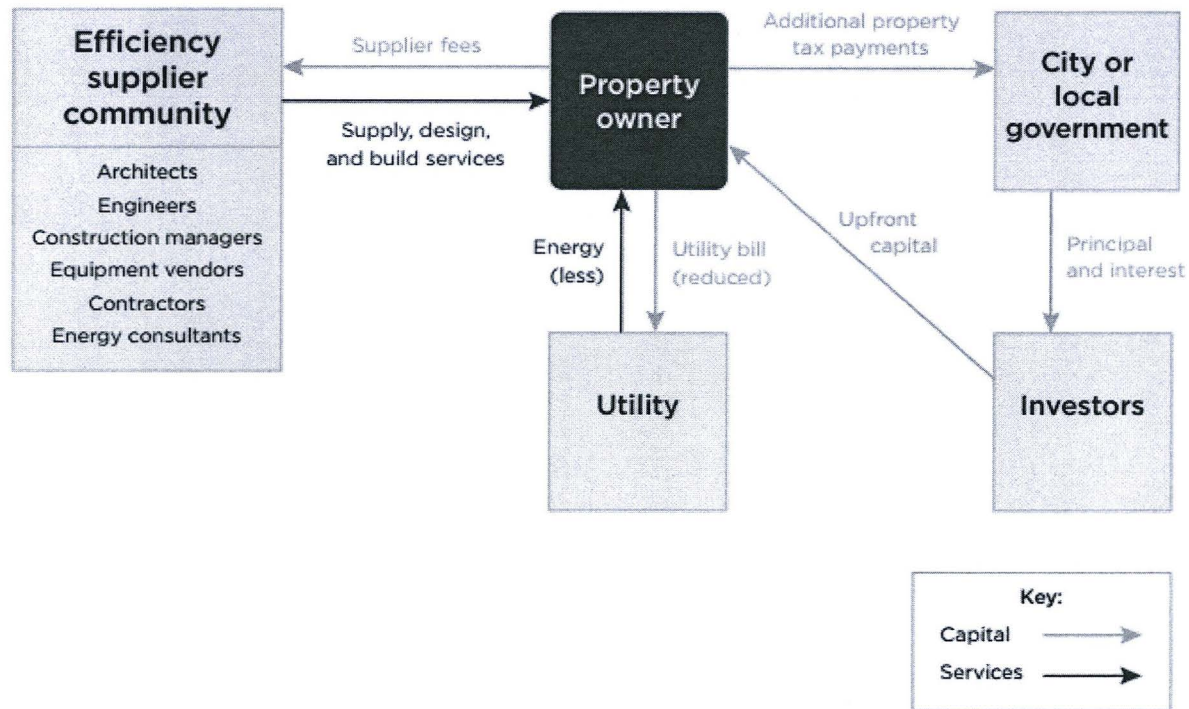


Cash Flow from Energy Efficiency



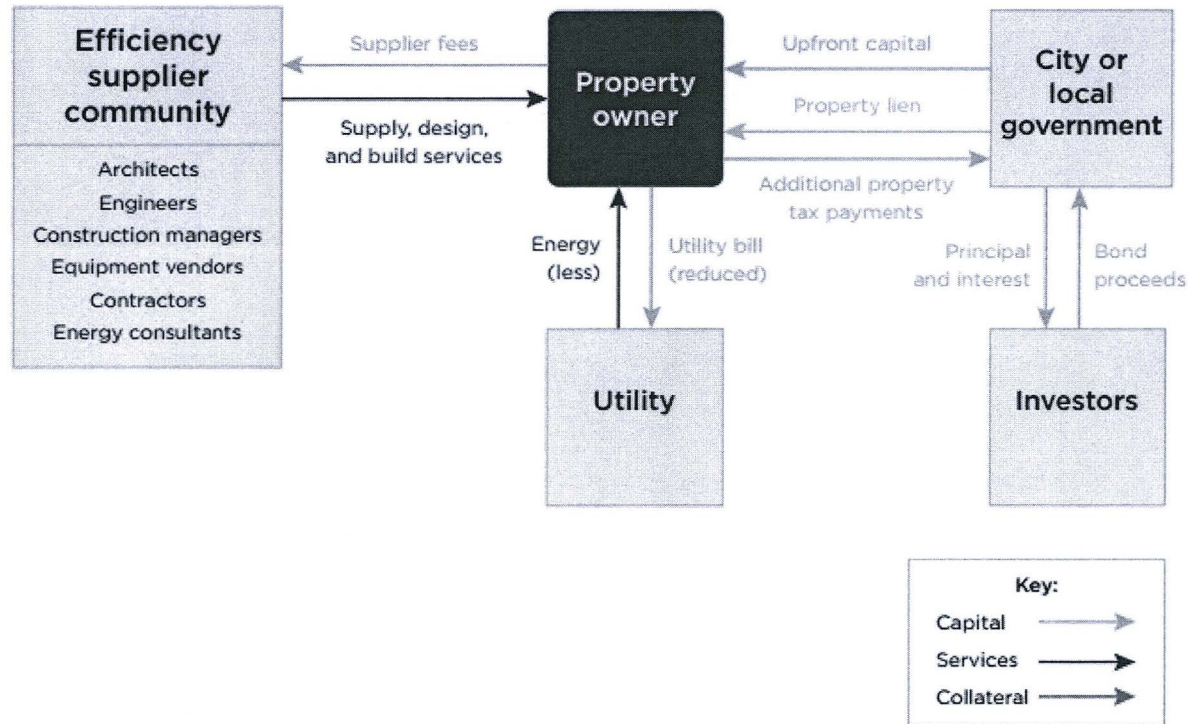
PACE: How Loan is Repaid

Property Assessed Clean Energy (PACE)—Open Market

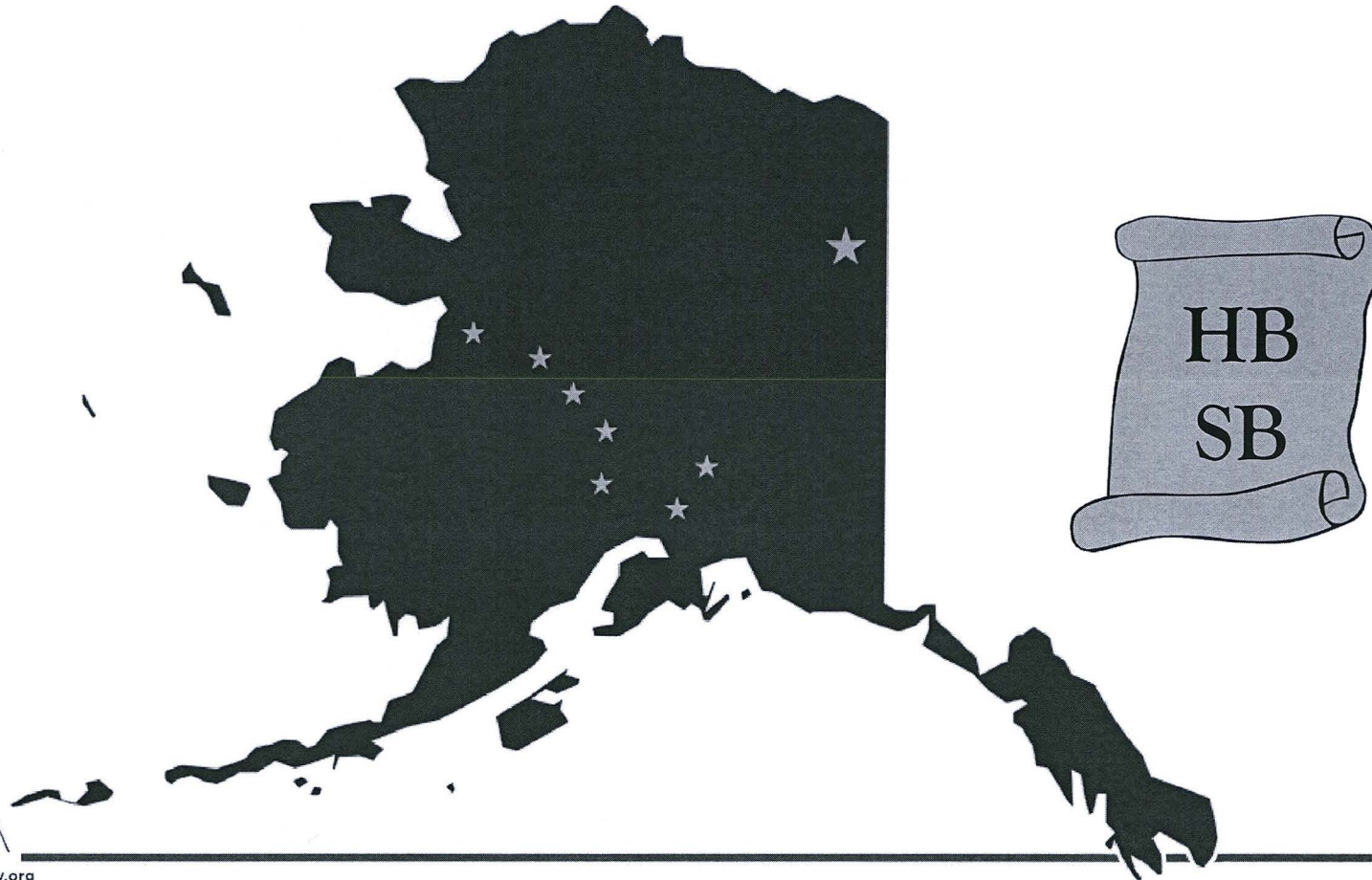


PACE: How Loan is Repaid

Property Assessed Clean Energy (PACE)—Closed Market



Time to Add Alaska to the Map



C-PACE is a Win-Win-Win...

- Property owners
- Lenders
- Contractors, vendors
- Energy auditors
- Alaska economy



Financing Options

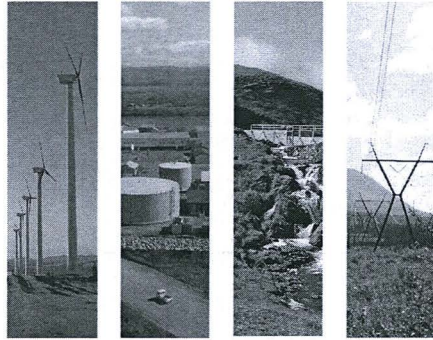
- Bank loan
- Muni revenue bond
- Energy Efficiency and Conservation Loan Program (EECLP)
- Rural Energy Savings Program (RESP)
- Other federal sources

Easy Win for Alaska

- Fully vetted last session
- Strong support
- Completely voluntary
- No cost to State
- Helps local and state economy

C-PACE New Scenario





ALASKA ENERGY AUTHORITY

813 West Northern Lights Blvd.

Anchorage, Alaska 99503

Phone: (907) 771-3000

Fax: (907) 771-3044

Toll Free (Alaska Only) 888-300-8534

AEA's mission: Reduce the cost of energy in Alaska.



www.akenergyauthority.org
