

HOUSE FINANCE COMMITTEE
February 4, 2009
1:35 p.m.

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CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Mike Hawker
Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Vice-Chair
Representative Allan Austerman
Representative Harry Crawford
Representative Anna Fairclough
Representative Richard Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

None.

ALSO PRESENT

Representative Kyle Johansen; Leo Von Scheben, Commissioner, Department of Transportation and Public Facilities; Frank Richards, Deputy Commissioner of Highways & Public Facilities, Department of Transportation and Public Facilities; Jim Beedle, Deputy Commissioner of Marine Operations, Marine Highway System, Department of Transportation and Public Facilities; Nancy Slagle, Director, Division of Administrative Services, Department of Transportation and Public Facilities; Frank Richards, Deputy Commissioner of Highways & Public Facilities, Department of Transportation and Public Facilities; Emil Notti, Commissioner, Department of Commerce, Community and Economic Development; Amanda Ryder, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development; Joe Austerman, Manager, Office of Economic Development, Department of Commerce, Community and Economic Development.

PRESENT VIA TELECONFERENCE

SUMMARY

HB 81 "An Act making appropriations for the operating

and loan program expenses of state government, for certain programs, and to capitalize funds; making supplemental appropriations; and making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date."

Budget Overviews:

Department of Transportation and Public Facilities
Commerce, Community and Economic Development

HB 81 was HEARD and HELD in Committee for further consideration.

HB 83 "An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

HB 83 was HEARD and HELD in Committee for further consideration.

HOUSE BILL NO. 81

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making supplemental appropriations; and making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date."

HOUSE BILL NO. 83

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

LEO VON SCHEBEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (DOT/PF), introduced department staff present at the meeting and discussed the departmental structure of DOT (Copy on File).

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Commissioner von Scheben listed accomplishments within the department during 2008. He spoke of a strategic plan developed by the department and highlighted five business goals within the plan that the department hopes to achieve:

- Improve the safety of the transportation system
- Develop a transportation system that supports and promotes economic development
- Improve individual and collective performance
- Conduct business in an open and honest manner
- Promote career growth and safety for all staff

Commissioner von Scheben believed that the newly developed goals were realistic.

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Commissioner von Scheben was excited about the nearly completed Alaska Marine Highway Systems (AMHS) analysis. He stated that the department is discussing the gasline infrastructure. He listed other departments that DOT/PF will work with in a coordinated effort concerning gasline infrastructure needs.

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Co-Chair Stoltze asked Commissioner von Scheben to outline the distribution of safety responsibilities between the department and the railroad. He was particularly interested in public safety at grade crossings.

FRANK RICHARDS, DEPUTY COMMISSIONER OF HIGHWAYS & PUBLIC FACILITIES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, answered that the Alaska Railroad was established before DOT/PF roadways. Because of this the responsibility falls on DOT/PF to pay the railroads for repairs and upgrade of grade crossings. For safety, separate crossings for railway traffic and highway traffic have been implemented where possible.

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Co-Chair Stoltze asked whether the department would have sole responsibility for the capital infrastructure. Mr. Richards replied that the department is still in the process of negotiating with the railroad to determine which entity shoulders the cost of different safety needs.

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Commissioner von Scheben cited the Glenn Highway and Bragaw Interchange as major accomplishments of the department. He was excited about the completion of internet service at the Fairbanks International Airport terminal. He listed accomplishments from FY08:

- Transferred ownership of five docks and harbors to communities.
- Maintenance and Operations crews covered 1,563,794 linear feet of highways with surface crack seal treatment or re-leveling depressed roadway surfaces by "banding".
- Paved 33 lane miles of gravel roads.
- Reconstructed 31 lane miles of roads.
- Performed 529 bridge inspections.
- Completed 9,748 commercial vehicle inspections during FY08.
- Conducted airport pavement condition inspections on one third of all paved airports in the state.
- Between 2006 and 2008, fatal and major injury crashes dropped by 77 percent on the Seward Highway and 37 percent on the Parks Highway, Alaska's two designated safety corridors.
- Provided surface maintenance of either gravel or paved runways for 31 airports.
- Performed repairs on 34 bridges.
- 17 percent reduction in square footage of structurally deficient bridges (2007-2008).
- Replaced over 41 failing culverts, some over six feet in diameter.
- The Ted Stevens Anchorage International Airport, South Terminal Seismic and Security Retrofit Project, Concourse A was completed.
- In 2008 both AMHS passenger and vehicle ridership showed an increase in numbers from those of 2007.
- AMHS on-time departures were at 93 percent for 2008.

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Representative Salmon wondered about accomplishments pertaining to the AMHS. Commissioner von Scheben referred to the systems analysis. He felt that vessels arriving and departing according to schedule should be considered an accomplishment. He added that the ferry schedule had been approved early in the year to ensure that out-of-state travelers could plan travel with the ferry system during the summer tourist season. The department has set aside \$60 million for vessel replacement. He relayed that he is receiving less complaints from the public than in the past. He suggested providing a list of AMHS accomplishments for the committee at a later date.

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Representative Gara asked about the possibility of a river highway system. He wondered what the state spends in providing transportation on the Yukon and Kuskokwim rivers.

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JIM BEEDLE, DEPUTY COMMISSIONER OF MARINE OPERATIONS, MARINE HIGHWAY SYSTEM, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, answered that AMHS does not have vessels built for travel on rivers. Representative Gara asked the department to consider river travel. He felt that the need for a freshwater system was strong. Commissioner von Scheben responded such an endeavor would be of high cost to the state.

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Commissioner von Scheben continued with the FY09 status report. A 2008 management system upgrade on the AMHS vessel MV Aurora saved the department \$120,000. The same system upgrade is being done on the MV Tustumena and MV Matanuska and savings to the state should be evident within two years.

Co-Chair Hawker stated that the FY08 allocation for fuel from the governor's budget had been based on higher fuel prices. He wondered if the drop in the price of fuel had left the department with an excess fuel allotment.

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NANCY SLAGLE, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, explained that the department used the fuel cost savings to cover increased costs for fuel and utilities for highways and aviation facilities that had not seen the same drop in fuel cost because of the timing of annual procurements. The department had already purchased most of the fuel prior to the price drop. Rural areas are experiencing a slower response to dropping fuel prices. The department is continuing to review the AMHS fuel needs.

Co-Chair Hawker asked for an accounting reconciliation of fuel costs for FY09 and comparisons and projections for FY10. He felt this would give the committee a basis to examine what might be needed in discussing the continuation of the fuel subsidy program. Commissioner von Scheben replied that the department would provide the information as soon as possible.

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Representative Crawford asked if any thought had been given to capital requests for the building of more fuel storage facilities. He suggested stockpiling fuel in anticipation of

rising fuel costs. Commissioner von Scheben wondered where the storage facilities might be built and if the stored fuel would be specifically for AMHS. Representative Crawford suggested building in Ketchikan, Wrangall, Juneau, and possibly Haines, and clarified the fuel would be for use by the AMHS. Commissioner von Scheben answered that he would take the idea into consideration.

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Representative Gara thought that the cost of importing fuel from Washington State was less expensive per gallon and that the price is inflated in Alaska. He felt that a larger storage capacity in the state was comparable to having another refinery. He thought that this was a possible way to look at lowering fuel costs throughout the state. Representative Foster pointed out the plan could work against the state. Representative Gara maintained that the fuel storage plan could save rural Alaskan's \$0.60 to \$0.70 per gallon. Co-Chair Hawker suggested discussing the issue with the Department of Commerce, Community, and Economic Development.

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Commissioner von Scheben spoke of the effect of the hiring freeze on the department. The department has a vacancy of 275 full-time positions and 100 seasonal positions. This amounts to 10 percent of its workforce. Waivers have been requested for the continuation of construction programs, road maintenance, airport maintenance, continued safe operations of AMHS, and international airports. He informed the committee that the federal stimulus package was a major topic of discussion within the department and has prompted the department to prepare a Statewide Transportation Improvement Program (STIP) amendment.

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Commissioner von Scheben specified that the STIP amendment would be ready by February 6, 2009.

Co-Chair Hawker asked Commissioner von Scheben to talk about how the federal stimulus plan would affect the department. Commissioner von Scheben understood that the federal stimulus funding the department would receive would not require a state match. The department would be required to use 50 percent of the funding within 90 to 180 days, depending on which version of the plan is passed.

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Commissioner von Scheben estimated that the amount of money that his department could receive was between \$300 to \$500

million. He informed that discussions are ongoing concerning the use of stimulus funds.

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Commissioner von Scheben felt that more would be known once President Obama signed a stimulus bill. The STIP process takes 90 days. The department began the STIP process early in order to be project-ready when the stimulus funds become available.

Co-Chair Hawker asked how the department will determine which projects will receive stimulus dollars.

FRANK RICHARDS, DEPUTY COMMISSIONER OF HIGHWAYS & PUBLIC FACILITIES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, stated that the money would be spent on projects that have been on the STIP and approved by the legislature.

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Mr. Richards stressed that congress is adamant that stimulus dollars will be pulled and distributed to other states with bid-ready projects if the dollars are not spent in the time allotted. He asserted that a list of projects had been made that could use the money provided they receive legislative approval. The department must first complete the STIP amendment to highlight projects going into the construction phase. The amendment should be going out on February 6, 2009 concurrent with the department's request for appropriation. The hope is to have the projects begin as quickly as possible. Another emphasis Congress has placed on the stimulus money is that it be used in areas of economic distress; this equates to 60 percent of the proposed projects for highways and transit. All areas of the state qualify as economically distressed except The North Slope, Anchorage, Fairbanks, Juneau, Sitka, and Ketchikan.

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Representative Austerman asked for a definition of transportation projects.

Deputy Richards answered that there are three initial formula funds mentioned: the federal highway administration funds, the federal transit administration funds, and federal aviation funds. Under the federal highway program, the department uses funds for enhancement of transportation projects such as bikeways, pedestrian facilities, and waysides. The House and Senate bills currently being debated on the federal level have differing definitions of what constitutes a transportation project.

Vice-Chair Thomas asked if a requirement for organized labor was in the stimulus plan. Deputy Richards answered that he did not think it was a requirement. Vice-Chair Thomas expressed concern that contracts in rural Alaska would be given to large companies instead of local contractors. He felt that the contracts should be bid out on a small scale for the stimulus package funds to help rural Alaskans.

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Representative Fairclough wondered if a dollar number could be given for differed maintenance for the department's facilities, highways, and airports. Deputy Richards answered that the department's dollar numbers for differed maintenance are ever-increasing.

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Representative Fairclough wondered how the department was planning on addressing the issue of rising deferred maintenance numbers. She felt that some stimulus dollars could be used for deferred maintenance projects, rather than funding new projects. She spoke of poor road conditions throughout the state, particularly in rural areas and along the Glenn Highway. She questioned whether the department had plans to use stimulus dollars to repair roads in those areas. Deputy Richards replied that Glenn Highway rut repairs are on the list of projects.

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Mr. Richards added that culverts on 62 miles of road on the Dalton Highway will be replaced. He stressed that the department has every intention of using some stimulus dollars for deferred maintenance in the areas of highways and aviation.

Representative Fairclough asked if the Glenn Highway repairs were in the STIP amendment and, if so, when would they be completed. Deputy Richards replied that the project timelines are listed on the departments website.

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Representative Gara asked if airport upgrades in rural Alaska go through the STIP amendment. Commissioner von Scheben replied no. Representative Gara expressed concern that stimulus dollars would not be used for rural community projects.

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Commissioner von Scheben shared that a list of Airport Improvement Programs (AIP) is currently being compiled.

Representative Gara felt that local hire needed to be enhanced throughout the state. He wondered if the department would be diligent about local hire. Commissioner von Scheben replied that DOT/PF has a Disadvantaged Business Enterprise (DBE) program. He added that between the aviation and highway projects there is potential for local hire. Mr. Richards added that the price of the projects have a wide range. He spoke of different groups that DOT/PF is collaborating with in order to put Alaskans to work.

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Representative Austerman stated he was concerned with contract overload. He thought outside contractors would be necessary. Commissioner von Scheben communicated that the increase in workload would be 30 percent. He felt that the Alaskan workforce would not be overburdened.

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Co-Chair Stoltze relayed that the Glenn Highway is a state highway and its Eagle River Bridge is the most used bridge in the state. He asked that the ownership of the Birchwood Airport remain with the state.

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Commissioner von Scheben replied that he was not aware of any change of ownership concerning the Birchwood Airport. Co-Chair Stoltze stated for the record that Birchwood Airport is the only rural airport that is not in debt and that the municipality would like to retain it as a source of revenue.

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Representative Fairclough noted that Commissioner von Scheben reached out to committee members and invited them to view the Dalton Highway and see the challenges firsthand. She felt the experience had been informative. She thought that there were consequences to be expected for accepting stimulus money and cautioned the department to plan ahead.

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Representative Foster reported that Northwest Alaska has 152 state employees; two in Saint Mary's, two in Unalakleet, and 148 in Nome. Half of the Nome employees were born in villages and have a knowledge of the needs in rural Alaska.

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^COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

EMIL NOTTI, COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT (DCCED), presented his staff. The department's vision statement is to promote a healthy economy and strong communities. The total FY10 operating budget request for the department is \$187,618,100. The amount includes a general fund reduction of 48.6 percent from the FY09 Management Plan (a decrease of \$18.5 million). This decrease is primarily due to the removal of \$23 million of general funds used to pay for a one-year increase in the ceiling of Power Cost Equalization (PCE) formula from \$0.525 to \$1.00/kWh. To more accurately compare budgetary changes, when the \$23 million one-time PCE funding is removed from comparisons, the department's general fund increases by \$4.5 million. The requested increases can be broken into two groups: budgetary changes that maintain the current level of service or budgetary changes that increase the level of service. About \$4.36 million is requested to maintain the current level of service as follows:

- \$2 million of general funds to replace business license revenue due to annual reduction fees from \$100 to \$50.
- \$1.9 million of general funds in Alaska Seafood Marketing Institute (ASMI) to replace lost federal and other revenue.
- \$255.5 of general funds for contractual salary increases.
- \$210.3 of general funds for the Alaska Energy Authority (AEA) Executive Director/Statewide Energy Coordinator.

The general fund budgetary change that increases the current level of service is \$150,000 of general funds to the AEA to support the implementation of alternative energy and other energy initiatives.

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Commissioner Notti relayed that funding for the PCE request program is \$32.8 million, down from \$51.1 million in FY09.

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Commissioner Notti revealed that the majority of the \$138,311,401 capital budget request is for projects that pass through the department to associated organizations, corporations, and communities. He listed corporations, agencies and contracts within the department:

- AEA Energy Projects: \$31 million (\$20 million federal and \$11 million other).

- AEA-Denali Commission match for rural Power System Upgrades: \$10 million other funds.
- Community Block Grants: \$6.1 million (\$70,000 general fund and \$6,030,000 federal).
- Manufacturing Extension Program: \$806,401 general fund.
- Community Development and Assistance: \$2.63 million (\$430,000 general fund, \$600,000 federal, \$1,600,000 other).
- Denali Commission Match for Rural Transportation: \$5 million other funds,
- NPR-A [National Petroleum Reserve Alaska] Impact Grant program: \$22.5 million federal.
- Electrical Emergencies Program: \$250,000 general funds.

Commissioner Notti pointed out that the following corporations have been assigned to the department by statute:

- Alaska Aerospace Development Corporation, (AADC)
- Alaska Industrial Development and Export Authority, (AIDEA)
- Alaska Energy Authority (AEA)/AIDEA
- Alaska Railroad Corporation (ARRC)
- Regulatory Commission of Alaska (RCA)
- Alaska Seafood Marketing Institute (ASMI)

Commissioner Notti stated that these entities are independent from the department but their respective missions are complimentary and within the scope of the mission of the department.

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Co-Chair Stoltze spoke of the effective marketing done by the Alaska Seafood Marketing Institute (ASMI). He wondered if ethics would allow the department to take over marketing from the Department of Natural Resources by creating a corporation similar to ASMI to market Alaska's other agricultural goods. Commissioner Notti felt that the question should be brought to the legislature. He offered to research the subject for the committee.

Representative Gara mentioned DCCED efforts to alleviate fuel problems in rural Alaska. He pointed out that the state could save money by upgrading existing diesel plants. Denali Commission money is currently being used to upgrade the plants. According to AEA the cost for upgrades in rural Alaska is \$30 million. He felt that upgrading the plants

quickly would benefit the state and wondered if the department had been discussing the issue.

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Commissioner Notti replied that the department had been looking into upgrades. He thought that the biggest expenses were tank farms and diesel generators. He expressed that the cost of diesel fuel was not going down and suggested the state consider alternatives. He reassured the committee that the department was committed to helping lower energy costs.

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Representative Gara understood that diesel use in rural areas would continue to some extent regardless of whether other energy options were available. He maintained that the state would benefit from immediate upgrades of diesel plants. Commissioner Notti replied that the department would work with AIDEA on the issue.

Representative Austerman queried the employee structure of AIDEA and AEA. Commissioner Notti thought that between the two divisions there were 66 employees. Representative Austerman asked for clarification as to how many of those employees were working specifically for AEA.

AMANDA RYDER, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, explained that organizational work charts can be found in the Governor's Budget Detail Book. Employees of AIDEA constitute AEA workforce. Representative Austerman asked why the number of employees was not broken down in the overview. Ms. Ryder believed that due to a legislative decision made many years ago in order to cut costs, the AEA cannot have official employees by statute.

Vice-Chair Thomas noted that no one from the tourism industry was present at the meeting. He wondered if the department worked with the tourism industry through the Alaska Travel Industry Association (ATIA).

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Commissioner Notti answered that the bulk of money spent on tourism flows through the department directly to ATIA.

Vice-Chair Thomas wondered about the difference in funding between ATIA and ASMI. Ms. Ryder stated that \$9 million of state funds have been appropriated for ATIA. The FY09 budget for ASMI is \$750,000, a fund source change has been requested that would bring the total budget up to \$2 million.

Vice-Chair Thomas emphasized that the commercial fishing industry contributes \$84 million per year to the general fund. He expressed concern that the equity of marketing was not fairly balanced between ATIA and ASMI and stressed that commercial fishermen put enough into the general fund to receive more money for marketing. He asserted that given the amount of funding they are receiving from the state, someone from ATIA should be present at the meeting.

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Representative Salmon asked about ceasing the use of diesel fuel in rural villages. He wondered if the department was funding the exploration of new energy sources. Commissioner Notti answered that all the money going to energy research is going through ATIA. He stated that new research would be generated through ATIA and not DCCED.

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Representative Salmon wondered about river power as a replacement for the diesel generators. He felt the fish wheel was an efficient power source. He thought a lot of diesel fuel could be saved between May and December with an alternative hydro fuel source.

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Representative Salmon felt that alternative energy sources could be applied to rural Alaska. He questioned what advances were being made to create viable, successful, alternative energy sources. He wondered what percentage of departmental funds has been devoted to the subject.

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Commissioner Notti could not give immediate numbers. He talked about possible technical problems with river power. He felt answers could come from AIDEA. He felt it would take a combination of systems to solve the energy problem. He agreed the river is a powerful energy source but he felt it was going to take a long time to efficiently harness the power.

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Representative Fairclough hoped that DCCED and other state agencies working in the field of alternative energy research were sharing information. Commissioner Notti answered that AEA has vetted the projects that have been put before the legislature and that the projects differ geographically and technologically. Representative Fairclough stated that the methodology used by the University of Fairbanks to examine the cost benefit of different energy alternatives was

impressive. She hoped a filter was in place between AEA and the university to avoid duplicate projects which would cost the state twofold. She expressed that energy alternatives limited to summertime use may not be valuable to the state. She pointed out that millions of federal dollars have already been spent researching alternative energy.

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Commissioner Notti reassured the committee that the filter that is currently being used helps the department to examine the cost benefits of a variety of alternative energy possibilities. Co-Chair Hawker urged the department to be diligent in spending state money.

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Co-Chair Hawker commented on SB#230 which authorized \$100 million of state funds to be spent on tax credits for the film industry. He wanted to know where the film offices would be located and if the payment of credits were included in the budget. Commissioner Notti replied that it has taken time to draft regulations. A film office director has been hired as well as an assistant. Applications are currently being taken now for reimbursement approval. To date no money has been spent in reimbursements. Ms. Ryder added that the tax credits were not included in the budget. She clarified that the Department of Revenue (DOR) calculates the tax credit in its fiscal summary.

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Co-Chair Hawker reiterated the question asking for a definitive number in the state budget that is to be used to pay the film credits.

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JOE AUSTERMAN, MANAGER, OFFICE OF ECONOMIC DEVELOPMENT, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT (OED), informed the committee that OED would issue a certificate for the tax credit. Given that The film industry is not a taxpayer to the state, the certificate would be brokered to businesses that have corporate income tax obligations to the state. He stated that the authorized appropriation is handled through DOR. Co-Chair Hawker voiced his discomfort with the departments' uncertainty with the spending authority behind the certificates. Ms. Ryder assured the committee that she would research the issue.

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Mr. Austerman stressed that the department had worked to draft regulations that would create a program with an

Alaskan focus. The department is committed to ensuring that the program benefits the state. The regulations are under public review for another 30 days and a package should be ready for signing in 60 days.

Representative Salmon wondered about future funding of the Denali Commission. Commissioner Notti replied that the department was not directly involved with the commission. He asserted that he did not know about future funding of the Denali Commission and did not want to speculate.

Representative Gara wondered how much local business was expected to be generated by the film office. Mr. Austerman explained that there is a reporting requirement written into SB#230 which identifies anticipated film industry spending in the state. A report will be generated to identify how much money is coming into the state and which companies will qualify for the tax credit. He asserted that the OED would work to identify the industries economic impact to the state.

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Representative Austerman pointed out that in addition to the tax credits, the state is funding the film office \$290,000 per year from the general fund.

Co-Chair Hawker mentioned the graphs in the 10-year overview did not reflect any change in general or capital fund expectations. Commissioner Notti remarked that there were so many economic unknowns that it was difficult to project the budget.

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Co-Chair Hawker suggested that budget funding be requested in good faith. He felt that the department had not presented an honest budget but rather a safe budget. He felt there was no vision for the department reflected in the overview.

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Representative Salmon hoped that the future budget request from the department would include funding for alternative energy testing.

Representative Crawford expressed concern that the department did not have an effective plan to move forward with renewable energy projects. He warned that the state should be prepared when fuel prices rise again.

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Representative Kelly felt that the department's participation in the clean coal project should be noted as a significant achievement.

Commissioner Notti referred to Representative Crawford's concerns. He reported that there was a plan to effectively oversee alternative energy projects.

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Representative Joule thanked Commissioner Notti for recognizing that there is a difference between alternative and renewable energy.

HB 81 and HB 83 were HEARD and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 3:27 PM.