

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004

10946 HOUSE LABOR & COMMERCE

III. STATE-OWNED RAILBELT ENERGY ASSETS

Findings

→ The Task Force supports the transfer of AIDEA/AEA electrical assets in a manner that recognizes existing contracts. Current state ownership of energy assets should be transferred to a Unified System Operator to support the cooperation of the utilities in that endeavor. The Task Force recommends the state should provide financing through AIDEA/AEA to assist development of future generation and transmission. Through AIDEA/AEA, the State owns three Railbelt energy assets, as follows:

A. The Bradley Lake Project

The Bradley Lake Project is located in south central Alaska at the southern end of the Kenai Peninsula. The project includes a 610-foot long, 125-foot high concrete-faced and rock-filled gravity dam, a 3.5-mile power tunnel and steel-lined penstock. The project transmits power to the state's main power grid via two parallel 20-mile transmission lines. The project, which cost approximately \$328 million (including reserve fund balances), went into commercial operation in 1991. Homer Electric Association under contract with AEA now operates the project. Bradley Lake serves Alaska's Railbelt from Homer to Fairbanks as well as the Delta Junction area. The Bradley Lake Project Management Committee oversees operation and maintenance duties.

B. Alaska Intertie

The 170-mile transmission line that runs approximately between Willow and Healy is the state-owned portion of the 300-mile Anchorage to Fairbanks transmission system. It is rated at 345 kV and operates at 138 kV. The Intertie allows GVEA to purchase lower cost energy from Anchorage and the Kenai generated from natural gas and the Bradley Lake hydroelectric project. CEA and ML&P generate revenue from the sale of economy energy to GVEA. The Intertie Operating Committee oversees operations and maintenance duties.

C. Healy Clean Coal Project (HCCP)

The Healy Clean Coal Project grew out of a nationwide competition sponsored by the U.S. Department of Energy (DOE) to test new technologies aimed at solving the international problem of acid rain. Alaska was one of 48 applicants selected for 13 grants. The project is located adjacent to GVEA's existing Healy No. 1 power plant, which was constructed in 1967. General construction of the power plant began in May 1995 and was completed on November 21, 1997. A 90-day test of the power plant was completed in December 1999. HCCP has been idle since the completion of that test. After several engineering studies, AIDEA continues to pursue all options for getting HCCP into operation and selling power

IV. INDUSTRY AND /OR GOVERNMENT ACTIONS



Findings

To efficiently energize Alaska's economic development, the Task Force believes that the Railbelt utilities should develop a unified system operation. If there are legislative or regulatory issues, utilities should work cooperatively to determine actions needed to implement the unified system details. Different forms of unified systems operations may be used by the various utilities. The Task Force proposed the following examples.

A. Unified System Operations

Power Pooling:

Definition: "Two or more interconnected electric systems planned and operated to supply power in the most reliable and economical manner for their combined load requirements and maintenance program."

Source: *Edison Electric Institute*

Power pooling systems are usually set up in one of two ways; a member of the system takes on the role of the system operator or an independent operator is established. Power pools allow for better utilization of resources to meet the aggregated load. Better utilization of resources leads to lower production costs and more economical capital improvement plans. Power pools inherently share knowledge, which if transition to competition is imminent, will help smooth the process and automatically create a more level playing field.

Source: *R.W. Beck Railbelt RES Scope of Work*

The greatest benefit from a power pool assumes the utilities jointly meet capacity requirements and jointly dispatch as if they were one utility.



Joint Action Agency (JAA):

Defined in AS 42.45.300 as "Two or more public utilities may form a joint action agency for the purpose of participation in the design, construction, operation, and maintenance of a generating or transmission facility and to secure financing for carrying out the design, construction, operation, and maintenance of the facility. A JAA may request AIDEA to issue revenue bonds for projects of the agency. A joint action agency has the powers of a public utility under AS 42.05." The statute broadly defines "public utilities"—includes any corporation or cooperative that owns, operates, manages, or controls any plant, pipeline, or system for furnishing, by generation, transmission, or distribution, electrical service to the public.

Generation & Transmission Cooperative (G&T):

A G&T is a cooperative organization comprised of one or more utilities that plan, operate and maintain G&T facilities for the benefit of the member utility systems. The G&T governing board consists of members from each member utility. It is owned by several distribution utilities to provide for their power

supply needs, including in some cases ownership of generating plants and transmission lines. This is the method of unified operation that is most commonly employed by distribution cooperatives across the United States.

B. Other Tools

Integrated Resource Planning (IRP):

The National Energy Policy Act (NEPA - 1992) defined integrated resource planning and directed states to use that process as the starting point. "The term 'integrated resource planning' means a planning process for new energy resources that evaluates the full range of alternatives, including new generating capacity, power purchases, energy conservation and efficiency, cogeneration and district heating and cooling applications, and renewable energy resources, in order to provide adequate and reliable service to electric customers at the lowest system cost."

Title 42 of the Alaska statute authorizes the formation of a JAA (Joint Action Agency)

Joint Action Agency: Sec. 42.45.300

Two or more public utilities may form a joint action agency for the purpose of participation in the design, construction, operation, and maintenance of a generating or transmission facility and to secure financing for carrying out the design, construction, operation, and maintenance of the facility. A joint action agency may request the Alaska Industrial Development and Export Authority to issue revenue bonds for projects of the agency. A joint action agency has the powers of a public utility under AS 42.05

oice of the Times

A CONSERVATIVE VOICE FOR ALASKANS

WILLIAM J. TOBIN
Senior editor

What happens if the lights go out?

By REP. CHERYLL HEINZE

Here's a question for you: Will the dwindling natural gas supplies and an aging electrical grid result in future widespread power outages in Anchorage and elsewhere?

The subject was front and center before a legislative meeting in Juneau last week.

The House Economic Development Committee was the forum for a debate on whether Kenai Peninsula and Cook Inlet gas, on which Anchorage depends, will be depleted before the aging electrical grid could be upgraded.

The problem is real. Eric Yould, executive director of the Alaska Power Association, posed this question:

"If we spend millions in the next few years upgrading the aging transmission lines and generators and have no gas to power the generators, then what?"

And this scary forecast came in a letter to the committee from Tony Izzo, president of Enstar Natural Gas Co.:

"Preliminary results from the Department of Energy show that as early as 2013 declining reserves in the Cook Inlet may not be enough to support home heating and power generation..."

And that, he added, could be the case even if the existing liquefied natural gas and fertilizer plants on the peninsula are closed and are no longer using big natural gas supplies.

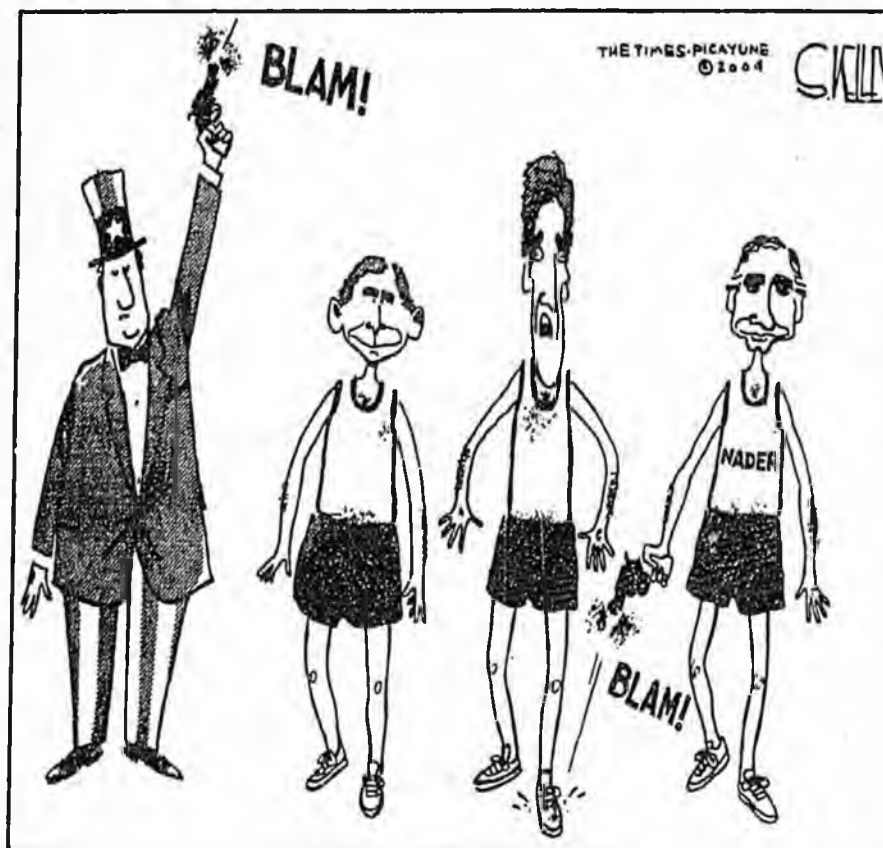
A potential shortage of natural gas is far from the only threat.

Joe Griffith, CEO of Chugach Electric, said 22 generators power the entire electric grid that serves this area.

"Twenty of these," he said, "were built in the 1960s and have upwards of 200,000 hours on them. Just to replace the rotors in one of these generators costs over \$2.5 million; to replace each generator would cost as much as \$50 million each.

"Multiply that by 20 and you see the nature of the challenge."

Not only that, he said, "some of our



transmission lines were built in 1958."

Are there alternative sources of power generation?

Not right away, in so far as committee members can determine.

Chugach Electric and Anchorage Municipal Light & Power are doing some investigative work on wind power, but the prospects are unclear.

Some suggest hydrogen power could be the salvation. The trouble is, the experts say, hydrogen power costs more to produce than it yields. Until better technology comes along, that's no lifesaver, however.

Jack Eckstrom, representing Evergreen, told the committee his company's plan to develop coal bed methane in the Matanuska Valley and other places in the state could offer an interim solution in a relatively short time.

According to Evergreen, coal bed methane reserves in Alaska might provide one-third to one-half of the 115 billion cubic feet of natural gas needed in the future.

That's the amount of natural gas that will be needed in just six to eight years, according to the experts.

The truth is that we're running out of time.

We don't have the answers we need, but we're going to keep looking.

One of the concerns is future financial stability of the various utilities.

To that end, we'll be holding additional hearings by the first part of March to examine actions by the Regulatory Commission of Alaska with respect to rates and operating margins.

Cheryll Heinze is a Republican member of the state House of Representatives from Anchorage.

The Anchorage Times

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MEMORANDUM

February 27, 2004

SUBJECT: HB 453 and Joint Action Agencies (Work Order 23-LS1601A)

TO: Representative Cheryll Heinze
Attn: Jon Bittner

FROM: Barbara R. Craver *BRC*
Legislative Counsel

You have asked for an legal opinion on two questions in regard to HB 453. The questions are:

- 1) Do the exemptions given to joint action agencies in this bill apply to the retail rates of the individual utilities and cooperatives who are members of the agency?
- 2) Will this bill affect existing contracts between individual utilities?

1. Do the exemptions given to joint action agencies in this bill apply to the retail rates of the individual utilities and cooperatives who are members of the agency?

No. Both sections of this bill apply exclusively to joint action agencies, which are separate legal entities from the members of the agency. Under AS 42.45.300, a joint action agency may only be formed "for the purpose of participation in the design, construction, operation, and maintenance of a generating or transmission facility". It is my understanding that generating and transmitting electricity does not include retail distribution, thus a joint action agency does not conduct retail sales. However, as legally separate entities, each member of the agency operating as a public utility or an electrical cooperative continues to be regulated as before in regard to its retail sales of power. This bill does not change that.

2. Will this bill affect existing contracts between individual utilities?

Generally a new law will not operate to modify existing contracts. In fact, if a law has that effect, it may be found to violate Article I, Section 15, of the Alaska Constitution which provides: ". . . no law impairing the obligation of contracts . . . shall be passed . . ." The legislature cannot retroactively change rights that are fixed under a contract.

If I may be of further assistance, please advise.

BRC:med:mdr
04-240.med

Alaska State Legislature

House Special Committee on Economic Development; International Trade & Tourism
REPRESENTATIVE CHERYLL BOREN HEINZE, CHAIR

SESSION

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Sponsor Statement HB 453

“An Act exempting from regulation under the Alaska Public Utilities Regulatory Act wholesale agreements for the sale of power by joint action agencies and contracts related to those agreements, and joint action agencies composed of public utilities of political subdivisions and utilities organized under the Electric and Telephone Cooperative Act.”

With transmission lines dating back to the 1950's and generation assets that are 20-30 years old Alaska's Energy infrastructure is in desperate need of an upgrade. According to the Railbelt Energy Study the cost of these upgrades would be at least \$5 billion. The House and Senate recognized this when they passed House Concurrent Resolution 21 establishing the Joint Energy Policy Task Force. HCR 21 mandated the review and analysis of the state's long-term energy needs, and asked the Task Force to develop a long-term energy plan to efficiently enhance Alaska's economic future.

One of the major recommendations made by the JEPTF was that the State “promote unified operation of Railbelt generation and transmission systems.” A Unified System Operator would, by coordinating the resources of the various Railbelt utilities, be in a position to undertake the enormous financial obligation of upgrading the Railbelt. The demands of these infrastructure upgrades are beyond the financial capability of any single utility. This bill is a tool that would give a Joint Action Agency the financial stability to fulfill the role of a Unified System Operator.

HB 453 makes slight changes to existing statutes that permit certain entities to create what is called a Joint Action Agency under AS 42.45.300, a business organization of similar structure to an “S” or “C” corporation, partnership, cooperative or limited liability corporation (LLC). Specifically, language is added to AS 42.05.431(c) and AS 42.05.711(o) to exempt contracts by such an agency (a JAA) from regulation. This is altogether fitting and proper in that the entity that is exempted by this change to statute (the JAA) can only be made up of cooperatives under AS 10.25 or entities owned by a political subdivision of the state, both of whose governing bodies are publicly elected.

Further, contracts consummated by a JAA with another public utility for the sale of power, wheeling, storage, regeneration, or wholesale repurchase under a wholesale agreement would be an agreement between two or more willing and capable parties. Any dispute would be handled in superior court according to contractual law. For these reasons I strongly urge you to support HB 453.



Table of Contents

Legislative Directive.....	
Findings and Recommendations - Railbelt	
I. Long-term energy plan to enhance economic future.....	
II. Current and long-term energy needs.....	
III. State-owned energy assets.....	
IV. Industry and government actions needed.....	
V. Other.....	
Acknowledgements.....	
Glossary.....	
Appendices	
APPENDIX A	
Process and Appointments of Task Force Members.....	
APPENDIX B	
Authorizing Legislation - HCR 21.....	
APPENDIX C	
Current Railbelt Projects.....	
APPENDIX D	
Long-term Railbelt Projects.....	
APPENDIX E	
Load, Generation and Transmission details (2002).....	

Legislative Directive

In the first session of the 23rd Alaska State Legislature, the Energy Policy Task Force (EPTF) was established by concurrent resolution to:

1. Develop a long-term energy plan to efficiently enhance Alaska's economic future.
2. Review and analyze the state's current and long-term energy needs.
3. Consider how best to incorporate state-owned Railbelt energy assets as part of the solution for the Railbelt's current and long-term electrical needs.
4. Address elements of Alaska's long-term energy needs that can be solved through action on the part of industry and/or government actions, such as pooling and integrated resource planning.

Final findings regarding a Railbelt energy plan were to be reported to the legislature by December 31, 2003. Reports of task force findings for non-Railbelt areas shall be submitted by March 31, 2004.



I. A LONG-TERM ENERGY PLAN TO ENHANCE ALASKA'S ECONOMIC FUTURE

A. Vision Statement

Alaska holds a worldwide leadership role in energy supply, delivery and use solutions and environmental stewardship. Alaska will have reliable, economic, sustainable and secure power supplies for its citizens.

B. Mission Statement

Electricity is essential to meeting Alaska's economic, environmental, and educational development goals. The State will conduct its activities affecting energy in such a manner as to:

- Promote reliable and secure electric power systems
- Promote the lowest cost for consumers
- Stimulate the economy
- Provide employment opportunities for Alaskans
- Improve the quality of life for all Alaskans
- Promote workforce development, including training Alaskans, for Alaska's utility sector.
- Enhance the State's social, cultural, economic and environmental assets

C. Goals (Listed in no particular order)

- Promote unified operation of Railbelt generation and transmission system.
- Develop Alaska's position as a leader in competitively priced and reliably available electricity.
- Develop Alaska's electrical infrastructure while maintaining competitively priced energy.
- Ensure security of physical and cyber energy infrastructure.
- Promote research, development and demonstration of clean and renewable energy technologies.
- Promote conservation and energy efficiency across all of Alaska.
- Develop Alaska as a world leader in using and exporting competitively priced and reliably available fossil fuels
- Ensure standardized and consistent permitting and regulatory processes.
- Establish Alaska as a national leader in developing energy projects using its natural resources, including its workforce.

D. Recommendations

1. Workforce

Provide proper and focused workforce training to meet the challenges of 21st century energy industries.

Executive:

Perform an assessment of the opportunities for Alaska workers in the resource development and energy sectors and, based upon these opportunities, examine the deployment of a portion of its resources toward training and retraining of the workforce in these sectors.

Amend Department of Labor/Workforce Development (DOLWD) regulations to facilitate the ability to develop training and internship programs with an emphasis on jobs for Alaskans.

Fund education to ensure that Alaska workers have the education and skills required to maintain energy's role in our economy.

Update certificate of fitness requirements for utility linemen to enhance workforce availability and better track the successful practices of the other 49 states.

Ensure that Alaska workforce regulatory practices conform to national practices.

Private Sector:

Work with the DOLWD in its assessment of opportunities for the Alaska workforce in the energy and utility sectors.

Maximize internship programs that will allow entry into the Alaskan workforce.

Encourage development of new energy and energy related businesses in Alaska.

2. Energy Generation

A recent draft Railbelt Energy Study (RES) indicates that electric power generation needs of the Alaska could grow by 39 percent from 2008 to 2028. During that time, reliance on fossil fuels could grow by 90 percent, while emissions per kilowatt-hour of generation are reduced. The RES shows there is a surplus of power generation capacity on the Kenai Peninsula, with deficiencies projected in other areas of the Railbelt. Alaska must be active in its pursuit of developing new generation technologies to improve the efficiencies of present and future energy generation facilities and must be self-sufficient due to the lack of any electrical interconnections outside of Alaska

Assist the private sector in its efforts to develop energy generation capacity.

Executive:

Examine the ability of public bodies, including the Alaska Energy Authority (AEA), to assist the private sector in efforts to develop adequate energy generation capacity funded through conduit bonds and grants to keep the energy costs low for all Alaskans.

Utilize Alaska's abundant renewable resources in the production of hydrogen.

Executive:

Convene a workshop to discuss the potential for Alaska's leadership in hydrogen production. Such a workshop could serve as an educational tool and a platform for discussion between public, university research and private sector individuals and organizations.

Direct the University of Alaska and executive agencies to inventory ideal locations for future renewable energy generation sites that could be used as a source of hydrogen for in-state use and export.

3. Energy Infrastructure

The Task Force's goals and strategies focused on matters including, but not limited to: (1) infrastructure; (2) transmission and distribution; and (3) economic efficiency. As the electrical system ages, increased concerns about reliability and stability and needs for technology-driven system improvements will be required. In addition, the long-range need for a hydrogen-based infrastructure to support fuel cell technologies provides yet another opportunity for expansion in energy infrastructure. There must exist within the State the capacity to deliver resources and energy to end-users, whether within or outside of the State's boundaries.

Stimulate private-sector participation in its energy infrastructure to allow greater energy export capability to meet state, regional, and national energy demands.

Executive:

Provide tax-exempt bonding to fund projects, much like the Bradley Lake Hydroelectric financing model, with the State retaining only the obligations that cannot be transferred to the participating utilities.

Through AIDEA/AEA, support and encourage the formation of a Railbelt unified operations model that would operate in a consolidated manner and allow the most Alaskans to benefit from projects funded through the use of tax exempt financing.

Work with Alaska's Congressional delegation to provide financing or economic incentives to promote energy infrastructure development.

Encourage Railbelt utilities to establish a unified system by providing incentives such as conduit financing for Railbelt infrastructure.

Encourage adequate transmission infrastructure to increase economic development activity.

Conduct an assessment to identify the State's energy infrastructure security needs.

Executive:

The RCA should include in their deliberations the issue of cyber-security.

Private Sector:

Continue in the joint planning process to identify the State's energy infrastructure needs.

Encourage adequate and secure transmission infrastructure to increase economic development activity.

Continue to promote adequate fuel delivery infrastructure.

Assess the potential for the development of a locality into a sustainable energy community that utilizes novel distributed and/or renewable energy systems for residences and commercial enterprises.

Executive:

Examine the potential for the development of an Alaska locality into a sustainable energy community.

Legislative:

Examine opportunities to provide support for the development of such a community.

Alaska regional transmission planners should work to become leaders in energy infrastructure development.

Private sector:

Establish energy infrastructure development projects that will promote the reliable transportation of electricity throughout Central and Interior Alaska, both on and off the Railbelt system, that meets the State's energy, environmental and economic needs.

Define and establish a unified system operator for the Railbelt.

4. Regulatory

Streamline all licensing, permitting, and regulatory processes of energy projects.

Executive:

Review agency practices regarding the licensing, permitting, and regulatory processes of energy projects. These agencies could also review the licensing, permitting, and regulatory processes of energy projects in other states so as to develop a study of best practices regarding these issues.

Establish and maintain regulatory processes that are consistent and have defined processing timelines and encourage utilities to maintain long-term financial health.

Legislative:

Enact appropriate legislation for the implementation of best practices regarding the licensing, permitting, and regulatory processes of energy projects.

Private sector:

Provide input to the Executive and Legislative Branches to implement best practices regarding licensing, permitting, and regulatory processes of energy projects.

II. CURRENT AND LONG-TERM ENERGY NEEDS

A. Current Energy Needs

Findings

The electrical needs of the Railbelt are currently served by six utilities, consisting of four cooperatives and two municipal utilities. These are Golden Valley Electric Association (GVEA), Chugach Electric Association (CEA), Matanuska Electric Association (MEA), Homer Electric Association (HEA), Anchorage Municipal Light & Power (ML&P) and the City of Seward Electric System (SES). These utilities, along with state-owned assets, serve roughly 75% of Alaska's population and account for over 85% of the electricity generated in the state. The Railbelt grid, spanning from Homer to Fairbanks, is not connected to other parts of Alaska, to the grid in Canada nor to the 48 contiguous states. Power can neither be imported nor exported. Because it is unacceptable to come up short in arctic conditions, reserve requirements are higher than in the rest of the country.

Railbelt Generation: In 2002, total generating capacity was about 1,374 MW. Generation is fueled by natural gas (67%), coal (5%), hydro (15%), and fuel oil (13%.) All of the electricity is produced by the six utilities or purchased from the State (Bradley Lake hydro) or Aurora Energy, which is an investor-owned coal-fired plant in Fairbanks. The oldest thermal units were installed in the early 1960s. Most of the thermal generation is considered aged and may need to be replaced within the next decade or so. See Appendix E.

Railbelt Load: In 2002, total peak load was 721 MW. See Appendix E.

Railbelt Transmission: There are two main transmission interconnections in the Railbelt. The Anchorage to Fairbanks Intertie, a 300-mile transmission system that operates at 138kV, is composed of segments owned by MEA, CEA, AEA and GVEA. The other is the Anchorage to Kenai area transmission line, owned by HEA and CEA, and operated at 115kV. Transfer capacity on both lines is limited to approximately 70 MW. See Appendix E.

B. Current Railbelt Projects

For details see Appendix C. A road/rail map showing current loads and generation capacity, with transfer limitations noted between load centers, is available in a separate attachment file for this email friendly version. Dotted lines indicate transmission that are needed, but not built.

C. Long-term Energy Needs

Findings

The Task Force adopted the definition of long-term as 20 years or more. The energy requirements of the Railbelt are expected to increase 39% over that time. Certain needs emerged from Task Force discussions and public testimony. Within the next 20 years, it was determined that Alaska needs to:

- **Create secure and reliable transmission between load centers**
- **Provide energy infrastructure for economic development**
- **Identify and evaluate long-term fuel sources**
- **Establish a unified system operation**
- **Connect new areas to the Railbelt grid**
- **Replace aging generation**
- **Replace an aging workforce**

D. Recommendations

Specific recommendations of how to fulfill future needs were as follows:

- Structure implementation of a unified Railbelt system operator.
- Support increased vocational trade schools, higher education and training of technical and professional utility career staff and management.
- State grants or financing should give priority to unified Railbelt system operation and expanding the grid along the road system, i.e., the "Roadbelt."
- Where common projects are identified as the most cost effective energy solutions, encourage financial risk sharing among utilities through a model similar to the Bradley Lake Project agreement.
- Increase the proportion of renewables in long-term fuel sources. Renewables include hydroelectric generation.
- Loop the existing Railbelt energy grid to improve system reliability and serve new markets. See map for details.
- Advance the physical and cyber security of the critical electrical infrastructure in Alaska.
- Strive to have nationally competitive electrical rates.

E. Long-term Railbelt Projects

For details see Appendix D.

III. STATE-OWNED RAILBELT ENERGY ASSETS

Findings

The Task Force supports the transfer of AIDEA/AEA electrical assets in a manner that recognizes existing contracts. Current state ownership of energy assets should be transferred to a Unified System Operator to support the cooperation of the utilities in that endeavor. The Task Force recommends the state should provide financing through AIDEA/AEA to assist development of

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D. Recommendations

- Provide Railbelt utilities the opportunity to obtain grants and tax-exempt financing for electrical infrastructure that provides the lowest cost of power to members and efficient operation.
- All other considerations being equal, projects should in general not be owned, operated or maintained by the State. The State should encourage Railbelt utilities to accept ownership of state-owned Railbelt

energy assets to reduce bureaucracy, thereby reducing state expenses and offering utilities the benefits of long-term ownership.

- Any divestiture of state-owned Railbelt energy assets should be consistent with the above.
- Future grants and financing should give priority to Railbelt projects endorsed by the Railbelt unified system operator.

IV. INDUSTRY AND /OR GOVERNMENT ACTIONS

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To efficiently energize Alaska's economic development, the Task Force believes that the Railbelt utilities should develop a unified system operation. If there are legislative or regulatory issues, utilities should work cooperatively to determine actions needed to implement the unified system details. Different forms of unified systems operations may be used by the various utilities. The Task Force proposed the following examples.

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Generation & Transmission Cooperative (G&T):

A G&T is a cooperative organization comprised of one or more utilities that plan, operate and maintain G&T facilities for the benefit of the member utility systems. The G&T governing board consists of members from each member utility. It is owned by several distribution utilities to provide for their power supply needs, including in some cases ownership of generating plants and transmission lines. This is the method of unified operation that is most commonly employed by distribution cooperatives across the United States.

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V. OTHER TOPICS FOR FUTURE CONSIDERATION

Findings

The Task Force either touched on these subjects or found it did not have sufficient time to address these and form valid recommendations for the Legislature under the deadline given.

A. Critical Infrastructure Protection (CIP)

Homeland security efforts to list priority infrastructure includes the utility assets. Utility groups and representatives from associated sectors such as telecommunications must continue to cooperate to provide reliable power with due regard for changing demands of security.

B. Energy Efficiency, Conservation and the Environment

Efforts to use energy resources more efficiently can reduce energy costs and benefit the environment. Energy efficiency is broader than simple energy conservation, or eliminating unnecessary energy use. Efficiency involves achieving necessary goals, while minimizing energy requirements. Efficiency should not compromise comfort, performance or productivity, but rather meet those requirements through more proficient means. Environmental benefits are direct; if energy use is avoided, then the environmental impacts are avoided as well.

C. Emerging Energy and Environmental Technologies

Examine the establishment of public/private partnerships that benefit Alaska research institutions and commercial enterprises that engage in the commercialization of energy and environmental technologies.

D. Renewable Energy

Renewable power can be competitive. There are a number of technologies considered renewable and these include: hydroelectric, solar, biomass, geothermal, tidal and wind.

Solar, biomass, geothermal and tidal are in various stages of technological development and do not currently contribute, to a great extent, to the national energy supply. Solar at this time is expensive and because of Alaska's latitude isn't considered a likely candidate for large-scale energy production. There are some geothermal resources in the state. The closest geothermal site to the Railbelt is approximately 10 miles west of Chugach Electric's Beluga Power Plant. Tidal power is still early in its development and being studied as a potential resource in conjunction with a Knik Arm crossing. As with other technologies, tidal power is developing and it will be some time before it becomes a significant and competitive generation resource. However it is prudent for energy planners to continue to monitor the development of this technology.

Wind power is being studied as a potential renewable generation resource for the Railbelt. The technology is the beneficiary of more than 20 years of intense research and development. Large-scale wind projects are being installed across the country and around the world. These projects use large turbines and are installed on a scale that allows for the power to be priced competitively. Smaller turbines have been used for rural generation applications in the state and have been shown to be rugged and reliable. For Railbelt applications, larger turbines and projects would be required to achieve economies of scale and subsequently competitive pricing. CEA and ML&P is studying a large wind project on Fire Island.

Acknowledgements

Alaskan Command, Elmendorf AFB, Critical Infrastructure Protection (CIP)
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Chugach Electric Association (CEA)

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Phil Steyer
Lee Thibert
Jeff Lipscomb

Denali Commission

Al Ewing

Homer Electric Association (HEA)

Myles Yerkes
Jim Cross

Matanuska Electric Association (MEA)

Tuckerman Babcock
Mike Pauley
Don Zoerb

Municipal Light & Power (Anchorage) (ML&P)

Jim Posey

Railbelt Energy Study (RES), Technical Working Group

Mark Fouts, Chair
Ron Moe, R.W. Beck

Representative Pete Kott, Speaker of the House

Representative John Harris

Senator Gene Therriault, Senate President

Senator Fred Dyson

Seward Electric

Dave Calvert

Glossary

Alaska Energy Authority (AEA) <http://www.aidea.org/aea.htm>

The Alaska Energy Authority was a state agency responsible for the administration of various state power projects and programs. The AEA was dissolved by State statute in 1993. Most of its rural programs moved to the Department of Community & Regional Affairs, Division of Energy. All existing projects, contracts, etc., remain with AEA under the guidance of the Alaska Industrial Development and Export Authority (AIDEA). Authority to construct or acquire new projects was repealed.

Alaska Industrial Development and Export Authority (AIDEA) <http://www.aidea.org>

The Alaska Industrial Development and Export Authority (AIDEA) is a State agency that assumed the functions of the dissolved AEA, with AIDEA's Board of Directors replacing the AEA Board.

Alaska Power Association (APA) <http://www.areca.org>

Statewide trade association for electric cooperatives. Formerly known as the Alaska Rural Electric Cooperative Association (ARECA).

Capacity

The maximum amount of power, normally expressed in megawatts, that a given system or subsystem can carry or produce at a particular moment, and is typically used to represent the real production capability rating of a generation or transmission system.

Cogeneration

The simultaneous production of power and thermal energy, such as burning natural gas to produce electricity and using the heat produced to create steam for industrial use.

Coincident Peak

When two or more systems or subsystems place demand on another system at the same time, it is referred to as a coincident peak. The term is used to describe energy demand at any time when these parties' needs coincide with each other. It does not refer to a specific peak occurring during the time when both parties use the same energy source.

Combined Cycle (CC)

An electric generating technology in which additional electricity is produced from otherwise lost waste heat exiting from the gas turbines.

Combustion Turbine (CT)

A machine that generates rotary mechanical power from the energy of a stream of fluid.

Cooperative

A group organized to supply electricity to a specific area; a cooperatively owned electric utility. A non-profit utility owned by its members.

Demand

The rate, expressed in megawatts (MW), at which electric energy is delivered to or by a system, part of a system, or piece of equipment at a given instant, or averaged over a designated period of time.

Distributed Generation

This term generally refers to small-scale energy generation spread among several producers, but it can also refer broadly to any type of energy generation that is spread among multiple

producers. Distributed generation is most commonly used to insure that sufficient energy is available to meet peak demand. It may also be used as part of a fuels diversity program.

Distribution Line

A power line which delivers electricity throughout urban and rural areas. Typically between 2,300 and 25,000 volts.

Generation

The process of producing electric energy by transforming other forms of energy. It also refers to the amount of electric energy produced, expressed in megawatt-hours (MWh).

Generation and Transmission Company (G&T)

Term for a company that provides both energy production and facilities for transmitting energy to wholesale customers.

Gigawatt (GW)

A unit of measure equal to one billion watts or one thousand megawatts.

Integrated Resource Planning (IRP)

This term refers to a planning method that takes into account all resources available to or required to meet supply needs within an area or region that produce to the lowest possible cost.

Intertie

A tie permitting a flow of energy between the facilities of two electric systems.

Investor-Owned Utility

A utility owned privately (or by stockholders) and operated as a for-profit company.

Kilovolt (kV)

A unit of measurement of electrical force of pressure equal to 1,000 volts.

Kilowatt (kW)

A unit of power equal to 1,000 watts.

Kilowatt-Hour (kWh)

The most commonly used electrical measurement equal to 1,000 watts for one hour.

Load

The moment-to-moment measurement of power requirement in the entire system.

Megawatt (MW)

One thousand kilowatts or one million watts.

Peak Load, Peak Demand

These two terms are used interchangeably to denote the maximum power requirement of a system at a given time, or the amount of power required to supply customers at times when need is greatest. They can refer either to the load at a given moment (e.g. a specific time of day) or to averaged load over a given period of time (e.g. a specific day or hour of the day).

Railbelt Energy Study (RES)

Five utilities commissioned a study on the Railbelt. The purpose of the study is to identify the location and type of generation asset that satisfies future growth within the Railbelt.

Regulatory Commission of Alaska (RCA) <http://www.state.ak.us/rca/>

Formerly known as the Alaska Public Utility Commission. The RCA is the State's regulatory body overseeing utilities.

Roadbelt

That part of Alaska that is road-accessible, but not connected to the Railbelt grid, like Glennallen.

Transmission Line

A set of conductors, insulators, supporting structures, and associated equipment used to move large quantities of power at high voltage.

Volt

The unit of electrical measurement, which is similar to "pressure", that pushes current through a conductor.

Watt

A unit of electrical measurement used to determine the rate of energy delivered at some point.
Watts = Voltage x Amperes

APPENDIX A

Process and Appointments

The Energy Policy Task Force (EPTF) convened its first meeting on Tuesday, September 23, at the AIDEA/AEA boardroom in Anchorage.

The Task Force consists of nine members. Chosen as proscribed in HCR 21, no legislators could serve, no utility could have more than one representative and at least one member on the EPTF was to be from a non-Railbelt electrical utility.

Governor Frank Murkowski appointed **Rick Eckert of Homer**, Interim General Manager of Homer Electric Association and **Wayne Carmony of Wasilla**, General Manager of Matanuska Electric Association.

Speaker of the House Pete Kott appointed former Lt. Governor H.A. "Red" **Boucher of Anchorage**, a board member of Chugach Electric Association and **Dave Carlson of Petersburg**, Intertie Coordinator of the Southeast Conference.

Senate President Gene Therriault appointed **Steve Haagenon of Fairbanks**, President and CEO of Golden Valley Electric Association and **Robert Wilkinson of Glennallen**, Chief Executive Officer of Copper Valley Electric Association. In accordance with the language of HCR21, **Meera Kohler of Anchorage**, President and CEO of Alaska Village Electric Cooperative, was also selected by the Senate President from a list of three names submitted by the minority leaders.

The Alaska Energy Authority (AEA) member is **Mike Barry of Anchorage**, Chairman of the AIDEA/AEA Board, who was also elected Chair of the EPTF. The Department of Revenue member is **Tom Boutin of Juneau**, Deputy Commissioner of Revenue.

Becky Gay, staff to **Representative John Harris**, provided coordination and legislative staff support through the Joint Leadership Offices of **Speaker of the House Pete Kott** and **Senate President Gene Therriault**. **Bernie Smith**, Project Manager at AIDEA/AEA and a former Regulatory Commissioner, provided research and regulatory guidance.

The Task Force was headquartered at AIDEA/AEA and held most of its meetings in Anchorage. The Task Force met every two weeks, with presentations by the all of the Railbelt utilities and others setting the stage for discussion. Interested public was encouraged to make both written and public comments. Presentations by federal and state agencies were incorporated. Long term was defined to be 20 years or more for purposes of this report. The Railbelt Energy Study (RES) currently being undertaken by five utilities has basic information that was received by the Task Force and will be completed early in 2004. A website was provided and kept current by AIDEA/AEA at www.aidea.org/EnergyTaskForce.htm.

Alaska Energy Policy Task Force Members

Chair: Mike Barry, Chairman of the Board
AIDEA/Alaska Energy Authority (AEA)
www.aidea.org

Vice Chair: H.A. Red Boucher, Alaska Wireless Technology
Board Member, Chugach Electric Association (CEA)
www.chugachelectric.com

Tom Boutin, Deputy Commissioner
State of Alaska-Department of Revenue
www.state.ak.us

Dave Carlson, Intertie Coordinator
Southeast Conference
www.seconference.org

Wayne Carmony, General Manager
Matanuska Electric Association (MEA)
www.matanuska.com

Rick Eckert, General Manager
Homer Electric Association (HEA)
www.homerelectric.com

Steve Haagenson, President/CEO
Golden Valley Electric Association (GVEA)
www.gvea.com

Meera Kohler, President/CEO
Alaska Village Electric Cooperative (AVEC)
www.avec.org

Robert Wilkinson, CEO
Copper Valley Electric Association (CVEA)
www.cvea.org

APPENDIX B HCR 21 (Resolve 24)

BILL ID: HCR 21

00 SENATE CS FOR CS FOR HOUSE CONCURRENT RESOLUTION NO. 21(FIN)

01 Relating to establishing the Alaska Energy Policy Task Force.

02 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

03 WHEREAS an adequate, reliable, reasonably priced, and safe supply of electric
04 energy is a basic necessity; and

05 WHEREAS other infrastructure elements such as water, wastewater, transportation,
06 and telecommunications systems are dependent on an adequate, reliable, reasonably
07 priced,

07 and safe supply of energy; and

08 WHEREAS meaningful economic development and technological advancement
09 cannot occur in Alaska without an adequate, reliable, safe, and reasonably priced energy
10 supply; and

11 WHEREAS over 85 percent of the state's electrical consumption occurs in the
12 Railbelt; and

13 WHEREAS the needs of the non-Railbelt areas of the state include more electrical
14 infrastructure and less expensive power; and

15 WHEREAS it would be beneficial to examine how electricity is generated,
16 transmitted, and distributed in Alaska in order to meet the state's existing and future
electrical

01 needs in the safest and most efficient manner; and

02 WHEREAS the financial resources of the state are limited;

03 BE IT RESOLVED that the Alaska State Legislature establishes the Alaska Energy
04 Policy Task Force to review and analyze the state's current and long-term energy needs;
and

05 be it

06 FURTHER RESOLVED that the task force shall consider how best to incorporate
07 state-owned Railbelt energy assets as part of the solution for the Railbelt's current and
long-

08 term electrical needs; and be it

09 FURTHER RESOLVED that the task force shall also address those elements of the
10 state's long-term energy needs that can be solved through action on the part of industry,
11 government, or both industry and government working together, such as through pooling
and

12 integrated resource planning; and be it

13 FURTHER RESOLVED that the task force shall develop a long-term energy plan
14 for Alaska that will efficiently enhance the state's economic future; and be it

15 FURTHER RESOLVED that the task force shall be composed of nine members as
16 follows:

17 (1) one member from the directors of the Alaska Energy Authority, selected
18 by the directors;

19 (2) the commissioner of revenue or the commissioner's designee;

20 (3) two members chosen by the governor who are not members of the
21 legislature;

22 (4) three members chosen by the president of the senate who are not members
23 of the legislature, one of whom must be from a list of three names proposed jointly by the
24 minority leaders of the house of representatives and the senate, and the appointment from
25 the list shall be made after consultation with the speaker of the house of representatives;

26 (5) two members chosen by the speaker of the house of representatives who
27 are not members of the legislature; and be it

28 FURTHER RESOLVED that members shall be chosen in such a manner that a
29 utility will not have more than one representative on the task force, but at least one member
30 will be from a Railbelt electrical utility, and at least one member will be from a non-Railbelt
31 electrical utility; and be it

01 FURTHER RESOLVED that the members of the task force shall select a chair from
02 among themselves; and be it

03 FURTHER RESOLVED that task force members who are not state employees are
04 entitled to per diem and travel expenses as for members of boards and commissions under
05 AS 39.20.180; and be it

06 FURTHER RESOLVED that a staff member and other resources shall be provided
07 to the task force, as necessary, by the legislature; and be it

08 FURTHER RESOLVED that the task force shall submit a report of its findings
09 regarding a Railbelt energy plan to the legislature by December 31, 2003, and may make
10 any interim reports on Railbelt energy issues it considers advisable; and be it

11 FURTHER RESOLVED that the task force shall submit reports of its finding
12 regarding energy plans for areas of the state other than the Railbelt to the legislature by
13 March 31, 2004, and may make any interim reports it considers advisable; and be it

14 FURTHER RESOLVED that the task force is terminated at 11:59 p.m. on April 15,
15 2004.

APPENDIX C

Current Railbelt Projects

- **Eklutna transmission line replacement project:** This \$19,300,000 project is in the design phase.
- **Alaska Intertie Extension:** This project will upgrade and extend the Anchorage to Fairbanks power transmission Intertie to the Teeland substation.
- **Alaska Intertie:** Maintenance repair/replacements are required to address foundations problems and replace Static VAR Compensation (SVC) equipment. In addition, a long-term fix to the uneven snow-loading events should be evaluated.
- **Cooper Lake Hydro re-licensing:** Chugach's Cooper Lake Hydro, commissioned in the 1950's, was recently overhauled and upgraded and is currently in the process of a FERC license renewal application.
- **ML&P** is acquiring property for Plant III.
- **MEA** is preparing thermal generation plant site at Hollywood Road.

APPENDIX D

Long-term Railbelt Projects

- **Emma Creek Energy Project:** Usibelli Coal Mine Inc. has proposed a \$421 million, 200MW power plant at its mine near Healy #2.
- **GVEA's North Pole Expansion (NPE) project:** Using combined-cycle technology to add a 57MW highly efficient gas combustion turbine at the existing 120MW North Pole power plant site (built in 1975), which is GVEA's largest generating facility. The new NPE project would entail installing a 43MW gas turbine equipped with a waste heat boiler on its exhaust stack. The boiler would produce steam to power a 14MW steam turbine.
- **Southern Intertie:** Proposed new construction of a 62-mile segment to increase reliability and to provide redundancy to the Quartz Creek transmission line.
- **Chugach:** Chugach's five year construction improvement plan includes a new South Anchorage bulk transmission station, and a 138kV transmission loop that ties the new Bulk station with International and University substations. In addition, load growth in the Airport and South-East Anchorage necessitate the addition of two new distribution substations. Chugach is currently performing an Integrated Resource Plan (IRP) to identify generation and transmission requirements over the next 25 years. Chugach is also looking at development of a wind-farm on Fire Island.
- **ML&P:** Plans for the long term future include developing a robust grid, integrated resource planning, reliable sources of natural gas, developing wind power and green pricing.
- **Bradley Lake Repairs:** Repair and upgrade of the Bradley Lake Hydroelectric Project's governor.
- **HCCP:** Healy Clean Coal Project (HCCP) retrofit.
- **Donlin Creek Exploration:** Construction of power supply for the potential Donlin Creek Mine in Western Alaska, Calista region and/or Bethel area.
- **Military Power Upgrades:** Retrofit of the military's various coal generation plants, in the Fairbanks area. A Greater Fairbanks Regional Energy Study of Military Installations for long-term heat and power at Ft. Wainwright, Clear, Eielson AFB, and Ft. Greeley. Missile defense system offers opportunities and requirements. Ft. Richardson and Elmendorf AFB are undertaking privatization efforts.
- **Copper Valley Intertie:** This Intertie has been proposed to link the Copper Valley area to the Railbelt Intertie system.

APPENDIX E

Current Energy Resources

Source: Railbelt Energy Study (RES) 2003 draft

2002 GENERATION

Thermal Resources

Owner	Name	Technology Category	Maximum Capacity (MW)
CEA	Beluga Unit 1	CT	19.6
CEA	Beluga Unit 2	CT	19.6
CEA	Beluga Unit 3	CT	64.8
CEA	Beluga Unit 5	CT	68.7
CEA	Beluga Unit 6/8	CC	109.0
CEA	Beluga Unit 7/8	CC	106.6
CEA	Bernice Lake 2	CT	19.0
CEA	Bernice Lake 3	CT	26.0
CEA	Bernice Lake 4	CT	22.5
CEA	International 1	CT	14.1
CEA	International 2	CT	14.1
CEA	International 3	CT	18.5
GVEA (Contract)	Aurora Chena	Steam	23.5
GVEA	Healy 1	Steam	25.0
GVEA	North Pole 1	CT	60.5
GVEA	North Pole 2	CT	60.5
HEA	Nikiski	CT	46.5
ML&P	ML&P Plant1 Unit 1	CT	16.2
ML&P	ML&P Plant1 Unit 2	CT	16.2
ML&P	ML&P Plant1 Unit 3	CT	19.5
ML&P	ML&P Plant1 Unit 4	CT	33.6
ML&P	ML&P Plant2 Unit 5&6 CC	CC	49.6
ML&P	ML&P Plant2 Unit 7&6 CC	CC	107.8
ML&P	ML&P Plant2 Unit 8	CT	85.0

Hydro Resources

Name	Maximum Capacity (MW)
Bradley Lake	120
Cooper Lake	20
Eklutna	40

CT = Combustion Turbine
 CC= Combined Cycle

APPENDIX E, cont.

Current Energy Resources

Source: Railbelt Energy Study (RES) 11/2003 draft

2002 LOAD

	2002 Peak Load (MW)				
GVEA	CEA	ML&P	MEA	HEA	SES
179	227	145	114	95	10

The electrical needs of the Railbelt are served by six utilities; four cooperatives and two municipal utilities. Golden Valley Electric Association (GVEA), Chugach Electric Association (CEA), Matanuska Electric Association (MEA), Homer Electric Association (HEA), Anchorage Municipal Light & Power (ML&P) and City of Seward Electric System (SES).

2002 Transmission

Major Railbelt Transmission Lines

Name	From	To	Pole Miles	Capacity (kV)	Limit (MW)	Owned by	Operated by
Fairbanks	Fairbanks	Healy	103.2	138		GVEA	GVEA
Northern Intertie	Fairbanks	Healy	97	230		GVEA	GVEA
Alaska Intertie	Healy	Willow	170	345	75	AEA	IOC
Southern Intertie	Anchorage	Quartz Creek	90.4	115	75	CEA	CEA
Kenai Peninsula	Quartz Creek	Soldotna	~ 300	115		HEA	CEA
	Soldotna	Bradley Junction		115		HEA	CEA
	Bradley Junction	Homer		115		HEA	CEA
	Soldotna	Homer		115		HEA	CEA

The Alaska Intertie includes a 170-mile, 345 kV transmission line between Willow and Healy and voltage control devices at Teeland, Healy and Fairbanks. The line was built with State grant funds, went into operation in 1985 and is operated at 138 kV. All of the operating and maintenance costs of the Intertie are paid for by the utilities (83.5% from energy transfers and 16.5% from reserve sharing). The Intertie Operating Committee, set up by the Intertie Agreement among AEA, GVEA, CEA, ML&P and AEG&T (MEA & HEA), oversees the operation and maintenance of the line. The current agreement does not

provide a mechanism for financing capital repairs or improvements to the line. Certain repairs have been postponed for a lack of financing mechanism.

Chugach's single 115 kV transmission line, which has a stability-limited capacity of 75 MW, connects the Anchorage and Kenai areas. This line is over 50 years old and will require significant rebuilding to keep it in service. The limited capacity of these single lines limits the amount of generating reserves that may be shared between areas of the Railbelt.

GVEA recently completed construction of and energized the Battery Energy Storage System (BESS) and the Northern Intertie (a second line between Healy and Fairbanks) which reduced line losses, increased the transfer capacity and improved reliability. The line is rated at 230 kV and operates at 138 kV. This would allow energy from HCCP and GVEA's Unit 1, as well as energy transfers from Anchorage, to be simultaneously transferred to Fairbanks.

end

HB

464

COMMITTEE: House Labor & Commerce Standing Committee

SUBJECT: HB 464-EXTEND BOARD OF REAL ESTATE APPRAISERS



DATE: March 3, 2004

PLEASE SIGN IN

PLEASE PRINT: NAME & TITLE	ADDRESS	PHONE	REPRESENTING (No acronyms unless for a state agency, please)	DO YOU WANT TO TESTIFY ?
✓ Rick Union			Occupational Licensing	Y
E-mail address:				
✓ Pat Davidson			Leg Assist	for questions
E-mail address:				
E-mail address:				
E-mail address:				
E-mail address:				

COMMITTEE: House Labor & Commerce Standing Committee

SUBJECT: HB 464-EXTEND BOARD OF REAL ESTATE APPRAISERS



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NAME & TITLE

ADDRESS

PHONE

REPRESENTING
(No acronyms unless for a state agency,
please)

DO YOU
WANT TO
TESTIFY ?

✓ Rick Union			Occupational Licensing	Y
E-mail address:				
✓ Pat Davidson			Leg Audit	for questions
E-mail address:				
E-mail address:				
E-mail address:				
E-mail address:				
E-mail address:				

HOUSE BILL NO. 464

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE LEGISLATIVE BUDGET AND AUDIT
COMMITTEE

Introduced: 2/16/04
Referred: Labor and Commerce

A BILL

FOR AN ACT ENTITLED

1 "An Act extending the termination date of the Board of Certified Real Estate
2 Appraisers."

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 * Section 1. AS 08.03.010(c)(20) is amended to read:

5 (20) Board of Certified Real Estate Appraisers (AS 08.87.010) -
6 June 30, 2008 [2004];



Legislative Budget & Audit Committee

Representative Ralph Samuels, Chair

Sponsor Statement for House Bill 464

TITLE: An Act extending the termination date of the Board of Certified Real Estate Appraisers.

Sec. 08.87.010 Established the Board of Certified Real Estate Appraisers and provided for the appointment of members by the governor. The board consists of one licensed general real estate appraiser, one licensed residential real estate appraiser, one mortgage banking executive, and one member who represents the public at large. If enacted, HB 464 would extend the board's operation for another 4 years to June 30, 2008.

The board is charged with establishing exam standards for the certification of real estate appraisers, adopting rules of professional conduct that establish standards and integrity in the real estate appraisal profession, and the adoption of regulations to satisfy state and federal regulations.

In the opinion of Legislative Audit, the Board of Certified Real Estate Appraisers should be extended. The regulation and certification of real estate appraisal professionals provides necessary public protection in the buying and selling of residential and commercial properties. I recommend that the board be extended to June 30, 2008, and urge you to vote for its passage.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 464
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
Title Extend Board of Real Estate Appraisers RDU Occupational Licensing (117)
Component Occupational Licensing
Sponsor House Rules by Request of LBA
Requester House Labor and Commerce Component No. 2360

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	20.0	20.0	20.0	20.0	20.0	
Travel	1.0	1.0	1.0	1.0	1.0	
Contractual	7.1	7.1	7.1	7.1	7.1	
Supplies	0.2	0.2	0.2	0.2	0.2	
Equipment	0.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	28.3	28.3	28.3	28.3	28.3	

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES (1156)	28.3	28.3	28.3	28.3	28.3	
------------------------------------	-------------	-------------	-------------	-------------	-------------	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1156-Receipt Supported Services	28.3	28.3	28.3	28.3	28.3	
TOTAL	28.3	28.3	28.3	28.3	28.3	

Estimate of any current year (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	2	2	2	2	2
Part-time					
Temporary					

ANALYSIS: (Attach a separate page if necessary)

The bill extends the Board of Certified Real Estate Appraisers to June 30, 2008. In accordance with AS 08.03.020, funding is extended one year following the termination date allowing the Board to conclude its affairs. The information above identifies direct expenditure and revenue information included in the FY 2005 Operating Budget request. New funds are not required to implement this bill.

Prepared by: Jennifer Strickler, Administrative Manager Phone (907) 465-2144
Division: Occupational Licensing Date/Time 3/2/04 8:36 AM
Approved by: Edgar Blatchford, Commissioner Date 3/2/2004
Agency: Department of Community and Economic Development

August 18, 2003

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

DEPARTMENT OF COMMUNITY AND
ECONOMIC DEVELOPMENT
BOARD OF CERTIFIED REAL ESTATE APPRAISERS
SUNSET REVIEW

July 17, 2003

Audit Control Number

08-20024-03

This audit was conducted as required by AS 44.66.050 and under the authority of AS 24.20.271(1). Alaska Statute 44.66.050(c) lists criteria to be used to assess the demonstrated public need for a given board, commission, agency, or program subject to the sunset review process. Currently under AS 08.03.010(c)(20), the Board of Certified Real Estate Appraisers is scheduled to terminate on June 30, 2004. If the legislature takes no action to extend the termination date, the board would be allowed one year in which to conclude its administrative operations.

In our opinion, the termination date for the Board of Certified Real Estate Appraisers should be extended. The certification of appraisers remains a central requirement attached to various types of real estate loans made by federally insured financial institutions. We recommend the legislature extend the termination date of the Board of Certified Real Estate Appraisers to June 30, 2008.

This sunset review was conducted in accordance with generally accepted government auditing standards. Fieldwork procedures utilized in the course of developing this report are set out in the Objectives, Scope, and Methodology section.

Pat Davidson, CPA
Legislative Auditor

TABLE OF CONTENTS

	<u>Page</u>
Objectives, Scope, and Methodology	1
Organization and Function	3
Background Information.....	5
Report Conclusions.....	9
Analysis of Public Need.....	11
Appendix A —Abridged report of the General Accounting Office, May 2003.....	19
Agency Responses	
Department of Community and Economic Development	33
Board of Certified Real Estate Appraisers.....	35

OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with the intent of Titles 24 and 44 of the Alaska Statutes, we have reviewed the activities of the Board of Certified Real Estate Appraisers (BCREA) to determine if the termination date for the board should be extended. As required by AS 44.66.050(a), the legislative committee of reference shall consider this report as part of the oversight process in determining if BCREA should be reestablished. Currently, AS 08.03.010(c)(20) specifies that BCREA will terminate on June 30, 2004. If no action is taken by the legislature, the board will have one year from that date to conclude its administrative operations.

Objectives

The three central, interrelated objectives of our report are:

1. To determine if the termination date of the board should be extended.
2. To determine if the board is operating in the public interest.
3. To determine if the board has exercised appropriate regulatory oversight of real estate appraisers.

The assessment of the operations and performance of the board was based on criteria set out in AS 44.66.050(c). Criteria set out in this statute relate to the determination of a demonstrated public need for the board.

Scope and Methodology

Under the direction and supervision of the Division of Legislative Audit, another auditor conducted the majority of this review. We followed professional standards to determine that the other auditor was independent and that their work was competent and sufficient.

The major areas of our review were board proceedings, licensing, complaint investigation, and resolution functions. During the course of our examination we reviewed and evaluated the following:

- Applicable statutes and regulations.
- Files and documentation related to individuals certified as appraisers, including those who have been issued a courtesy license to practice within Alaska.
- Files and documentation related to individuals who applied for certification as an appraiser or for a courtesy license to practice within Alaska.

- Minutes of board meetings, budget documents, and annual reports related to, or issued by BCREA.
- Complaints filed with the Division of Occupational Licensing, the Alaska State Commission for Human Rights, the Office of the Ombudsman, the Office of Victims' Rights, and the Federal Equal Employment Opportunity Commission.
- Correspondence with the Appraisal Subcommittee, a national organization that reviews the regulation and oversight of real estate appraisers.
- A report to Congress by the U.S. General Accounting Office that assessed the oversight of real estate appraisers.

Additionally, we conducted interviews with Division of Occupational Licensing staff.

ORGANIZATION AND FUNCTION

Alaska Statute 08.87.010 establishes the Board of Certified Real Estate Appraisers (BCREA). BCREA consists of five members, specified in statute to consist of at least one each of the following: (1) a certified general real estate appraiser, (2) a certified residential real estate appraiser, (3) a mortgage banking executive, and (4) a person from the general public. The fifth board position is undesignated in statute, and is commonly referred to as the "at large" position. Currently, the member at large happens to also be a certified general real estate appraiser.

Alaska Statute 08.87.020 defines the board's authority, purpose, and scope of work. Under this statute BCREA establishes the following: (1) examination specifications for certification as a real estate appraiser; (2) rules of professional conduct to establish and maintain a high standard of integrity in the real estate appraisal profession; and, (3) regulations necessary to carry out the purposes of the statutes.

BCREA certifies general real estate appraisers, residential real estate appraisers, institutional appraisers,¹ and registers appraiser trainees. Courtesy licenses are also issued for real estate appraisers who are certified or licensed in other states but are temporarily practicing in Alaska.

Qualifications for certification as a general and residential real estate appraiser include education related to real estate appraisal, experience in real property appraisal, and passing an examination endorsed by the board. The qualifications for receiving an institutional appraisal certificate are that the applicant is a full-time employee of a financial institution with offices in Alaska, and the applicant meets education and testing requirements. The requirement to become a registered trainee includes 75 hours of instruction in courses related to real estate appraisal theory or practices from an organization approved by the board.

Real estate appraisal certificates are renewed biennially. The next biennial renewal date is June 30, 2005. In order to renew their certification, certified appraisers must complete a renewal application, provide evidence of continuing education, and remit a license fee. Individuals certified or licensed as appraisers in other jurisdictions can obtain a courtesy license to conduct appraisals in Alaska. Such licenses are issued for a single appraisal assignment, and individuals are limited to only one courtesy license every twelve months.

¹ While BCREA has the authority to certify institutional appraisers, as of the date of this report, no individuals have applied for this certification.

BOARD OF CERTIFIED REAL ESTATE APPRAISERS *(As of June 30, 2003)*

Stephen Turner, Residential Real Estate Appraiser
—Vice Chair (no Chair as of above date)

James A. Hage, Member at Large

Nelida Irvine, Public Member

Judy Kemplen, Mortgage Banking Executive

Steven J. MacSwain, MAI, General Real Estate Appraiser

Duties of the Department of Community and Economic Development

The Department of Community and Economic Development, Division of Occupational Licensing provides administrative and investigative assistance to BCREA. This includes budgetary services and functions such as: collecting fees, maintaining files, receiving and issuing application forms, and publishing notice of examinations and meetings.

Alaska Statute 08.01.065 mandates the Department of Community and Economic Development, with the concurrence of the board, adopt regulations to establish the amount and manner of payment of application fees, examination fees, license fees, registration fees, permit fees, investigation fees, and all other fees as appropriate for the occupations covered by the statute.

Alaska Statute 08.01.087 empowers the Division of Occupational Licensing with the authority to act on its own initiative or in response to a complaint. The division may:

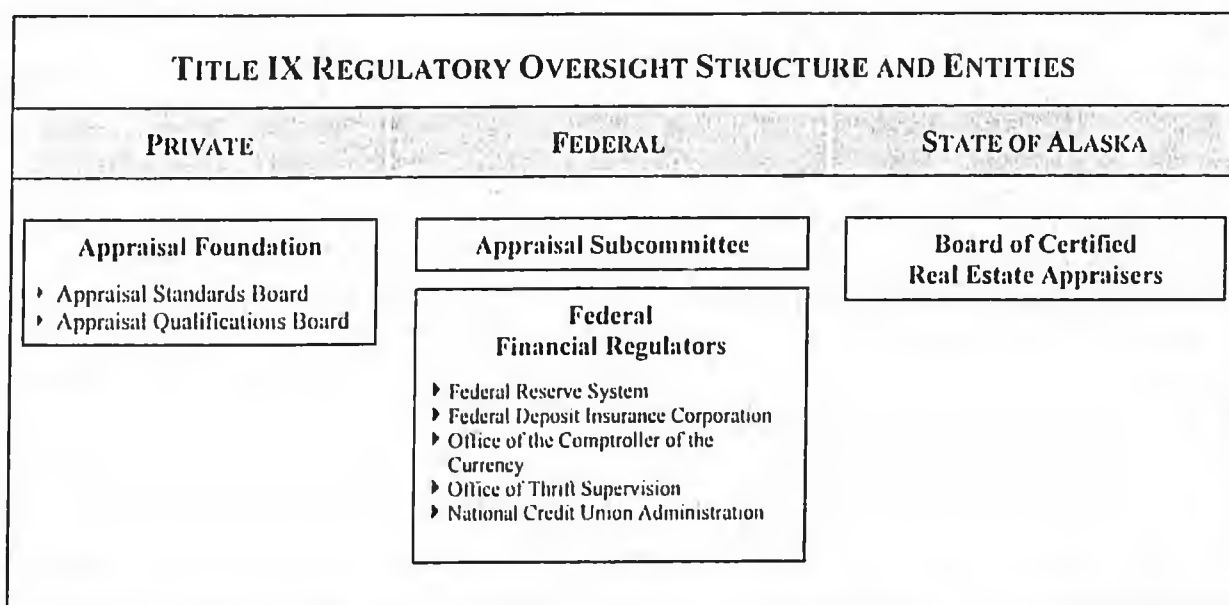
1. Conduct an investigation if it appears a person is engaged in, or is about to engage in, a prohibited professional practice.
2. Bring an action in superior court to enjoin the act.
3. Examine the books and records of an individual.
4. Issue subpoenas for the attendance of witnesses and records.

BACKGROUND INFORMATION

An appraisal is a decision-making tool used to facilitate a real estate transaction. The primary role of appraisals in the loan underwriting process is to provide evidence that the collateral value of the property is sufficient to avoid losses on loans if the borrower was unable to repay the loan. Consumers often mistakenly assume that appraisals are intended to validate the purchase price of the property in question. In a loan transaction, the lender rather than the borrower engages the appraiser and this usually occurs after the borrower has agreed to purchase the property. The primary intent of federal statutory appraisal reforms was to protect the federal deposit insurance funds – and, by extension, mortgage lenders – from avoidable losses.

In 1986, the House Committee on Government Operations issued a report concluding that faulty and fraudulent appraisals contributed significantly to the losses that the federal government suffered during the savings and loan “crisis.”² In response to the “crisis,” Congress passed the 1989 Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). Congress set out provisions in Title XI of FIRREA that were intended to ensure federally-related transactions had appraisals that were: (1) performed by real estate appraisers who met minimum qualifications criteria; and, (2) conducted in compliance with uniform standards.³

Title XI established a complex oversight structure for real estate appraisals and appraisers that involves private, federal, and state entities (see table, below).



² *Impact of Appraisal Problems on Real Estate Lending, Mortgage Insurance, and Investment in the Secondary Market*, H.Rep. 99-891 at 4-6 (Sept. 25, 1986), House Committee on Government Operations, 99th Congress, 2nd session.

³ U.S. Code 3331 - 3351, Title XI, Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Appraisal Foundation

The Appraisal Foundation, a nonprofit educational organization composed of groups from the real estate industry, provides the organizational framework for the Appraisal Standards Board (ASB) and the Appraiser Qualifications Board (AQB) to carry out their responsibilities related to Title XI.⁴ The Appraisal Foundation was founded in 1987 by eight leading professional appraisal organizations in the United States to foster professionalism in real estate appraising. ASB and AQB establish minimum standards for developing and reporting an appraisal and the minimum criteria for certified appraisers in connection with federally related transactions.

ASB is responsible for setting standards for appraisals and is composed of six appraisers who are appointed for three-year terms by the Board of Trustees of the Appraisal Foundation. ASB's minimum standards for appraisals are contained in the Uniform Standards of Professional Appraisal Practice (USPAP). Under Title XI, these minimum standards apply to all federally-related transactions. The standards cover both of the steps appraisers must take in developing appraisals and information the appraisal report must contain.

AQB is composed of five appraisers who are appointed for three-year terms by the Board of Trustees of the Appraisal Foundation, establishes the minimum education, experience, and examination requirements for state-certified real estate appraisers (set out in Real Property Appraiser Qualification Criteria and Interpretations of the Criteria). In addition, AQB performs a number of ancillary duties related to real property and personal property appraiser qualifications. The AQB's criteria covers four categories of appraisers—certified general, certified residential, licensed, and trainee—each with specific education, experience, examination, and continuing education requirements.

Appraisal Subcommittee

The Appraisal Subcommittee (ASC) was established by U.S. law as the principal federal agency responsible for monitoring the activities of the other components of the real estate appraisal industry oversight structure. Specifically, ASC is responsible for:

- Monitoring and reviewing the practices, procedures, activities, and organizational structure of the Appraisal Foundation—including making grants in amounts that it deems appropriate to the Appraisal Foundation to help defray costs associated with its Title XI activities;

⁴ The 2002 sponsors of the Appraisal Foundation consisted of eight appraisal organizations, four affiliate organizations (representing primarily the users of appraisal services), and one international appraisal organization. In addition, over 80 organizations, corporations, and government agencies are affiliated with the Appraisal Foundation.

- Monitoring the requirements established by the states, territories, and the District of Columbia and their appraiser regulatory agencies for the certification and licensing of appraisers;
- Monitoring the requirements established by the federal financial institution regulators regarding appraisal standards for federally related transactions and determinations of which federally-related transactions will require the services of state-licensed or state-certified appraisers;
- Maintaining a national registry of state-licensed and state-certified appraisers who may perform appraisals in connection with federally-related transactions; and,
- Transmitting an annual report to Congress regarding the activities of ASC during the preceding year.

ASC has six board members and seven staff members. Each of the respective board members is designated by the head of the Department of Housing and Urban Development's Federal Housing Administration (HUD/FHA) and the heads of the following five financial institution regulatory agencies:

1. Board of Governors of the Federal Reserve System,
2. Federal Deposit Insurance Corporation,
3. Office of the Comptroller of the Currency,
4. Office of Thrift Supervision, and
5. National Credit Union Administration.

State Oversight—Board of Certified Real Estate Appraisers

States may establish, under Title XI, their own agencies to certify and license appraisers. In 1990, the Alaska State Legislature created the Board of Certified Real Estate Appraisers (BCREA) in response to FIRREA. Although BCREA is responsible for the certification of appraisers, ASC has a role in ensuring Alaska's qualifications satisfy Title XI objectives. Federal agencies and federal financial institutions may not accept appraisals from BCREA certified appraisers if the subcommittee issues a written finding that:

- a. BCREA has failed to recognize and enforce the standards, requirements, and procedures of Title XI;
- b. BCREA does not have enough authority to carry out its functions under Title XI; or,

- c. BCREA does not make decisions on appraisal standards and qualifications or supervise appraiser practices in a method that carries out the purposes of Title XI⁵.

In addition, BCREA is required to provide ASC with the names of those appraisers who become certified or licensed in accordance with Title XI and to collect from them an annual registry fee that goes to the subcommittee.

In August 2001, BCREA was the subject of an ASC review. ASC found all but one of the eight earlier review findings had been appropriately resolved by the board.⁶ In their report, ASC commented that "*Alaska needs to revise its [Courtesy License] regulations to comply with Title XI of [FIRREA]...*" In addition, ASC developed two new findings that required action by the board. The board is proposing regulatory and procedural changes to implement all ASC recommendations made in the 2001 report.

Recent federal study determined oversight of real estate appraisers should be enhanced.

In May 2003, the U.S. General Accounting Office (GAO) issued a report regarding oversight of the real estate appraisal industry. The primary policy question addressed in the report was whether certain provisions of FIRREA that require certification of real estate appraisers are still necessary.

GAO was asked to conduct this review because some industry observers believed the appraisal industry regulations, required by FIRREA, are no longer needed.⁷ Others argued that the law's purpose and scope should be expanded.

In the report,⁸ GAO concluded there was not only a continuing need for appraisers to be certified and regulated at the state level, but federal regulatory oversight should be enhanced. Among other things, GAO recommended that ASC "*develop and apply consistent criteria for determining and reporting states' compliance levels with Title XI.*" GAO also recommended that ASC "*explore potential options for assisting states in carrying out their [regulatory oversight] activities, particularly for investigating appraiser complaints.*"

⁵ 12 USC § 3347(a), (b) (2000).

⁶ BCREA is subject to ASC reviews on a triennial basis. Prior to the 2001 review, the most recent ASC review was conducted in August 1998.

⁷ More specifically, the report commented that some observers believed both "*the risk to federal deposit insurance funds and the lack of uniform [appraisal] standards and [appraiser] qualifications*" no longer existed.

⁸ An abridged version of the GAO report is included as Appendix A to this report beginning on page 19. A complete report can be found at www.gao.gov/cgi-bin/getrpt?GAO-03-404.

REPORT CONCLUSIONS

In accordance with AS 08.03.010(c)(20), the Board of Certified Real Estate Appraisers (BCREA) is presently scheduled for termination on June 30, 2004. If no action is taken by the legislature, the board has one year in which to conclude its affairs and will be dissolved at June 30, 2005.

The BCREA has been given the responsibility in AS 08.87.020 to: *(1) establish the examination specifications for certification as a general real estate appraiser, as a residential real estate appraiser, and as an institutional appraiser; (2) adopt rules of professional conduct to establish and maintain a high standard of integrity in the profession; and, (3) adopt regulations necessary to carry out the purpose of [the appraiser statute]...* As discussed in the Background Information section, a recent GAO study concluded that, nationwide, there is an ongoing need not only to maintain, but also to enhance these oversight functions.

The use of state certified real estate appraisers will be a continuing requirement for Alaska's financial institutions to qualify for federal deposit insurance and to participate in selling mortgage loans to federal government-sponsored enterprises.⁹ Failure to maintain a real estate appraiser certification program that meets federal requirements could cause the financial institutions – and by extension, the citizens – of the State to not only lose the opportunity to participate in a number of federally-sponsored real estate loan programs, but also the ability to obtain federal deposit insurance. In this context, we recommend that the legislature extend BCREA's termination date to June 30, 2008.

⁹ Government-sponsored enterprises include such entities as the Federal Home Loan Mortgage Corporation (generally referred to as "Freddie Mac") and the Federal National Mortgage Association (generally referred to as "Fannie Mae").

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ANALYSIS OF PUBLIC NEED

The following analyses of board activities relate to the public need factors defined in AS 44.66.050(c). These analyses are not intended to be comprehensive, but address those areas we were unable to cover within the scope of our review.

The extent to which the board, commission, or program has operated in the public interest.

As reflected in the discussion under the Background Information section, the original impetus for establishing the Board of Certified Real Estate Appraisers (BCREA) was the federal law passed by Congress responding to the savings and loan "crisis" of the 1980s. Accordingly, most of the regulatory and statutory requirements that BCREA responds to is set by organizations and entities established by, or affiliated with, the federal government.

As part of that federal oversight, the board's regulations and activities are periodically reviewed by the Appraisal Subcommittee (ASC) of the Federal Financial Institutions Examination Council.

In August 2001, BCREA was the subject of an ASC review. ASC found all but one of the eight earlier review findings had been appropriately resolved by the board.¹⁰ In their report, ASC commented that "*Alaska needs to revise its [Courtesy License] regulations to comply with Title XI of Financial Institutions Reform, Recovery, and Enforcement Act [FIRREA]...*" In addition, ASC developed two new findings that required action by the board. The board is proposing regulatory and procedural changes to implement all ASC recommendations made in the 2001 report.

The extent to which the operation of the board, commission, or agency program has been impeded or enhanced by existing statutes, procedures, and practices that it has adopted, and any other matter, including budgetary, resource, and personnel matters.

Most of the board's revenue is from certification, licensing, and renewal fees. Renewals are conducted on a biennial basis. This creates a two-year cycle in the board's revenues, with the board receiving most of its revenues during the renewal period. We reviewed the internal records maintained by the Occupational Licensing (OccLic) for revenues and expenditures associated with the Board of Certified Real Estate Appraisers. We did not audit this information, but present it on the following page for general information purposes.

AS 08.01.065(c) requires "...that the total amount of fees collected for an occupation approximately equals the actual regulatory costs for the occupation." As the schedule on the

¹⁰ BCREA is subject to ASC reviews on a triennial basis. Prior to the 2001 review, the most recent ASC review was conducted in August 1998.

following page reflects, the board was running a substantial deficit at the end of FY 02. However, for the FY 03/04 biennial licensing period, license renewal fees were increased more than 45% – from \$515 to \$750. Additionally, board expenses for FY 03 are projected to decrease from the previous fiscal year.

State of Alaska Board of Certified Real Estate Appraisers Schedule of License Revenues and Board Expenditures FY 99 - FY 02 (Unaudited)				
	<u>FY 02</u>	<u>FY 01</u>	<u>FY 00</u>	<u>FY 99</u>
Revenue	\$ 18,676	\$ 77,645	\$ 8,680	\$ 77,355
Direct Expenses				
Personal Services	26,653	27,258	20,757	24,652
Travel	4,408	920	2,769	3,397
Contractual	23,227	17,339	7,881	13,943
Supplies	131	30	78	165
Equipment	-	-	-	-
Total Expenses	<u>54,419</u>	<u>45,547</u>	<u>31,485</u>	<u>42,157</u>
Indirect Expense	<u>6,281</u>	<u>7,423</u>	<u>7,207</u>	<u>7,044</u>
Total Expenses	<u>60,700</u>	<u>52,970</u>	<u>38,692</u>	<u>49,201</u>
Annual Surplus (Deficit)	<u>(42,024)</u>	<u>24,675</u>	<u>(30,012)</u>	<u>28,154</u>
Beginning Cumulative Surplus (Deficit)	9,690	(14,985)	14,954	(13,200)
Unallocated Administrative Indirect Revenue	<u>20</u>	<u>-</u>	<u>73</u>	<u>-</u>
Ending Cumulative Surplus (Deficit)	<u>\$ (32,314)</u>	<u>\$ 9,690</u>	<u>\$ (14,985)</u>	<u>\$ 14,954</u>

The extent to which the board, commission, or agency has recommended statutory changes that are generally of benefit to the public interest.

As discussed previously, during August 2001 the board was reviewed by the Appraisal Subcommittee (ASC) of the Federal Financial Institutions Examination Council. ASC presented BCREA with a list of recommendations which the board is implementing through various proposed regulatory and procedural changes.

These changes include clarifying the board's policy regarding the definition of "assignment" for courtesy license purposes, increasing the number of courtesy licenses a person may be issued within a year (from one to two per year), and lowering the fees charged for courtesy licenses, which ASC considered excessive. ASC also requested that BCREA require experience logs from certified residential real estate applicants, just as it does for certified general real estate applicants. Once implemented, these changes will bring Alaska regulations into compliance with Title XI of FIRREA.

As a result of one lengthy investigation, the board has sought to define moral turpitude in the regulation. BCREA recommended other statutory and regulatory changes primarily related to work experience, education requirements, and certification and renewal fees.

The extent to which the board, commission, or agency has encouraged interested persons to report to it concerning the effect of its regulations and decisions on the effectiveness of service, economy of service, and availability of service that it has provided.

The public received notice of all meetings consistent with the requirements of statute and regulation. The agenda of items to be discussed was available before scheduled meetings. A public comment period has been set aside in the agenda for each board meeting.

Interested parties can attend meetings in person or by teleconference. In addition to accepting public comment at the meetings, the board regularly discussed correspondence from various individuals, agencies and other interested parties. OccLic forwards public comment and concerns to the board for consideration during board meetings.

The extent to which the board, commission, or agency has encouraged public participation in the making of its regulations and decisions.

Draft regulations developed by the board were properly advertised for the required amount of time. Public notices of regulatory hearings were published in major newspapers and on the board's website. The board accepted public comment at meetings. We found no indication in the BCREA records that public testimony has been inappropriately restricted by the board.

The efficiency with which public inquiries or complaints regarding the activities of the board, commission, or agency filed with it, with the department to which a board or commission is administratively assigned, or with the office of victims' rights or the office of the ombudsman have been processed and resolved.

During the 48-month period from July 1, 1999 through June 30, 2003, the Division of Occupational Licensing opened 21 investigative cases related to individuals certified by the board. Almost half of the cases (9) involved complaints made by clients or individuals from the general public. Most of the complaints (15) involved alleged incompetence or professional ethics violations by the appraisers.

Of the 17 cases closed as of the date of our review, two resulted in licensure action involving the voluntary surrender of the appraiser's certificate. Of the remaining cases, 12 were closed with a finding of no violation, two were closed with warning letters issued by the board, while one case was closed through a referral to other investigative agencies (the Alaska Department of Labor and Workforce Development and the Internal Revenue Service).

Of the four cases not closed as of the date of our review, three had been opened within the previous 120 days. Of the three opened cases, two are in the process of closure and one is awaiting expert review by a board member. The remaining open case was still under active investigation and was being reviewed by the Department of Law.

We have reviewed the nature and extent of complaints filed involving appraisers. In our view OccLic, in conjunction with the board, has proceeded in a manner consistent with the potential threat the complaints posed to the public welfare.

There were no complaints filed with the Office of the Ombudsman or the Office of Victims' Rights for the period under review.

The extent to which a board or commission that regulates entry into an occupation or profession has presented qualified applicants to serve the public.

From FY 00 through FY 02 the board approved and certified 32 new appraisers and issued 35 courtesy licenses. We found no instances where the board issued a certificate or license to an unqualified candidate, nor did we find any instances where a qualified candidate was denied certification or licensure. The table below summarizes licensing activity for the prior three fiscal years, listing the number of new certificates or licenses issued each year for each certificate or license type, as well as the number of current certificates.

New Certificates Issued	FY 00	FY 01	FY 02	Total	Current Certificates as of June 30, 2002
General Appraisers	0	4	0	4	70
Residential Appraisers	6	4	7	17	81
Institutional Appraisers	0	0	0	0	0
Total	6	8	7	21	151
Registered Appraiser Trainees	6	1	4	11	9
Courtesy Licenses Issued	13	12	10	35	--

The extent to which state personnel practices, including affirmative action requirements, have been complied with by the board, commission, or agency to its own activities and the area of activity or interest.

We found no evidence of the board not complying with state personnel practices, including affirmative action, in the qualifying process of applicants. Each time the board has denied an applicant's certification, reasoning has been based on requirements set out by statute and regulation, not on the personal attributes of applicants. The reasons for denials are stated in writing, with the applicant always informed of their rights and the process in which they can contest or appeal any denial of licensure.

The extent to which statutory, regulatory, budgeting, or other changes are necessary to enable the agency, board, or commission to better serve the interest of the public and to comply with the factors enumerated in AS 44.66.050.

As noted, much of the impetus and oversight of BCREA stems from actions taken by oversight organizations and entities affiliated with the federal government. In recent years, BCREA's licensing fees have not been set at a sufficiently high-enough level to cover the board's costs. However, as noted earlier in this section, the board has adopted a 45% increase in appraiser certification renewal fees and appears to have decreased board expenses.

During our review of the board's composition, we noted AS 08.87.010 requires two of the board members to be "licensed" real estate appraisers in the State of Alaska.

In the statutes, real estate appraisers are referred to as being certified, but state law does not use the term licensed. We encourage the department, when proposing sunset extension legislation, to consider amending AS 08.87.010 and make the nomenclature consistent within the statute.

APPENDIX A

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May 2003

REGULATORY
PROGRAMS

Opportunities to
Enhance Oversight of
the Real Estate
Appraisal Industry



G A O

Accountability * Integrity * Reliability

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Highlights of GAO-03-404, a report to Congressional Requesters

REGULATORY PROGRAMS

Opportunities to Enhance Oversight of the Real Estate Appraisal Industry

Why GAO Did This Study

Since the passage of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the appraisal and mortgage lending industry has changed dramatically. Some have concluded that the law is obsolete because the problems Title XI was intended to address—the risk to federal deposit insurance funds and the lack of uniform standards and qualifications—no longer exist. Others argue that the law's purpose and scope should be expanded. To help Congress better understand these issues, GAO looked at the roles of the private, state, and federal entities that oversee the appraisal industry, the challenges Title XI presented to these entities, and industry participants' concerns about the effectiveness of the Title XI regulatory structure.

What GAO Recommends

Among other things, the Chairman of the Appraisal Subcommittee should:

- develop and apply consistent criteria for determining and reporting states' compliance levels with Title XI;
- explore potential options for assisting states in carrying out their Title XI activities, particularly for investigating appraiser complaints; and
- explore alternatives for providing future Title XI grant funding to the Appraisal Foundation and its two boards.

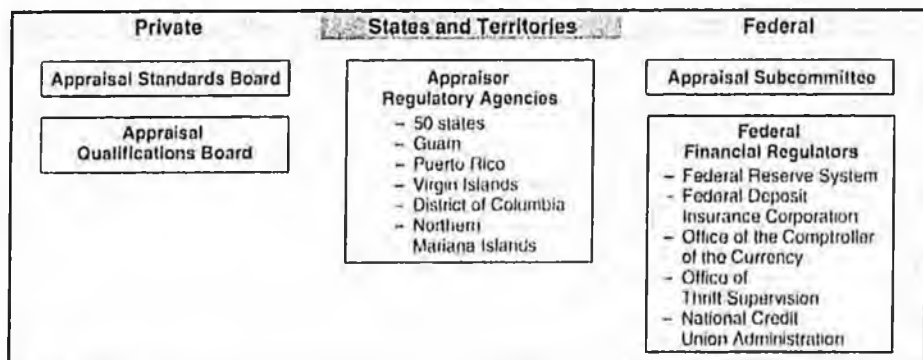
What GAO Found

Title XI created a complex oversight structure for real estate appraisals and appraisers that involves private, state, and federal entities. Two private entities establish uniform rules for real estate appraisals and set minimum criteria for certifying appraisers. State regulatory agencies certify appraisers based on these criteria. The federal financial regulators oversee financial institutions' use of appraisals, and a federal agency, the Appraisal Subcommittee, monitors and coordinates the functions of the parties involved in regulating appraisals and appraisers.

All of these entities except the federal financial regulators identified potential impediments to carrying out their Title XI responsibilities. The two private entities stated that fund limitations could impede their ability to ensure that development of standards and qualifications evolve with changing conditions. State agencies said that funding shortfalls hindered their ability to enforce compliance. Appraisal Subcommittee staff reported that rule-making authority and additional enforcement sanctions could facilitate its oversight of state compliance with Title XI.

Industry participants raised concerns about aspects of the Title XI regulatory system for appraisers. They cited differences in state regulation that affect both lenders and appraisers, gaps in Title XI's coverage—for example, transactions of less than \$250,000 do not require an appraisal—high fees and burdensome processes for having appraiser education courses approved, and weak enforcement and complaints processing. Some industry participants felt that states, traditionally involved in regulating professions, alone should regulate the appraisal industry. Others felt that the current structure needed a significant overhaul to become effective.

Title XI Regulatory Oversight Structure and Entities



Source: GAO

www.gao.gov/cgi-bin/getrpt?GAO-03-404.

To view the full report, including the scope and methodology, click on the link above. For more information, contact David G. Wood (202) 512-8678 or woodd@gao.gov.



G A O

Accountability • Integrity • Reliability

United States General Accounting Office
Washington, D.C. 20548

May 14, 2003

The Honorable Paul S. Sarbanes
Ranking Minority Member
Senate Committee on Banking,
Housing, and Urban Affairs
United States Senate

The Honorable Zell Miller
United States Senate

Recent predatory mortgage lending cases, involving fraudulent and inflated appraisals, have highlighted the need for accurate real estate appraisals in preventing losses to the federal government and significant financial harm to individual consumers. When making mortgage loans, lenders need an objective and accurate assessment of the value of properties used as collateral to help avoid losses in the event that borrowers do not repay the loans. Congress enacted Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) in response to concerns that faulty and fraudulent appraisals played a major role in the savings and loans crisis of the 1980s. Title XI provisions address both the quality of *appraisals* and the qualifications of *appraisers*. Specifically, Title XI requires that real estate appraisals used in connection with federally related transactions be performed (1) in writing, in accordance with uniform professional standards, and (2) by individuals whose competency has been demonstrated and whose professional conduct is subject to effective supervision.¹

To ensure that the purpose of the legislation was carried out, Title XI created a regulatory structure to monitor and oversee the real estate appraisal industry. Among other things, it established a federal entity called the Appraisal Subcommittee to monitor the Title's implementation. Title XI provides for national uniformity in appraisal standards and minimal national qualification requirements for some, but not all, appraisers. The Title XI regulatory structure was set up primarily to protect federally

¹As defined in Title XI, federally related transactions are real estate transactions involving financial institutions regulated by the federal government. These include banks, thrifts, and credit unions. Real estate transactions of mortgage bankers, brokers, pension funds, and insurance companies are not included.

insured depository institutions from losses and by extension the federal deposit insurance funds.

Because of your concerns about the effectiveness of the current regulatory structure, you requested that we assess the appraisal oversight structure established in response to Title XI. As agreed with your offices, this report describes (1) the specific responsibilities under Title XI of the private, state, and federal entities that oversee the appraisal industry and the way these entities perform their roles; (2) factors that these entities identified as potential impediments to carrying out their Title XI responsibilities; and (3) concerns expressed by regulatory entities and industry participants about the effectiveness of the existing regulatory structure.

To answer these questions, we reviewed FIRREA and its legislative history; interviewed representatives of the private, state, and federal entities involved in the Title XI regulatory scheme; and, using a mailed questionnaire, surveyed appraiser regulatory agencies in the 50 states, the District of Columbia, and 4 U.S. territories.² A copy of the questionnaire, including summary responses to each question, can be found in appendix I. Additionally, we contacted industry participants, including trade groups that represent appraisers and lenders; Fannie Mae and Freddie Mac, two government-sponsored enterprises (GSE) that establish standards for appraisals used in connection with mortgages that they purchase; the Department of Housing and Urban Development (HUD), which establishes requirements for appraisals used in connection with mortgages it insures; representatives of appraiser education providers; and academic experts on issues related to real estate appraisals. We also obtained and reviewed records of the Appraisal Subcommittee's state oversight activities, as well as information on appraisers maintained in the subcommittee's national registry database. We conducted our work between March 2002 and March 2003 in accordance with generally accepted government auditing standards. Appendix II provides a detailed discussion of our scope and methodology, and appendix III contains a list of the entities that we contacted.

²The territories included in our survey are Guam, Northern Mariana Islands, Puerto Rico, and the Virgin Islands. The only other U.S. territory—American Samoa—does not have a regulatory oversight structure for appraisers because real estate there can only be inherited. In this report, the term “states and territories” refers to the 50 states, the District of Columbia, and the 4 territories.

Results in Brief

Title XI created a complex regulatory system that relies upon the actions of private, state, and federal entities to help assure the quality of appraisals and the qualifications of appraisers used in federally related transactions.

- The two private entities—the Appraisal Standards Board and Appraiser Qualifications Board—respectively establish (1) uniform rules for preparing and reporting real estate appraisals and (2) minimum qualification criteria for certified real estate appraisers. Certified real estate appraisers are one of the two categories of appraisers listed in Title XI, the other being licensed real estate appraisers.
- Title XI defers to the states with respect to the minimum qualification criteria for the licensed appraisers. In addition, Title XI relies on the states to (1) implement the certification and licensing of all real estate appraisers and (2) monitor and supervise compliance with appraisal standards and requirements. To assure the availability of certified and licensed appraisers, all of the states and territories have adopted structures to regulate and supervise the appraisal industry. These structures typically consist of a state regulatory agency coupled with a board or commission to establish education and experience requirements, license and certify appraisers, and monitor and enforce appraiser compliance.
- The federal financial institution regulators—defined in Title XI as the Federal Reserve System (FRS), Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), and National Credit Union Administration (NCUA)—are responsible for ensuring that federally insured depository institutions comply with Title XI requirements. To meet these responsibilities, the regulators have (1) adopted rules and policies specifying transactions for which regulated financial institutions are required to obtain an appraisal by a certified or licensed appraiser, (2) developed examination procedures to ensure that regulated financial institutions are in compliance with Title XI, and (3) appointed agency representatives to the Appraisal Subcommittee.
- The Appraisal Subcommittee is responsible for monitoring the implementation of Title XI by all parties—private, state, and federal. The subcommittee monitors the efforts of the federal financial institution regulators in developing and adopting appraisal-related regulations and policies, conducts periodic reviews of each state's licensing and

certification program, and provides grants to the Appraisal Foundation to support the Title XI-related activities of its two boards—Appraisal Standards Board and Appraiser Qualifications Board.

The private, state, and federal entities involved in the Title XI regulatory structure described a number of factors that they believe could constrain their ability to perform more effectively and efficiently. For example, officials of the Appraisal Standards Board and the Appraiser Qualifications Board told us that insufficient federal grant funding may impede their ability in the future to ensure that standards and qualifications evolve with changing conditions, such as how to appraise contaminated or polluted properties. State appraiser agencies—which are funded at the state level—reported resource limitations as the primary impediment in carrying out their oversight responsibilities. For example, of the 54 states and territories that responded to our survey, 26 reported that the current number of investigators was insufficient for meeting its regulatory responsibilities, 37 cited a need for increasing the staff directed at investigations, and 22 cited a need for more resources to support litigation. Officials of the five federal financial institution regulators reported no major impediments to accomplishing their Title XI responsibilities. The Appraisal Subcommittee reported that rule-making authority and additional enforcement sanctions could facilitate its oversight of state compliance with Title XI. Subcommittee officials stated that the only enforcement action they can take under Title XI is to decertify a state, which would prohibit all licensed or certified appraisers from that state from performing appraisals in conjunction with federally related transactions. Subcommittee officials stated that using this sanction would have a devastating effect on the real estate markets and financial institutions within the state. However, the Appraisal Subcommittee stated that it has always been able to achieve states' compliance under the current enforcement and regulatory structure.

In addition to the impediments described above, officials of the regulatory agencies, appraiser trade groups, education providers, mortgage industry, HUD, and the GSEs raised concerns about the Title XI regulatory structure. However, there was no clear consensus regarding the need for or impact of possible changes. Some industry participants stated that a growing number of real estate transactions, such as those placed through mortgage brokers and those involving dollar amounts below the threshold level established by the federal financial institution regulators, are not universally subject to Title XI appraisal requirements. In addition, some industry participants cited concerns with the lack of a national qualification standard for the licensed real estate appraiser category. Education providers and appraiser

trade groups expressed concerns about the Appraiser Qualifications Board's fees and requirements for instructor certification and course approval. Federal and state regulatory officials expressed concern about the apparent reluctance of lending institutions to make referrals or complaints regarding questionable appraisals they identify. HUD and GSE officials expressed concerns about a lack of consistent and effective enforcement actions by the states on referred cases and the adequacy of the Appraisal Subcommittee's oversight of state programs. This report makes recommendations to the Appraisal Subcommittee intended to enhance the effectiveness of the existing regulatory structure.

We received written comments on a draft of this report from the Appraisal Subcommittee, the Appraisal Foundation, HUD, Fannie Mae, and Freddie Mac. In addition, we received technical comments from the federal financial institutions regulators, who indicated that their overall comments had been incorporated into those provided by the Appraisal Subcommittee. The Appraisal Subcommittee agreed to take action on our recommendation to develop and apply consistent criteria for determining and reporting states' compliance with Title XI, and did not comment on our recommendation for greater coordination with HUD, Fannie Mae, and Freddie Mac on referrals of problem appraisers. Concerning the remaining two recommendations, the Appraisal Subcommittee

- agreed that additional funding for the states would improve compliance with Title XI, but stated that the Subcommittee is not the answer to that issue. Because the recommendation is to explore additional funding as well as other options for assisting the states, we did not revise it.
- agreed that the Appraisal Foundation faces future grant funding constraints, but stated that using the Subcommittee's surplus is not a long-term solution. We modified the report to emphasize that we are recommending that the subcommittee explore options, including drawing on the subcommittee's surplus, if necessary, for addressing future Appraisal Foundation grant shortfalls.

HUD agreed with our recommendation for greater coordination on referrals of problem appraisers to state appraiser agencies. Both Fannie Mae and Freddie Mac expressed concern about this recommendation, commenting that they are not regulatory entities. We revised the wording of our recommendation to emphasize the role that HUD, Fannie Mae, and Freddie Mac can play in helping the subcommittee carry out its oversight responsibilities.

Background

An appraisal is a decision-making tool used to facilitate a real estate transaction. The primary role of appraisals in the loan underwriting process is to provide evidence that the collateral value of the property is sufficient to avoid losses on loans if the borrower was unable to repay the loan. Consumers often mistakenly assume that appraisals are intended to validate the purchase price of the property in question. Furthermore, appraisals are sometimes confused with home inspections, which are intended to warn consumers about serious defects in the home being purchased that should be repaired. In a loan transaction, the lender rather than the borrower engages the appraiser and this usually occurs after the borrower has agreed to purchase the property. The primary intent of the appraisal reforms contained in Title XI was to protect the federal deposit insurance funds—and, by extension, mortgage lenders—from avoidable losses.

An appraisal is an opinion of the value of a property as of a specific date. Appraisers generally consider the property's value from three points of view—cost, income, and comparable sales—and determine an estimated value based upon weighing the three valuation methods. The cost approach is based on an estimate of the value of the land plus what it would cost to replace or reproduce the improvements minus the physical deterioration, functional obsolescence, and economic obsolescence. The income approach is of primary importance in ascertaining the value of income producing properties and is an objective estimate of what a prudent investor would pay based upon the net income the property produces. The comparable sales approach compares and contrasts the property under appraisal with recent offerings and sales of similar property. This approach is usually considered the most appropriate valuation approach for estimating the value of residential real estate property.

In 1986, the House Committee on Government Operations issued a report concluding that faulty and fraudulent appraisals were an important contributor to the losses that the federal government suffered during the savings and loan crisis.³ In response, Congress incorporated provisions in Title XI of FIRREA that were intended to ensure that federally related transactions had appraisals that were (1) performed by real estate

³*Impact of Appraisal Problems on Real Estate Lending, Mortgage Insurance, and Investment in the Secondary Market*, H.Rep. 99-891 at 4-6 (Sept. 25, 1986), House Committee on Government Operations, 99th Congress, 2nd session.

appraisers that had met minimum qualifications criteria and (2) conducted in compliance with uniform standards.

In addition to those identified in Title XI, there are other federal and government sponsored entities that have roles with respect to oversight of the real estate appraisal industry. Among these entities, the most important with respect to appraisal oversight issues are the HUD's Federal Housing Administration (HUD/FHA) and the two large GSEs that purchase residential loans in the secondary market—Fannie Mae and Freddie Mac. HUD/FHA uses appraisals to determine a property's eligibility for mortgage insurance and to estimate the value of a property for mortgage insurance purposes. Certified and licensed appraisers wishing to perform appraisals for HUD/FHA loans must first be placed on the FHA Roster of Appraisers, which requires the appraiser to pass a HUD/FHA examination on appraisal methods and meet other eligibility requirements. Both Fannie Mae and Freddie Mac consider appraisals or evaluations of the property value as a vital part of their risk analysis for loans that they purchase. For those loans for which Fannie Mae and Freddie Mac require an appraisal, the lender is required to use an appraiser that is state licensed or certified in accordance with the provisions of Title XI.⁴ Fannie Mae and Freddie Mac largely hold the lender responsible for the selection and quality control of the appraiser. As such, Fannie Mae and Freddie Mac do not maintain a list of approved appraisers.

Title XI Created a Complex Appraiser Regulatory Oversight Structure

Various private, state, and federal entities play a role with respect to the Title XI regulatory structure (table 1). Private entities—the Appraisal Standards Board (ASB) and the Appraiser Qualifications Board (AQB)—establish minimum standards over the development and reporting of real estate appraisals and minimum qualification criteria for certified appraisers. States conduct the certification and licensing of appraisers, including setting education and experience requirements that, at minimum, must meet AQB criteria for certified appraisers and enforcing compliance with appraisal standards. FRS, FDIC, OCC, OTS, and NCUA—hereinafter referred to as the federal financial institution regulators—issue appraisal requirements for the financial institutions under their jurisdiction and

⁴Both Fannie Mae and Freddie Mac allow lenders the options to use an inspection or evaluation instead of a traditional appraisal, on loans that they determine to be low-risk based on their automated loan underwriting systems. In the case of Freddie Mac, certain low risk loans may be eligible for delivery to Freddie Mac with no appraisal or inspection.

monitor compliance with their regulations. Lastly, the Appraisal Subcommittee has primary responsibility for monitoring and reviewing the actions of the private, state, and federal entities as they relate to Title XI.

Table 1: Title XI Roles and Responsibilities for Appraisal Standards and Appraiser Qualifications

	Private	State	Financial institution regulatory agencies	Federal Appraisal Subcommittee
Appraisal Standards Board (ASB)	Appraiser Qualifications Board (AQB)	Appraiser regulatory agencies	Financial institution regulatory agencies	Appraisal Subcommittee
Appraisal standards				
Standard setting				
Develop standards for the performance of real estate appraisals.			Promulgate regulations that establish appraisal standards, which meet or exceed ASB's standards, for federally insured depository institutions.	
Implementation/Monitoring				
		Enforce compliance with appraisal standards and requirements.	Monitor and enforce compliance by federally insured depository institutions with appraisal regulations.	Monitor and review the Appraisal Foundation's practices, procedures, activities, and organizational structure. Monitor policies, practices, and procedures of states to determine consistency with Title XI requirements. Monitor appraisal requirements established by federal financial institution regulatory agencies. Make grants to the Appraisal Foundation to defray the costs of the Appraisal Standards Board's Title XI activities.

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	Private	State	Federal	
Appraisal Standards Board (ASB)	Appraiser Qualifications Board (AQB)	Appraiser regulatory agencies	Financial institution regulatory agencies	Appraisal Subcommittee
Appraiser qualifications				
Standard setting				
	Develop minimum qualification criteria for certified real estate appraisers.	Set qualifications criteria for certification, which meet or exceed AQB's criteria, and licensing of appraisers.	Establish additional qualification criteria as may be necessary or appropriate to carry out their statutory responsibilities.	
Implementation/Monitoring				
		Transmit to the Appraisal Subcommittee a roster of appraisers who have been licensed or certified.	Prescribe categories of federally related transactions that should be appraised by a state certified appraiser and those that can be performed by either a state certified or licensed appraiser.	Monitor qualification criteria set by states for the certification and licensing of individuals qualified to perform appraisals in connection with federally related transactions.
		Collect from appraisers and transmit to the Appraisal Subcommittee a \$25 annual registry fee.	Monitor and enforce compliance by federally insured depository institutions with appraisal regulations.	Maintain a national registry of state certified and licensed appraisers eligible to perform appraisals in federally related transactions.
		Enforce compliance with standards, requirements, and procedures prescribed by Title XI.		Monitor and review the Appraisal Foundation's practices, procedures, activities, and organizational structure.
				Make grants to the Appraisal Foundation to defray the costs of the Appraiser Qualifications Board's Title XI activities.

Source: GAO

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October 3, 2003

Ms. Pat Davidson, Legislative Auditor
Legislative Budget and Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Davidson,

Thank you for the opportunity to comment on your preliminary audit report on the Board of Certified Real Estate Appraisers.

The department concurs with the findings in your report. As you requested, I have also provided a summary of the Board's FY 03 revenues and expenditures.

Your report clearly identifies the background which led to creation of the licensing program for Real Estate Appraisers in Alaska, including oversight and standards mandated by the Appraisal Foundation, and the Appraisal Subcommittee. Title XI allow States to establish their own agencies to certify and license appraisers; and therefore, the Alaska State Legislature created the Board of Certified Real Estate Appraisers in 1990.

Generally, your findings indicate the licensing of Real Estate Appraisers are in compliance with federal mandates. Page 15 of the report states that license denials have been based on requirements set out by statute and regulation. Since creation of the Board and its current statutes and regulations, the licensing function has become perfunctory. The considerable amount of staff time required to prepare for board meetings and to provide administrative support to the Board actually slows down the licensing process. In the interest of providing better service to the public and potential licensees, I request consideration be given to elimination of the Board of Certified Real Estate Appraisers but, to continue licensing by the Division of Occupational Licensing.

Again, I appreciate the opportunity to comment on your findings.

Cordially,

Edgar Blatchford
Commissioner

Enclosure

State of Alaska
Board of Certified Real Estate Appraisers
Schedule of License Revenues and Board Expenditures
FY 03

Revenue	\$119,240
Direct Expenses	
Personal Services	20,011
Travel	1,005
Contractual	7,078
Supplies	195
Equipment	--
Total Expenses	<u>28,289</u>
Indirect Expense	<u>8,597</u>
Total Expenses	<u>36,886</u>
Annual Surplus (Deficit)	<u>82,354</u>
Beginning Cumulative Surplus (Deficit)	(32,314)
Unallocated Administrative Indirect Revenue	=
Ending Cumulative Surplus (Deficit)	<u>\$ 50,040</u>

Mr. Stephen F. Turner, Vice Chair
Board of Certified Real Estate Appraisers
P. O. Box 240088
Anchorage, Alaska 99524-0088

September 9, 2003

Pat Davidson, CPA, Legislative Auditor
Alaska State Legislature
Legislative Budget and Audit Committee
Division of Legislative Audit
P. O. Box 113300
Juneau, Alaska 99811-3300

Dear Ms. Davidson;

I have carefully reviewed the "CONFIDENTIAL" preliminary audit report on:

*Department of Community and Economic Development, Board of Certified
Real Estate Appraisers, Sunset Review.*

I found the report to be thorough, both in its review of the historical context of the board, and in its assessment of the board's ongoing actions. The audit reaffirmed that we have appropriately handled our responsibilities and that we play an essential role in appraiser oversight.

I concur with the single recommendation that the wording of AS 08.87.010 be amended. As the audit points out, the law presently requires two of the board members to be "licensed" real estate appraisers in the State of Alaska. Since Alaska appraisers are certified, not licensed, the correct terminology should be "certified" real estate appraisers. I plan to bring this issue before the board at our next meeting with the intent that a motion be passed recommending this change.

Thank you for this opportunity to review and respond to the audit report. My responses, of course, are mine alone, and do not represent the entire board. Be assured that I understand that the report is confidential at this time, and is not for public release pending final review and approval by the Legislative Budget and Audit Committee.

Sincerely;



Stephen F. Turner, Vice Chair
Board of Certified Real Estate Appraisers

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