

1  
2 COMMONWEALTH OF PENNSYLVANIA  
3 HOUSE OF REPRESENTATIVES  
4 HOUSE APPROPRIATIONS COMMITTEE

5  
6 THE MAIN CAPITOL  
7 ROOM 140  
8 HARRISBURG, PENNSYLVANIA

9 THURSDAY, MARCH 31, 2011  
10 10:05 A.M.

11  
12 PUBLIC HEARING  
13 OFFICE OF THE BUDGET

14  
15 BEFORE :

16 HONORABLE WILLIAM F. ADOLPH, JR., CHAIRMAN  
17 HONORABLE JOSEPH F. MARKOSEK  
18 HONORABLE JOHN C. BEAR  
19 HONORABLE MARTIN T. CAUSER  
20 HONORABLE JIM CHRISTIANA  
21 HONORABLE GORDON DENLINGER  
22 HONORABLE BRIAN L. ELLIS  
23 HONORABLE MAUREE GINGRICH  
24 HONORABLE GLEN R. GRELL  
25 HONORABLE TOM KILLION  
HONORABLE DAVID R. MILLARD  
HONORABLE SCOTT PERRY  
HONORABLE TINA PICKETT  
HONORABLE JEFFREY P. PYLE  
HONORABLE THOMAS J. QUIGLEY  
HONORABLE DOUGLAS REICHLEY  
HONORABLE MARIO M. SCAVELLO  
HONORABLE CURTIS G. SONNEY

1 CONTINUED:  
2 HONORABLE MATTHEW D. BRADFORD  
3 HONORABLE H. SCOTT CONKLIN  
4 HONORABLE PAUL COSTA  
5 HONORABLE DEBERAH KULA  
6 HONORABLE TIM MAHONEY  
7 HONORABLE MICHAEL H. O'BRIEN  
8 HONORABLE JOHN P. SABATINA, JR.  
9 HONORABLE STEVE SAMUELSON  
10 HONORABLE MATTHEW SMITH  
11 HONORABLE GREG VITALI  
12 HONORABLE RONALD G. WATERS

13 ALSO PRESENT:

14 HONORABLE BRYAN BARBIN  
15 HONORABLE MICHELE BROOKS  
16 HONORABLE MICHELLE F. BROWNLEE  
17 HONORABLE MARK B. COHEN  
18 HONORABLE DOM COSTA  
19 HONORABLE MARGO L. DAVIDSON  
20 HONORABLE PAMELA A. DELISSIO  
21 HONORABLE SHERYL M. DELOZIER  
22 HONORABLE H. WILLIAM DEWEESE  
23 HONORABLE DAN FRANKEL  
24 HONORABLE MARK GILLEN  
25 HONORABLE FLORINDA J. FABRIZIO  
HONORABLE WILLIAM C. KORTZ  
HONORABLE KURT A. MASSER  
HONORABLE RICK MIRABITO  
HONORABLE THOMAS P. MURT  
HONORABLE BRAD ROAE  
HONORABLE TODD STEPHENS

EDWARD NOLAN, EXECUTIVE DIRECTOR (R)  
MIRIAM FOX, EXECUTIVE DIRECTOR (D)

BRENDA S. HAMILTON, RPR  
REPORTER - NOTARY PUBLIC

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## P R O C E E D I N G S

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CHAIRMAN ADOLPH: Good morning. The hour of ten o'clock having arrived, I'd like to call to order the House of Appropriations Committee budget hearing with the Secretary of Revenue Charles Zogby.

My name is Bill Adolph. I'm the House Republican Appropriations Chair.

Just to go over a couple of things with everyone, we're going to have some introduction of the members and we're also going to remind everyone to turn off their cell phones and BlackBerries.

And we're going to continue with the first round question, ten minutes. And whatever is necessary on the second and third round, we're here as long as the members have questions.

So without further ado, I'd like to turn the mike over to the Democratic Chair of the committee, Representative Joe Markosek.

REP. MARKOSEK: Thank you, Mr. Chairman.

Good morning, Mr. Acting Secretary. We look forward to your testimony.

Before we do that, if it pleases the Chair, I'd like to introduce the Democratic members of the Appropriations Committee who are here today. First

1 of all, we have Representative Paul Costa from  
2 Allegheny County; Representative John Sabatina from  
3 Philadelphia County; Representative Ron Waters from  
4 Philadelphia and Delaware County; Representative Matt  
5 Smith from Allegheny County; Representative Matt  
6 Bradford from Montgomery County; Representative Scott  
7 Conklin from Centre County; Representative Steve  
8 Samuelson from the Lehigh Valley; Representative Tim  
9 Mahoney from Fayette County; Representative Deb Kula  
10 from Fayette County; the Vice Chairman of the  
11 Committee, Representative Mike O'Brien from  
12 Philadelphia County.

13 And we have a couple of guest legislators  
14 that I've seen here. We have the Democratic Caucus  
15 Chairman, Representative Dan Frankel from Allegheny  
16 County; Representative Bryan Barbin from Cambria  
17 County; Representative Michelle Brownlee from  
18 Philadelphia County; Representative Pam DeLissio from  
19 Philadelphia County.

20 And I hope I'm within sight of everybody  
21 here and if others come in, we will introduce them.

22 And the last person --

23 REP. VITALI: Mr. Chairman --

24 REP. MARKOSEK: Oh, sorry.

25 REP. VITALI: I have your back up here.

1 I'm your back up here.

2 REP. MARKOSEK: Representative Greg  
3 Vitali. He's got my back here, Mr. Secretary. Greg  
4 Vitali from Delaware County. And also Miriam Fox is  
5 our executive director.

6 Thank you.

7 CHAIRMAN ADOLPH: Thank you,  
8 Mr. Chairman.

9 To my left is the House Republican  
10 executive director of the Appropriations Committee,  
11 Dr. Ed Nolan. And then we'll proceed with the  
12 individual legislators identifying themselves and the  
13 district or county that they reside.

14 REP. REICHLEY: Hi. Doug Reichley from  
15 the 134th District, Lehigh and Berks.

16 REP. GRELL: Good morning, Secretary  
17 Zogby.

18 Glen Grell, Cumberland County, 87th.

19 REP. GINGRICH: Good morning, Acting  
20 Secretary.

21 Mauree Gingrich, from Lebanon County,  
22 101st District.

23 REP. DENLINGER: Good morning. Gordon  
24 Denlinger from eastern Lancaster County.

25 REP. PERRY: Good morning. As you know,

1 you're one of my bosses. Scott Perry, northern York  
2 and southern Cumberland.

3 REP. CAUSER: Good morning. Marty  
4 Causer, McKean, Potter and Cameron Counties.

5 REP. ELLIS: Brian Ellis, Butler County.

6 REP. PYLE: Mr. Secretary, Jeff Pyle,  
7 Armstrong and Indiana. Hidden behind the podium.

8 REP. SONNEY: Good morning. Curt Sonney,  
9 Erie County.

10 REP. CHRISTIANA: Jim Christiana, Beaver  
11 County.

12 REP. QUIGLEY: Representative Tom Quigley  
13 from Montgomery County.

14 REP. KILLION: Tom Killion, Delaware and  
15 Chester Counties.

16 REP. PICKETT: Tina Pickett, Bradford,  
17 Sullivan, and Susquehanna Counties.

18 REP. SCAVELLO: Mario Scavello, Monroe  
19 County.

20 CHAIRMAN ADOLPH: Thank you. Today we  
21 have with us Charles Zogby. Charles Zogby was  
22 nominated by Governor Tom Ridge as the Secretary of the  
23 Budget. A very difficult position. Tom Ridge.  
24 Governor Tom Corbett.

25 The Secretary of the Budget is

1 responsible for the preparation of the Governor's  
2 budget and is responsible for getting the legislative  
3 action on the budget.

4 Prior to his nomination, Charles served  
5 as the senior vice president of education policy for K  
6 to 12 on an online school curriculum. Prior to that he  
7 served in the Ridge administration as policy director  
8 and also as Secretary of Education.

9 Without further ado, it's my pleasure to  
10 introduce to the Appropriations Committee Charles  
11 Zogby.

12 SECRETARY ZOGBY: Mr. Chairman, thank  
13 you.

14 CHAIRMAN ADOLPH: A brief opening  
15 statement, Mr. Secretary?

16 SECRETARY ZOGBY: I have no opening  
17 statement, Mr. Chairman.

18 CHAIRMAN ADOLPH: Okay. I guess I'll  
19 start out with this year's revenue, the current year's  
20 revenue. In your -- in your budget proposal you are  
21 suggesting, you've calculated that we should have a \$78  
22 million surplus over what was estimated. Today being  
23 the last day in March, which March is one of the two  
24 biggest revenue months of the -- of the fiscal year for  
25 the state, how comfortable are you with your estimate?

1                   SECRETARY ZOGBY: I would say I'm very  
2 comfortable, Mr. Chairman. I -- I haven't seen  
3 anything yet that would make me want to rethink that  
4 end of year \$78 million over estimate that we  
5 projected.

6                   March, I would say -- at least the update  
7 I got very early this morning, March looks like it's  
8 coming in a little better than expected. We've seen  
9 some -- some revenues in some categories that are  
10 offsetting some weaknesses in gross receipts tax that  
11 we saw earlier in the month.

12                   But I don't think we're at a point yet,  
13 at least I'm not, where I would reassess our -- our  
14 final year number. As -- as you know, PIT with annual  
15 holding -- annual withholding is a big number that  
16 we're going to see in April.

17                   We've seen some softness in those  
18 estimates throughout the fiscal year. And so I -- I  
19 think we're going to wait for that before I maybe  
20 reassess.

21                   But I think right now at least I feel  
22 comfortable with the -- the 78 million end-of-year  
23 projection that we have in the budget proposal.

24                   CHAIRMAN ADOLPH: Thank you. The first  
25 question from the members will be from Representative

1 Scott Perry.

2 REP. PERRY: Thanks, Mr. Chairman.

3 And congratulations, Secretary.

4 As you know, we've had discussions, you  
5 stopped by the office, and what I'm wondering is how  
6 much of the state budget is truly mandated?

7 In the previous administration's  
8 testimony on occasion we would hear upwards in the mid  
9 80 to 90 percent range mandated by some -- either state  
10 law or federal law.

11 Can you tell us -- which leaves, of  
12 course, the rest of -- 10 to 15 percent, the only thing  
13 we could functionally work with.

14 What's your view of what we are mandated  
15 to -- to cover?

16 SECRETARY ZOGBY: Well, I think,  
17 representative, I have not gone through and done a, you  
18 know, a percentage calculation in terms of mandated  
19 spending.

20 I would point out that 90 percent of the  
21 general fund budget can be found in basic and higher  
22 education, health and human services programs, debt  
23 service, collection -- or corrections rather.

24 You know, one would, I think, argue that  
25 our criminal justice area, maintaining public safety,

1 while you could argue perhaps that some of those  
2 dollars are discretionary, certainly I think people  
3 would be concerned if we eliminated public safety,  
4 our -- our state prison system.

5           So, you know, is that mandated or not,  
6 I -- I -- I guess one could argue that it is.

7           A number of other functions, I don't know  
8 that, you know, certain areas of the budget -- you  
9 know, do you want to wipe out a Department of  
10 Agriculture. There's -- there's certain safety  
11 programs' oversight there.

12           So I think when you get -- when you go  
13 through the budget and look at individual line items,  
14 you know, is higher education a mandated spending?  
15 Obviously we've made some reductions there.

16           So I think in certain areas you can  
17 certainly argue that there is, if not a mandate, at  
18 least certainly a strong rationale for continuing  
19 spending in those areas, whether other areas of the  
20 budget are not -- are mandated or not, maybe no -- if  
21 not mandated, certainly one could come up with a fairly  
22 powerful rationale as to why certain government  
23 function services are required.

24           So I -- I guess an -- an interesting  
25 intellectual discussion that one could have, I guess

1 it's tough -- difficult for me sitting here today to  
2 put an exact percentage on that though.

3 REP. PERRY: And I understand that. We  
4 are looking for ways to cut, of course, and -- and I  
5 know that you are, too.

6 SECRETARY ZOGBY: As am I.

7 REP. PERRY: And we've heard that in the  
8 past as a -- as -- as kind of a reason that we had an  
9 inability to rein in spending.

10 And so I would ask that you just be  
11 cognizant of -- of that and at some point maybe we can  
12 or you can put at least some range of numbers on it so  
13 that we can see what the leftover is that we can really  
14 take a look at. If --

15 SECRETARY ZOGBY: Well, I'm just -- I'm  
16 sorry. I would just say, too, that we did cut \$2.6  
17 billion in -- in spending this budget proposal. So  
18 certainly, you know, we're not afraid to go after --

19 REP. PERRY: Sure.

20 SECRETARY ZOGBY: -- areas where we  
21 can -- we can find savings.

22 REP. PERRY: Absolutely. And -- and I  
23 can tell you that there's a lot of folks in your  
24 neighborhood, because it's also my neighborhood, that  
25 would say we spent -- we increased spending \$8 billion

1 over the last eight years, for what? And so 2.6 is a  
2 step in the right direction but maybe it's not enough.

3 And then, of course, we get to the  
4 priorities. With that, one of the things I've been  
5 concerned with and -- and I think you are, too, based  
6 on our previous discussion, with general obligation  
7 debt.

8 It concerns me that I see that it's going  
9 to continue, specifically RCAP, and I wonder about the  
10 core functions of government and -- and where the  
11 administration stands philo -- philosophically.

12 But as I understand it, the -- the plan  
13 now is -- is to borrow up to the debt limit that's  
14 been -- that's been established in -- in legislative --  
15 in law.

16 Do you know what the programs are that  
17 you're interested in? Because I don't think they've  
18 been enumerated. Can you enlighten us at all? And  
19 what's the general philosophy? Is this a short-term  
20 thing, short-term fix, so to speak, to get us over the  
21 hump in this -- in times of decreased funding and  
22 then -- and you're looking to diminish that?

23 Because I think most Pennsylvanians are  
24 looking to diminish the debt and we're concerned about  
25 especially that RCAP program.

1                   SECRETARY ZOGBY: Well, I'm concerned  
2 about the amount of -- of debt as well,  
3 representative. You know, I've spoken on this before.  
4 I think this is another one of those, it's in the eye  
5 of the beholder.

6                   About a decade or so ago our -- our  
7 interest fund debt was about 500 million, 550 million.  
8 Today it's up over a billion dollars.

9                   And I dare say that I think a number of  
10 people would look at the additional 500 million that  
11 we're putting into debt service, and particularly in  
12 this budget year, I would gather that many could find  
13 what they would believe are a number of better uses for  
14 those funds.

15                   At the same time that -- you know, there  
16 are those that believe -- and there is an appropriate  
17 role for -- for debt service. What that right balance  
18 is, it's -- it's difficult to say. I'm certainly  
19 concerned about it.

20                   In terms of the RCAP program, that is  
21 something that we're looking at. There's a number of  
22 projects that held over from the previous  
23 administration. We're going through those one by one  
24 and taking a look at them.

25                   We've not had the opportunity to sit down

1 with the Governor and sort of look at the program going  
2 forward and how he might -- the Governor might wish to  
3 operate it. Any changes in the program. And I think  
4 that's something that -- that we intend to get at  
5 fairly soon.

6 But if -- that is an area that we're  
7 concerned about and intend to take a look at.

8 REP. PERRY: All right. My next  
9 question, again, because of where we live, we have a  
10 lot of state employees. We're close by here. And over  
11 the course of the last couple of years I've had plenty  
12 of them come in, and describing a situation which is  
13 almost unthinkable, and it's just irrational where the  
14 rank and file employees, so to speak, the ones that  
15 are -- that are represented by organized labor keep --  
16 continue to get their step increases but the  
17 management -- and management includes anybody that's  
18 not part of the bargaining -- collective bargaining  
19 agreement. I think you know this.

20 So you have your -- your secretaries and  
21 clerks are generally seen as management if they're not  
22 included in the bargaining agreement.

23 Do you know over the course of the last  
24 few years what the step increases have been as a  
25 percentage?

1                   SECRETARY ZOGBY: I want to say somewhere  
2 in the neighborhood of 17 percent.

3                   REP. PERRY: About 17 percent. And for  
4 management the same period of time? I can tell you  
5 it's about one, I think, if my numbers are correct.

6                   SECRETARY ZOGBY: I'll take your numbers.

7                   REP. PERRY: To the point where there --  
8 people are not interested in going from rank and file  
9 work to manage the -- the -- the various state --  
10 whether it's Corrections, whether it's PennDOT, people  
11 -- because why would you take on more responsibility  
12 for less money? Not to mention the just inequities of  
13 that whole system.

14                   What is -- do you -- do we have a plan?  
15 What's the plan? Because these folks, these employees  
16 want to know.

17                   SECRETARY ZOGBY: Well, representative, I  
18 think you put your finger on -- on precisely what the  
19 problem is, this -- this wage compression that we have,  
20 and we're oftentimes -- and I've heard this a number of  
21 times since January 18th upon taking office -- that  
22 it's -- it's difficult, very challenging sometime to  
23 get people in the rank and file to want to move up to  
24 -- and quality people to want to move up to managerial  
25 positions because they don't see it in their economic

1 self-interest, in addition to what it does to the --  
2 you know, to the good managers that we do have in state  
3 government. We do have a number of -- of good people  
4 in state government that I think, you know, ought to be  
5 rewarded in a -- in an appropriate way.

6 So it creates a huge challenge for -- for  
7 -- at a senior level, again, to find quality people,  
8 fill -- fill those positions with quality people.

9 It is something that I believe that  
10 Secretary Logan who is leading the efforts with the  
11 renegotiation of our labor contracts, that is something  
12 that is very much on her mind and the team as they go  
13 to the bargaining table.

14 And I'm -- I'm hopeful that that is  
15 something we can address in this next round of -- this  
16 current round of negotiations.

17 REP. PERRY: Okay. So to be clear then,  
18 we're going to address that in negotiations. I've told  
19 the state employees that have come into my office that  
20 -- the ones that are -- are management, so to speak,  
21 that would like to be made whole, so to speak, that we  
22 don't have the budget for it.

23 Let's -- let's face it. I don't think  
24 there's any chance at all to -- to bring them up to  
25 that same period of time for all the time that they've

1 lost, you know, and, of course, they're all taxpayers.

2 And I get plenty of taxpayers that don't  
3 work in state government as well that -- that -- that  
4 would say we can't afford that. And I would agree with  
5 them.

6 But I'm glad you're cognizant of it and  
7 we absolutely have to have a solution in the near term.

8 I'm going to yield the rest of my time to  
9 my colleague. But my one last question,  
10 philosophically, property taxes, where does the -- the  
11 Governor stand, where does the administration stand?

12 We need to have some relief. We  
13 absolutely have to have some relief one way or another.

14 SECRETARY ZOGBY: Well, on property  
15 taxes, representative, I think what you'll find in the  
16 Governor's budget proposal, certainly part of his  
17 legislative agenda this -- this spring, is giving  
18 voters greater control over school budgets which is the  
19 primary driver of local property taxes as you know.

20 Right now we have -- we have a law that  
21 has a number of exceptions, has not done very much at  
22 all to really stem the tide of property tax increases,  
23 and what the Governor has proposed is that the school  
24 budgets that increase faster than the rate of inflation  
25 would have to go to the voters for approval.

1                   And I think that, combined with a number  
2 of reforms that he's advocating in our public education  
3 system, we hope can -- can work together in tandem to  
4 rein in, to bring some control to school spending.  
5 Certainly trying to drive greater efficiencies in the  
6 system, which, I think, is -- is absolutely needed.

7                   So that's very much on the Governor's  
8 agenda. Let's put it back in the voters' hands to --  
9 to be able to control both the property taxes.

10                  REP. PERRY: Thank you, Secretary.

11                  And thank you, Mr. Chairman.

12                  CHAIRMAN ADOLPH: Thank you.

13                  Chairman Markosek.

14                  REP. MARKOSEK: Thank you. Thank you,  
15 Mr. Chairman.

16                  I'd like to note the presence of  
17 Representative Margo Davidson from Delaware County and  
18 also Representative Dom Costa from Allegheny County.  
19 Excuse me.

20                  Mr. Secretary, the Governor has  
21 identified his budget as a -- as a no tax budget, and I  
22 presume that that would also mean a no fee budget as  
23 well, particularly with the statements that he made  
24 during -- during his run for office, that there would  
25 be no taxes -- no new taxes or no new fees.

1                   Can you guarantee to us here today there  
2                   are no new taxes or new no fees in this budget?

3                   SECRETARY ZOGBY: I'm not aware of,  
4                   Mr. Chairman, any new taxes that are in this budget.  
5                   Certainly it was the Governor's intent and my intent in  
6                   putting together this budget that we would not have a  
7                   budget with -- with any new taxes or fees.

8                   REP. MARKOSEK: Okay. With the number of  
9                   major cuts that we'll see in the budget and -- we all  
10                  know it's difficult times, I think -- and you are and I  
11                  are -- are reasonable people, and I think most  
12                  reasonable people would conclude that with the cuts  
13                  that we have on the state level that there will be  
14                  taxes necessary, increased taxes necessary on local  
15                  municipalities, local school districts and other  
16                  entities, local fees -- fees for those entities as  
17                  well.

18                  As reasonable people, can you -- or as a  
19                  reasonable person, can you guarantee that there'll be  
20                  no new taxes on the local level due to this budget?

21                  SECRETARY ZOGBY: Well, the budget  
22                  secretary doesn't have the ability to guarantee  
23                  spending at a local level.

24                  But I would -- I would respectfully take  
25                  issue with the notion, Mr. Chairman, that this budget

1 means a -- a tax increase on any -- anyone at the local  
2 level.

3 I think one of the things that the  
4 Governor has said is that we need to look in the mirror  
5 and look inside the system, particularly our public  
6 education system, before we just simply hand the bill  
7 over to local property taxpayers.

8 The Governor's led the way in terms of  
9 calling for local educators, superintendents,  
10 administrators, teachers, all the support staff,  
11 everyone in the basic education system to take a pay  
12 freeze. We've had people respond to that.

13 We've identified areas of wasteful  
14 spending in our basic education system where we could  
15 make substantial savings. We've talked about -- the  
16 Governor has talked about mandate relief.

17 Let's remove reasons that we -- that  
18 we've imposed from Harrisburg that drive local  
19 spending. I think all that together, we ought to be  
20 able to manage our way out of these difficulties  
21 without calling on local property taxpayers to simply  
22 pass the bill on to them.

23 REP. MARKOSEK: I think just within the  
24 last week the Governor hinted that there may be a  
25 reason, a good reason to have fees relative to

1 Marvellous shale for local communities.

2 That sound -- I mean he said a fee. I  
3 think, if I'm not mistaken, he used the word fee.

4 So that goes against a little bit what  
5 you just said. It -- it sounds like that -- that there  
6 is a -- you know, from the front office, your boss,  
7 that there is some feeling that we would need, and  
8 local municipalities, local entities would need to have  
9 those kinds of increases due to the fact that the state  
10 budget has been so stringent.

11 But let me go on to another issue here,  
12 and that is the issue of discretionary grants. The  
13 Governor has made it clear that he did not want to see  
14 the discretionary grant program, and I think he used  
15 the term walking around money, and that, of course, is  
16 the vernacular that we use for discretionary grants and  
17 if we define discretionary grant, it would be a grant  
18 given out at somebody's discretion. In the past that  
19 was the members of the General Assembly for the most  
20 part. Every -- practically everybody in this room here  
21 who is a member of the General Assembly for at least a  
22 term or two.

23 And now we see that your office has moved  
24 money from the tobacco settlement funds -- we've had  
25 heard different numbers, figures on that.



1 I'm -- I'm very pleased you raised that, Mr. Chairman,  
2 because I think out of all of the Governor's proposals  
3 in the budget this one has probably been the most  
4 mangled publicly.

5 You say that everyone agrees that -- what  
6 the end uses of these funds would be and I would say  
7 that I'm not sure that agreement was shared by the  
8 prior administration.

9 I look at the 2009/'10 budget, which took  
10 money from the tobacco endowment account, 150 million,  
11 directed it to the general fund; 17, nearly 18 million  
12 for cessation and prevention which was taken from the  
13 tobacco settlement fund, put into the general fund;  
14 this current fiscal year that we're operating in right  
15 now 250 million from the tobacco settlement fund to the  
16 general fund; 121 million from the tobacco endowment  
17 account put into Public School Employees Retirement  
18 System.

19 REP. MARKOSEK: But isn't the Liberty  
20 loan -- isn't the Liberty Fund --

21 SECRETARY ZOGBY: If I -- if I could,  
22 Mr. Chairman.

23 REP. MARKOSEK: -- a discretionary grant?

24 SECRETARY ZOGBY: If I could,  
25 Mr. Chairman.

1                   REP. MARKOSEK:  Isn't it a discretionary  
2 grant?

3                   SECRETARY ZOGBY:  I think what -- what's  
4 happened in this -- in the proposal is that -- the fact  
5 that -- the fact that the tobacco funds were  
6 continually raided in the prior administration and  
7 diverted from to their intended uses has put great  
8 strain and stress on the end uses of those budget -- we  
9 were -- we were backed into a corner almost in terms of  
10 needing to bring these funds into the general fund.

11                   If I might, please, just -- and so in  
12 order to avoid delayed payments to vendors, really the  
13 integrity of the end uses, what we did is we brought  
14 the tobacco funds -- what we're proposing, I should  
15 say, is we brought -- to bring the tobacco funds into  
16 the general fund, all of the end purposes that those  
17 funds would go for would continue.

18                   Now, on the monies, the \$220 million that  
19 would go to the Liberty Loan Fund, because we would  
20 propose to eliminate the -- the tobacco investment  
21 board, we needed a place to park those funds to manage  
22 those investments.

23                   They would still continue to go, again,  
24 like the other funds in tobacco, to the end uses, but  
25 we would have the -- the proposed new Liberty Loan Fund

1 simply manage, oversee those investments.

2 We're not -- we're not proposing a change  
3 in the end uses of those.

4 REP. MARKOSEK: But it's all at the  
5 discretion of the Governor if you look at the make-up  
6 of that Liberty Loan Fund. Like I say, with a  
7 exception of a handful of House and Senate members,  
8 they're all governmental -- gubernatorial appointees.

9 So that is a discretionary fund, if you  
10 will, to be used at the discretion of the Governor.

11 I think any reasonable person, you know,  
12 here in the legislature would -- would agree with me on  
13 that, and yet he has criticized us.

14 And getting back to tobacco settlement  
15 funds that were taken last session, they were used for  
16 health care purposes. They were used even to help with  
17 the pension issue, which part of that, of course, is  
18 the health care of the pensioners.

19 So we -- what -- what you're saying, I  
20 mean I -- I think what we've -- what we've done here is  
21 established -- or what we're doing here is using  
22 health-care-related funds for a discretionary grant  
23 fund that the Governor will control.

24 And then let me just shift gears here.  
25 One more issue and I'll -- then I'll turn the mike

1 over.

2 DPW, we had the Secretary in here  
3 yesterday, and before he left I really encouraged him,  
4 and I would do the same with you.

5 First of all, we're -- we're happy to see  
6 the DPW has received an increase in funds this year.  
7 Of all the cuts being made in the -- in the budget this  
8 year, DPW seems to have done okay.

9 Keep in mind that DPW really represents  
10 folks who can't help themselves in many ways, the  
11 elderly, children, chronic ill.

12 SECRETARY ZOGBY: Yes, sir.

13 REP. MARKOSEK: Handicapped. And we  
14 would like -- and I asked him, and I would like you  
15 to -- to the extent that you can, protect those funds,  
16 particularly those additional funds, that you have put  
17 into DPW.

18 You obviously put them in there for a  
19 reason. So I'm assuming you're for all that and for  
20 those people and don't want to see those people suffer  
21 any -- any further.

22 And I would urge you -- and certainly  
23 would like the pledge, if that's possible -- that you  
24 will keep those funds -- keep that DPW funded to the  
25 extent that they currently -- that it currently is,

1 that you -- that you and the Governor have proposed.

2 SECRETARY ZOGBY: Well, Mr. Chairman, I  
3 appreciate your words. I would say that the Governor  
4 shares the view of sort of protecting the most  
5 vulnerable men and women with intellectual  
6 disabilities, those that are in nursing homes, other --  
7 other critical social safety net programs.

8 I would say at the same time that the  
9 administration, the Governor, I know Secretary  
10 Alexander is concerned about the integrity of those  
11 programs and we make sure that the people who are  
12 taking advantage of -- of the benefits indeed qualify  
13 for those programs.

14 And there has been some suggestion that  
15 that's not always been the case in those programs. And  
16 while it's difficult -- it was difficult to discern in  
17 the six short weeks we had to put together this budget,  
18 that it is -- that is an area that we're going to look  
19 at, and not just the individuals but also the providers  
20 that are -- that are receiving those funds.

21 I know that's something that the  
22 Secretary is eager to do and we're -- we're going to  
23 await the outcome of -- of his work to see indeed if  
24 there is -- if there are indeed issues with some of the  
25 programs and funding streams there.

1 REP. MARKOSEK: Thank you very much.

2 CHAIRMAN ADOLPH: Thank you,  
3 Mr. Chairman.

4 Certainly glad to hear that,  
5 Mr. Secretary.

6 The Chair allowed the Democratic Chair,  
7 you know, way above the ten minutes, so don't think the  
8 individual members are going to get that type of  
9 benefit. I'm not getting soft here. But I will -- I  
10 will grant the Chairman of the -- of the Democratic  
11 Committee.

12 REP. MARKOSEK: Round two.

13 CHAIRMAN ADOLPH: Yeah. Yeah. Okay.  
14 We're now going to go to Representative Tina Pickett.

15 REP. PICKETT: Thank you, Mr. Chairman.  
16 Good morning, Secretary.

17 SECRETARY ZOGBY: Good morning,  
18 Representative.

19 REP. PICKETT: You mentioned the term  
20 agriculture in your comments a few people ago; and this  
21 past week many of us had meetings here in Harrisburg  
22 with Farm Bureau members and had discussions regarding  
23 many of the things that they're concerned about.

24 I believe they're still the largest  
25 industry in Pennsylvania when you consider them and all

1 the ag-related businesses that are included.

2 And in particular we noted that in this  
3 budget appropriations were taken from the Department of  
4 Ed for some veterinary activities and infectious  
5 control and moved to the Department of Ag.

6 One of the questions was will those --  
7 those two items continue to be managed by the  
8 University of Penn? Will they be under direct control  
9 and oversight of the department? How is that going to  
10 work?

11 SECRETARY ZOGBY: Well, their -- as you  
12 know, representative, we did move, for instance, the  
13 vet school to -- from the education budget to the  
14 agricult -- Department of Agriculture budget.

15 I think -- at least my historical memory,  
16 at least, is that's always been viewed as an important  
17 agricultural asset in the Commonwealth, and so we felt  
18 that that appropriation was more appropriately placed  
19 in the Department of Agriculture.

20 I would -- I guess we've not had detailed  
21 discussions with the Secretary regarding those funds.  
22 I would see a fair amount of consistency with the way  
23 that they've been utilized and overseen as they were in  
24 education.

25 I think the fact that they're in

1 agriculture can hopefully facilitate some -- some more  
2 discussion between the department and the vet school.  
3 Perhaps there's some greater synergy -- synergies we  
4 might be able to explore given that move.

5 But I think that that's to be determined  
6 and that will be something that we'll be working with  
7 both the vet school and, as I said, the Secretary in --  
8 in the months to come, assuming that the -- the General  
9 Assembly adopts our proposal to make that move.

10 REP. PICKETT: So my experience is that  
11 the agricultural community doesn't ask for a lot and in  
12 following through what you just remarked about, some of  
13 the assets that are important to them, they brought to  
14 me the question of ag extension services and ag  
15 research, which are currently under Penn State and  
16 always seem to be under the threat of cut, if there's  
17 any cut coming out of Penn State.

18 Would there be any consideration of  
19 putting those functions under the Department of Ag  
20 also?

21 SECRETARY ZOGBY: Well, my understanding,  
22 representative, is that the specific services that  
23 you're talking about had -- were eliminated in terms of  
24 discrete line items in the general fund budget several  
25 fiscal years ago.

1           I would say if there's a threat to those  
2 funds, I've heard Penn State officials, for instance,  
3 say that the cuts in higher ed will jeopardize those  
4 funds.

5           I would just remark that the money that  
6 we appropriate for Penn State University is for general  
7 support. Those funds can be programmed wherever the  
8 university deems appropriate consistent with the  
9 university's overall purpose.

10           And so Penn State has it within its  
11 power, if those services are critically important, and  
12 certainly, you know, they -- they would be seen as --  
13 as important -- an important, Penn State has the  
14 ability to direct any funding that it receives from the  
15 Commonwealth to those funds.

16           So I think if there's any threat in cuts  
17 of funding, I would direct folks to -- to the  
18 university, not to the budget office.

19           REP. PICKETT: I'd have to put a pitch in  
20 for ag extensions services. In addition to all the  
21 things they do agriculturally, they've been very much  
22 up-front and very important in an educational way in  
23 the general region of Marvellous.

24           They've taken a real front position in a  
25 lot of the educational items that have really helped

1 the public to be able to question somebody other than  
2 the gas companies, to question somebody else on all of  
3 the different aspects that they have concerns about.

4 And ag extension has done a great job  
5 with it. They really have. So they're important to us  
6 from that aspect.

7 One -- one other question, kind of  
8 changing the subject here. We've had some discussions  
9 with some other secretaries about drug purchasing and  
10 ways to combine and save some money for the state and  
11 there seemed to be barriers and roadblocks that are  
12 kind of hard to understand sometimes, but -- in  
13 particularly the Corrections programs, have we thought  
14 about consolidating any of those drug purchasing  
15 programs and -- and helping the state with some -- some  
16 dollar savings there?

17 SECRETARY ZOGBY: I don't know,  
18 representative, that we've given thought to that  
19 specific proposal. I would say that, again, as I've  
20 remarked time and time again, this is not going to be  
21 the only difficult year we have as a Commonwealth in  
22 putting together a general fund budget.

23 We're going to have stresses and strains  
24 going forward, and I think anywhere that we can look  
25 for savings, particularly in the Corrections budget,

1 we'd be very eager to do that.

2           So I'd love to take your suggestion and  
3 double back with Secretary Wetzel and see if that's  
4 something that -- that we can't do. And if -- but more  
5 likely in next year's budget, but certainly I think  
6 that's something we ought to take a look at.

7           REP. PICKETT: As you mentioned, it may  
8 not be the only difficult year. I did detect a flavor  
9 throughout Governor Corbett's budget presentation that  
10 he really was looking for job growth as the way to get  
11 us out of some of the depths that we're in.

12           Is that -- is that your general feeling  
13 with the theme of this budget, that we really are  
14 looking to create jobs and not have such a painful  
15 unemployment number in Pennsylvania?

16           SECRETARY ZOGBY: That's exactly it,  
17 representative. Jobs. Jobs. Economic growth, job  
18 growth is priority one, and everything that we can do  
19 to encourage economic development and job creations in  
20 the Commonwealth, that is the Governor's top priority,  
21 and we're going to be focused on that.

22           The best way to get out of the fiscal  
23 challenges that we face is through economic growth,  
24 through job creation, and we absolutely have to be  
25 focused on that.

1 REP. PICKETT: Thank you.

2 And thank you, Mr. Chairman.

3 SECRETARY ZOGBY: Thank you.

4 CHAIRMAN ADOLPH: Thank you.

5 Representative Greg Vitali.

6 REP. VITALI: Thank you, Mr. Chairman.

7 And thank you, Secretary Designee,  
8 obviously for taking the time to reach out to me and  
9 have an exchange last month. I appreciate that.

10 I have a series of questions relating to  
11 the Marvellous gas reserve as a potential revenue  
12 source. And I -- and I have to say at the outset that  
13 it's absolutely indefensible as a matter of public  
14 policy that the Governor just tenaciously, and I'll say  
15 it, and I'll say it, pigheadedly refuses to consider a  
16 -- a Marvellous drilling tax when every other major gas  
17 producing state has this tax and when he's proposing  
18 Draconian cuts.

19 And I can tell you when the people of my  
20 district hear he's received over \$800,000 in campaign  
21 contributions from the drilling interests and refuses  
22 to consider a Marvellous drilling tax what they think  
23 is that the Governor is in the pocket of drilling  
24 interests. I think that's sending the wrong message.

25 When you have 78 percent now of

1       Pennsylvanians calling for a Marvellous drilling tax  
2       and the Governor just clings to this simplistic  
3       campaign pledge of new no taxes, it's really just  
4       sending the wrong message to people of Pennsylvania,  
5       and I think he's eroding confidence in Pennsylvania  
6       government.

7                       Having said that, I wanted to focus in on  
8       the so-called impact fee which now seems to be  
9       surfacing.

10                      I -- I noticed in recent newspaper  
11       reports that the Governor seems to be -- to be opening  
12       himself up to this. I know that this has been endorsed  
13       by the House and Senate members.

14                      I'm trying to get at -- now maybe you --  
15       I'm trying to get at some details. They are -- they  
16       are surprisingly scarce at this point.

17                      What is within the realm of possibility?  
18       Are you envisioning a local option by Marvellous  
19       drilling municipalities? Are you envisioning something  
20       that the state would impose as -- as a -- what are you  
21       envisioning as far as how an impact fee would be  
22       imposed?

23                      I'm focusing in on whether it would be a  
24       municipality-imposed tax versus a -- as a -- as a -- a  
25       state imposed tax.

1 I'm also interested with regard to --  
2 what are you compli -- contemplating with regard to  
3 this impact fee with regard to the rate?

4 Are you contemplating it being imposed on  
5 a per well basis? Are you contemplating it being  
6 imposed on a volume of gas extracted basis? And are  
7 you contemplating -- or are you contemplating it being  
8 imposed on a market value basis?

9 And with regard to its uses, I mean  
10 you -- you talk about local municipality -- not going  
11 to the general revenue and -- and I don't quite get why  
12 that's such a bugaboo, but what about -- where are the  
13 potential uses? What about restricted receipt accounts  
14 in the General Assembly?

15 What about -- so tell me about -- tell me  
16 about this -- the -- and who is the point person with  
17 regard to the discussions with the General Assembly?

18 I can go over these questions one by one  
19 but I'll let you take a shot.

20 CHAIRMAN ADOLPH: Yeah, representative, I  
21 was -- I was going to suggest that you --

22 REP. VITALI: I've got them all written  
23 down.

24 CHAIRMAN ADOLPH: It was -- it was  
25 definitely a Jeopardy round.

1                   REP. VITALI: I'll -- I'll -- I'll  
2 streamline these --

3                   CHAIRMAN ADOLPH: Why don't you start  
4 with one question and we'll -- we'll get the answer and  
5 then we'll go to the next question.

6                   REP. VITALI: He's a bright guy.

7                   CHAIRMAN ADOLPH: Yes, he is.

8                   REP. VITALI: I think he's going to get a  
9 lot of these right.

10                  SECRETARY ZOGBY: Let me just say,  
11 representative, that, first of all, I think -- my  
12 understanding at least is that the Governor did mention  
13 an impact fee during his campaign.

14                  So I think his -- his answer recently  
15 that was picked up in the press was somehow seen as  
16 some new revelation that I'm not quite sure is -- is  
17 the case. We -- I think we all know how that works.

18                  But I would say that I've -- I've not had  
19 the opportunity to have extensive discussions with the  
20 Governor on this. I have heard him say that he would  
21 be open to an impact fee. I've heard him say that --  
22 as I think you mentioned, that he would not see it  
23 coming to the general fund.

24                  He doesn't see it as something to --  
25 certainly not in -- with this budget, this fiscal year,

1 plugging any holes in the budget, in the general fund.

2           And then I -- I think beyond that I've  
3 not heard from him a great amount of detail. Certainly  
4 there is some impact, as I understand it, from the  
5 Marvellous shale activity in -- in townships and  
6 counties impacted by that activity.

7           I think the Governor feels that it's  
8 appropriate to look at a fee that would address some of  
9 those issues. But as to the exact detail of any  
10 proposal, I've not seen that.

11           I would also just mention that the  
12 Governor, I think, as you know, recently appointed a  
13 Marvellous shale commission. They held their first  
14 meeting last Friday. They're looking at a number of  
15 areas.

16           I would expect -- and that commission is  
17 being led by the Lieutenant Governor, and I would  
18 expect that issue, along with a number of others, would  
19 be addressed by the commission. I believe it's 120  
20 days that they have to come back to report.

21           And so, you know, we'll be looking for  
22 the commission's activity, looking at their activities,  
23 and eventually a report from them on these and --  
24 and -- and other issues that are -- that are going to  
25 be under their -- under their charge.

1 REP. VITALI: Okay. Thank you.

2 My next question also is with -- is  
3 regarding revenues from Marvellous drilling and --  
4 which, frankly, I think has been an incredibly bad  
5 source of revenues going forward, and I -- I -- I think  
6 part of the blame goes to Governor Rendell and part of  
7 the blame goes to our legislature, which is the  
8 practice of leasing state forest land for Marvellous  
9 drilling.

10 As you know, we've already leased 725,000  
11 acres of state forest land, and -- and that's only a  
12 tenth of the total Marvellous land out there. And --  
13 and the rest of the land, as indicated by the -- state  
14 forest lands, as indicated by the former DCNR secretary  
15 and others, has environmental value and sensitivity.

16 One of the concerns we have going forward  
17 is that rather than taxing the gas drillers that the --  
18 our state forest land, our -- that -- that remaining  
19 800,000 acres that are left, will be in the -- the  
20 sights, gun sights of -- of the Governor and this  
21 General Assembly.

22 Now we were happy to look at the budget  
23 document. We looked at the Oil and Gas Lease Fund  
24 line --

25 SECRETARY ZOGBY: Uh-huh.

1                   REP. VITALI: -- and we interpreted from  
2                   that that it does not appear that the Governor is  
3                   assuming revenues from more state forest leasings to  
4                   balance this budget.

5                   My questions to you are -- was that a  
6                   correct interpretation? Is the Governor planning on  
7                   leasing any more state forest land to balance the  
8                   fiscal year '11/'12 budget?

9                   SECRETARY ZOGBY: Representative, the  
10                  budget that we've -- that the Governor has proposed is  
11                  the Governor that -- is the budget that the Governor  
12                  has proposed.

13                  I -- I can't speak to what action he  
14                  intends to take in terms of additional land leasing and  
15                  the -- and the like. I would just remark that I think,  
16                  as you've characterized, that we're not looking at oil  
17                  and gas lease funds, or at least additional revenues  
18                  to -- to help balance with this current fiscal year.

19                  REP. VITALI: So can you say -- you  
20                  have -- can you say right now as you sit here you have  
21                  no knowledge of any intentions to lease further state  
22                  forest lands?

23                  SECRETARY ZOGBY: I would just say,  
24                  representative, as -- you know, as you've looked in the  
25                  -- at the oil and gas lease fund accounts, as I have, I

1 mean other than the 65 million that we're proposing  
2 from that fund go to support our state parks and  
3 forests, that's what we have proposed.

4 I can't speak to additional actions that  
5 the Governor may or may not take with respect to  
6 additional leasing.

7 REP. VITALI: No, I'm not asking you to  
8 speak to those actions. I'm just asking you, do you  
9 have any knowledge of any intentions to consider  
10 leasing --

11 SECRETARY ZOGBY: I don't have any  
12 knowledge of that, no, sir.

13 REP. VITALI: Thank you. I think I've  
14 got another minute.

15 One thing I just -- I don't get and --  
16 and this goes to members of the General Assembly and  
17 the Governor.

18 What is the problem with raising revenues  
19 and putting it in the general fund? That helps all  
20 Pennsylvanians. It helps education. It helps higher  
21 ed, it helps --everything grows, everything we benefit  
22 from.

23 Why is -- why does the Governor just say  
24 nothing for the general fund? What's the problem with  
25 putting money in the general fund? It seems like it's

1 a great place to put it.

2 SECRETARY ZOGBY: Well, you know,  
3 representative, I think we're just -- for you and  
4 others who have a philosophical disagreement with us --  
5 with the Governor on this point, I think we're just  
6 going to have to agree to disagree.

7 The Governor said during his campaign  
8 very clearly for every voter in the Commonwealth to  
9 hear, if elected governor, he would not raise taxes.  
10 No new taxes.

11 I don't know how -- how he could have  
12 been any clearer. I made the comment that you would  
13 have had to have been living under a rock not to have  
14 heard that.

15 And the suggestion is -- is that because  
16 this industry is here and -- and we have a budget  
17 challenge to meet that somehow we have to go out and  
18 tax this industry.

19 I would just say that -- to your earlier  
20 comments, you know, many of the comparisons that are  
21 being made to other states are just an apples to  
22 oranges comparison.

23 And if you look at what this industry is,  
24 in fact, generating for local municipalities, for the  
25 Commonwealth in terms of sales and use taxes, in terms

1 of rents and royalties, I just mentioned \$65 million  
2 that's now going to support our parks and forests.  
3 That's -- that's \$65 million we would have had to find  
4 elsewhere in the budget if we did not have those  
5 revenues to rely on.

6 And so, you know, again, I think we could  
7 talk about this until the cows come home. The Governor  
8 is just not interested in -- in increasing taxes. End  
9 of story.

10 REP. VITALI: Okay. Well, we'll talk  
11 more in round two.

12 CHAIRMAN ADOLPH: Thank you.

13 Representative Doug Reichley.

14 REP. REICHLEY: Thank you, Mr. Chairman.  
15 Thank you, Mr. Secretary.

16 Just as a -- as a reminder, I don't know  
17 that all the members on the other side of the aisle  
18 were so concerned in the last administration when there  
19 was questions about contributions to the past governor  
20 and his veto of tort reform legislation and other  
21 areas.

22 But, you know, that's in the past. We're  
23 not going to deal with that. We're going to deal with  
24 this budget.

25 We talked a lot about shared sacrifice.

1 And I was just wondering if you can comment, first off,  
2 why the Lieutenant Governor's budget is going up by 75  
3 percent?

4 SECRETARY ZOGBY: Sure. I think,  
5 representative, what you have there is really an  
6 anomaly. If you go back to Lieutenant Governor Knoll  
7 when she occupied that office, I think the -- I can't  
8 recall the number exactly, but the appropriation for  
9 the Lieutenant Governor's office would be higher than  
10 we're proposing in our budget.

11 You had Senator -- now Senator Scarnati  
12 acting as the lieutenant governor. He had a Senate  
13 staff to rely on and so did not need to have a full  
14 complement in terms of a lieutenant governor's staff.

15 So we're seeing a slight uptick in the  
16 Lieutenant Governor's budget this fiscal year and  
17 really because of -- of that anomaly, with the passage  
18 of lieutenant -- the passing of Lieutenant Governor  
19 Knoll and Senator Scarnati taking those reins and now  
20 back to a full-time lieutenant governor.

21 REP. REICHLEY: So you believe it's more  
22 of a restoration to where it had been previously?

23 SECRETARY ZOGBY: Yes, sir.

24 REP. REICHLEY: While we're on that topic  
25 though, maybe you don't have it at your fingertips

1 today, but has your office looked into the market value  
2 of the Governor's mansion?

3 SECRETARY ZOGBY: I have not.

4 REP. REICHLEY: Or the Lieutenant  
5 Governor's mansion?

6 SECRETARY ZOGBY: No, sir.

7 REP. REICHLEY: Are you able to inform us  
8 of that at some point then?

9 SECRETARY ZOGBY: I can check with our  
10 Department of General Services. I -- I don't know. I  
11 guess we could get a value. We could take a look at  
12 that and -- and we'd be happy to get back to you on  
13 what we -- what we find in asking.

14 REP. REICHLEY: Well, obviously, from our  
15 side, as we are engaging in a lot of cost savings  
16 measures on per diem issues, the question is raised of  
17 whether the executive branch employees, such as the  
18 Governor and Lieutenant Governor, shouldn't be under  
19 the same strictures, and if, in fact, a sizeable amount  
20 of money could be received from the sale of those two  
21 facilities why that shouldn't be done.

22 Furthermore, within the Governor's office  
23 budget, have you an estimate value as to the cost of  
24 the State Police driver or the vehicle that the  
25 Governor utilizes?

1                   SECRETARY ZOGBY: I don't have those  
2 offhand. We can get those for you, representative.

3                   REP. REICHLLEY: Good. I appreciate  
4 that.

5                   You had said in some of your comments to  
6 Representative Perry that your budget proposed to cut  
7 \$2.6 billion, I believe. Is that correct?

8                   SECRETARY ZOGBY: Yes, sir.

9                   REP. REICHLLEY: Is that \$2.6 billion of  
10 cuts from state funds or is that counting the -- the  
11 lack of the stimulus money?

12                  SECRETARY ZOGBY: I believe that's from  
13 state funds.

14                  REP. REICHLLEY: It's not including any of  
15 the stimulus funds?

16                  SECRETARY ZOGBY: No, sir.

17                  REP. REICHLLEY: Because -- and you've  
18 estimated that you're going to have a \$78 million  
19 surplus by the end of the fiscal year?

20                  SECRETARY ZOGBY: Yes.

21                  REP. REICHLLEY: And how is that  
22 accomplished?

23                  SECRETARY ZOGBY: Well, we're just --  
24 we're looking at -- again, we're looking at the revenue  
25 estimate that was established for this current fiscal

1 year. And end-of-year revenues are -- are -- we  
2 believe while we're at a -- sort of \$243 million above  
3 estimate number right now, we believe that's going to  
4 trend down through the balance of the fiscal year and  
5 that we'll end the fiscal year 78 million over  
6 estimate.

7 REP. REICHLEY: Part of the confusion, I  
8 guess, is everyone sort of was running around last year  
9 saying we got a projected \$4 billion deficit and it  
10 appears spending was cut by \$1 billion from 28.3 to  
11 27.3, and that you project to end the fiscal year with  
12 a \$4 million surplus.

13 So I guess the question arises from those  
14 of us who aren't nearly as smart as you, what happened  
15 to the \$4 billion deficit, if we were down 4 billion,  
16 we've only cut spending by a billion, and we wind up  
17 with a \$4 million surplus?

18 SECRETARY ZOGBY: Well, I think -- I was  
19 reaching for my papers here, representative.

20 I think if you walk -- walk it through,  
21 you would see that, for instance, one of the things  
22 that the Governor did upon taking office was to put  
23 into budgetary reserve funds for basic education. We  
24 took state funds which -- 380 million, I want to say,  
25 that helped go to our bottom line and substituted the

1 federal EduJ jobs money.

2 The Governor asked us, you know, what  
3 spending are we doing now that we could simply stop?  
4 And we're proposing additional savings through lapses.

5 We did have some benefit of -- I want to  
6 say over \$500 million in increased revenue estimates  
7 this year and the next. We've saved some other monies  
8 through recalculations of things like debt service.

9 So it's the combination, along with a --  
10 a healthy dose of spending cuts that brought us to  
11 balance.

12 REP. REICHLLEY: Okay. And I think you're  
13 right. You do project to have a \$586 million  
14 unappropriated surplus as carryover into fiscal year  
15 '11/'12. And that's accomplished from those lapses and  
16 the -- and moving the reserve funds?

17 SECRETARY ZOGBY: That's correct.

18 REP. REICHLLEY: Okay. Do you believe  
19 that you're going to have any sort of cash flow  
20 borrowing that you need to engage in or tax  
21 anticipation notes that will have to be issued?

22 SECRETARY ZOGBY: I believe we do,  
23 representative. I think we're around -- looking at  
24 about a billion dollars in the current year. We're  
25 re-evaluating the need for any tax anticipation notes

1 issuance in '11/'12.

2 I think as we bring state spending back  
3 in alignment with state revenues, I think we're going  
4 to have less of a need. But my understanding at least  
5 is in the past fiscal years where we simply spent more  
6 than we're taking in we've had to rely on these. I'm  
7 hoping that we can get away from that.

8 REP. REICHLEY: And I think that's a  
9 prudent course. I guess I'm just concerned about the  
10 unknown -- unknowns out there.

11 SECRETARY ZOGBY: I'm always concerned  
12 about the unknowns, representative.

13 REP. REICHLEY: One of those being the  
14 Mcare settlement discussions. And I don't know if  
15 you're able to offer us any insight as to whether the  
16 administrators are engaged in any discussions about  
17 resolving the lawsuit to return the Mcare funds back  
18 from the general fund?

19 SECRETARY ZOGBY: I'm familiar with that  
20 litigation. I'd -- I'd have to defer you to the Office  
21 of -- of General Counsel who handles those. But  
22 certainly that is one of the unknowns that hangs out  
23 there for us and does cause some degree of uncertainty  
24 in our plan.

25 REP. REICHLEY: Along with those

1 unknowns, yesterday the Acting Secretary from Labor and  
2 Industry was here, and I remarked to him that in last  
3 Friday's Washington Post it talked about legislation  
4 that was signed into law in Michigan to ensure jobless  
5 people could receive a 20-week extension on  
6 unemployment benefits. Without having done so 35,000  
7 would have lost their benefits as of tomorrow, April  
8 1st, in Michigan.

9 Florida's House has passed similar  
10 legislation, and your acting secretary said that if  
11 nothing is done in Pennsylvania by June 11th, I think  
12 the figure he quoted was something like 35,000 or  
13 40,000 people would lose benefits, unemployment  
14 benefits.

15 Is the administration going to be coming  
16 to the legislature to ask for any measures to be taken  
17 on that?

18 SECRETARY ZOGBY: Representative, I've --  
19 I've not read about Michigan or Florida actions. I  
20 do -- I do know that the -- the UC situation is  
21 something that's fast upon us, and I know the  
22 Governor's Policy Office is taking a look at that.

23 I'm not exactly sure what action, if any,  
24 we would have to come to the General Assembly with.  
25 But certainly if it were -- if it were a case where we

1 needed legislative action, given the time line that you  
2 mentioned, I -- I would guess that that would be  
3 something that we'd be at you at -- fairly quickly  
4 with. So --

5 REP. REICHLLEY: I think it's going to  
6 require that, because it's more or less just a  
7 guarantee not only those 40,000 who would lose benefits  
8 as of June 11th but maintaining, I think, another  
9 90,000 your Acting Secretary mentioned to continue  
10 benefits through the calendar year.

11 And some of the other members I'm sure  
12 will ask you about school spending, but I got home last  
13 night and was reading that the home district that I  
14 have, East Penn, you mentioned about the need to change  
15 Act 1 to eliminate exceptions to force back onto local  
16 districts the issues of how we're going to raise taxes,  
17 if we're going to raise taxes.

18 SECRETARY ZOGBY: Yes, sir.

19 REP. REICHLLEY: And yet East Penn School  
20 District has received approval of the exceptions to  
21 increase taxes beyond the state index. And this is  
22 under the new administration.

23 So I'm curious whether the rhetoric is  
24 meeting up to the action. We're talking about forcing  
25 these decisions back on districts in that your current

1 Department of Education has approved a back-end  
2 referendum exception without it going to the voters.

3           Would it not be simpler to take a look at  
4 Act 1 to see if there's a necessary change so that the  
5 Department of Education may approve those instead of  
6 shall approve those applications for exceptions?

7           SECRETARY ZOGBY: Well, I think,  
8 representative, it's my understanding from Secretary  
9 Tomalis, is that the department's functions right now  
10 are really ministerial. Almost like a box checking  
11 exercise that if, in fact, the school district meets  
12 the requirements for the exception, the department does  
13 not have any discretion as to whether to grant it or  
14 not.

15           And so to your point, I think that's --  
16 that's something that they routinely have to do.

17           With regards to giving the department  
18 discretion, I think that, you know, the Governor has  
19 sort of leapfrogged that discussion, if you will, in  
20 saying that, you know, we don't -- we don't need any  
21 other exceptions other than inflation and we ought to,  
22 just whatever it is, put the power back in the hands of  
23 the local voters to approve school budgets that grow  
24 faster than the rate of inflation. And let's not get  
25 into the business of this exception or that exception.

1 Let's put it all on the table for the voters to decide.

2 REP. REICHLEY: Okay. Thank you,  
3 Mr. Chairman.

4 CHAIRMAN ADOLPH: Thank you.  
5 Representative Deb Kula.

6 REP. KULA: Thank you, Mr. Chairman.  
7 I'm here.

8 SECRETARY ZOGBY: Representative.

9 REP. KULA: When we had the Judiciary  
10 hearing the other day and the -- and the Chief Justice  
11 appeared before us, he indicated that this is the third  
12 year in a row that their budget has been basically flat  
13 lined and they -- they need an increase.

14 Last year, I believe it was -- I'm not  
15 sure if it was Justice Baer, or one of the justices,  
16 had indicated that a lawsuit could be possible.

17 This year we were informed in no  
18 uncertain terms from the Chief Justice himself that  
19 because of the funding levels to the ports that there  
20 would be a writ of mandamus action imposed because of  
21 the cuts, and they have cut as far as they can.

22 He's indicated eliminating district  
23 courts, eliminating common pleas or asking the Governor  
24 and the Senate not to -- to appoint in vacancies.

25 So how does the administration or have

1 you formed a plan as to how you will handle a writ of  
2 mandamus should that come to be?

3 SECRETARY ZOGBY: Well, I did not see  
4 those comments by the Chief Justice, and I have great  
5 respect for him and -- and -- and the courts.

6 I would just say in a difficult budget  
7 year there's many areas of the budget that have been  
8 very pleased with level funding, and I understand the  
9 constraints that our courts and -- and others, frankly,  
10 operate under. It's a difficult budget year, and I  
11 think the Governor felt that level funding in this very  
12 challenging year was appropriate.

13 Now, having said that, this is a -- you  
14 know, a negotiation process. We understand we're not  
15 down to a final budget yet. But that may be something  
16 that we want to take a look at.

17 I think for now the Governor has a  
18 proposal on the table; and certainly I think if the  
19 Chief Justice has concerns with that budget, we have  
20 the ability to talk about that and -- and go from  
21 there.

22 REP. KULA: And -- and I think that's  
23 what he was -- the Chief Justice was alluding to in his  
24 testimony, is that he is not -- and the courts are not  
25 a department. The judicial branch is a separate branch

1 of this government.

2 SECRETARY ZOGBY: Yes.

3 REP. KULA: And they are not at the table  
4 when it comes time to budget negotiate. And he felt  
5 that this was the only way, or at least from what he  
6 was saying, that this was the only way that they had to  
7 kind of come to the table, so to speak, and speak for  
8 themselves when it comes to the -- the budgetary  
9 process.

10 SECRETARY ZOGBY: Well, I appreciate  
11 that. I would say that, you know, the Governor did  
12 meet with the Chief Justice during the -- the budget  
13 deliberation exercise that we went through to put  
14 together the budget, and I would suspect that the  
15 Governor would welcome an ongoing dialogue with the  
16 Chief Justice about the appropriate level of court  
17 funding.

18 REP. KULA: Just -- just as a last note,  
19 I guess I would be remiss to myself, as well as my  
20 constituents, if I did not speak to the -- the  
21 Draconian cuts in education.

22 And -- and I can speak maybe personally  
23 as much as what I'm hearing from my constituents. As a  
24 grandmother of ten children, all school age, within  
25 this Commonwealth, and one looking to attend higher

1 education this coming year, it's -- it's just very  
2 difficult to sit back and look at what these cuts could  
3 do to our children's future.

4           We've all heard the term that a mind is a  
5 terrible thing to waste. And -- and it seems from  
6 these cuts that's exactly what we are doing. We are --  
7 are throwing away and -- and helping to destroy our  
8 children's future in providing them with an education  
9 that they deserve, that they're entitled to, in this  
10 Commonwealth.

11           And I -- I cannot understand how a -- a  
12 tax on Marvellous shale or not taxing maybe can be more  
13 important than the education of our children.

14           Any comments?

15           SECRETARY ZOGBY: Representative, I would  
16 just -- I would respectfully take exception to your  
17 comments in terms of the impact of these cuts.

18           I think if we dial it back a little and  
19 take a broader view, the reality is, is that we've had  
20 education funding in this Commonwealth nearly double  
21 from 13 to \$26 billion that we now spend as a  
22 Commonwealth.

23           These cuts certainly -- there are --  
24 there are certainly cuts here in basic education. But  
25 that still leaves us at a very high level of education

1 spending.

2                   And I would also be remiss if I didn't  
3 point out the fact that the tremendous increases that  
4 we've seen in basic education funding have not been  
5 followed by a commensurate increase in student  
6 achievement. The reality is, is that -- is that --  
7 particularly by national numbers that are a little bit  
8 more objective -- student achievement has been  
9 relatively flat.

10                   And certainly as a former secretary of  
11 education, I look at some of the districts across the  
12 Commonwealth where -- and I go back to even beyond  
13 that, when I first entered the Ridge administration  
14 where, you know, high percentages of those -- of  
15 students leave our school districts unable to read,  
16 unable to do math at grade level, and yet are handed a  
17 diploma and sent off to -- to the world, higher  
18 education, wherever it may be.

19                   So I share your concern about the -- the  
20 well being, the educational well being of our young  
21 people. I'm a -- I'm a father of three. And I  
22 struggle with that constantly with -- with my children,  
23 and -- and I think we all know that education is the  
24 key to -- to their success. Particularly in this  
25 global-knowledge-based economy.

1                   But I would suggest that the -- the  
2                   problem of educational failure does not have a lot to  
3                   do with the levels of spending. If you look at some of  
4                   the worst performing academic districts in this  
5                   Commonwealth, they are spending 15, \$20,000 per child  
6                   and I dare say that we're getting very little for our  
7                   return on that.

8                   So I -- while I share your concern, I  
9                   would just suggest that it's how we spend our money and  
10                  the effectiveness of those dollars that are on the  
11                  table that's -- that's critical to the outcomes, not  
12                  overall level of spending.

13                  REP. KULA: Uh-huh. Well, I -- I would  
14                  somewhat disagree with kind of the state of education  
15                  here in Pennsylvania.

16                  When you -- there -- there have been  
17                  studies done, only six states have statistically  
18                  significant higher fourth grade reading scores and no  
19                  states have statistically significant higher eighth  
20                  grade reading scores like Pennsylvania does.

21                  SECRETARY ZOGBY: Well, I think if you  
22                  look at the statistics, representative, and I'd be  
23                  happy to come over some day and we can go -- go through  
24                  them all, but the reality is, is that the longer  
25                  children stay in school the worse the overall

1 performance is.

2           You look at the number of students in our  
3 system that graduate that are not meeting standards  
4 according to the PSSAs in math and reading, we're  
5 talking about tens of thousands of students every year  
6 that are -- that are getting diplomas and are not  
7 meeting grade levels.

8           That does not even count the tens of  
9 thousands of students that never even make it to the  
10 line of -- of graduation. They've dropped out  
11 somewhere along the way.

12           So -- and if you look, for instance,  
13 national statistics, the NAEP, the so-called nation's  
14 report card, National Assessment of Educational  
15 Progress, only about a third of our students are  
16 meeting grade level expectations.

17           And -- and this is -- this is not a  
18 Pennsylvania problem. This is a U.S. problem. This is  
19 a -- this is a challenge that we face as a nation in a  
20 global economy where fewer and fewer of our -- of our  
21 children, our students, our young people are attaining  
22 the skills they need to compete in this global  
23 economy.

24           So I think this is one area that we -- as  
25 a nation and as a state, we really need to wake up

1 and -- start to do a better job in terms of our  
2 expectations, our standards, and, most of all, the  
3 performance, the results that we're getting at the end  
4 of the day for our young people in terms of math and --  
5 and -- particularly math and reading performance.

6 REP. KULA: Well, I would like to sit  
7 down with you at some point and discuss the studies  
8 that have been done and -- and maybe looking at the  
9 reasons or -- or how those studies came to be and how  
10 they came to those results.

11 I -- I think a lot of times the questions  
12 that are -- are posed within the school district and  
13 the formulas that are -- are out there do not give a  
14 true picture of what actually goes on in each and every  
15 school.

16 And I don't know that every child in  
17 Pennsylvania should be judged by a -- a statistic when  
18 we are such a diverse state.

19 So -- but I would love to sit down at  
20 some point and talk with you about these matters.  
21 Thank you.

22 SECRETARY ZOGBY: Well, I --

23 CHAIRMAN ADOLPH: Thank you,  
24 representative.

25 Thank you, Mr. Secretary.

1 Representative Mario Scavello.

2 REP. SCAVELLO: Thank you, Mr. Chairman.

3 And good morning, Mr. Secretary.

4 SECRETARY ZOGBY: Good morning,  
5 representative.

6 REP. SCAVELLO: I -- I first want to go  
7 over a issue that's been beat up quite a bit here and  
8 I figure let's get it off -- let's get it addressed,  
9 and that's that tobacco settlement monies.

10 There's been a great deal of concern  
11 expressed about the transfer of the tobacco health  
12 endowment account and the tobacco programs to the  
13 general fund.

14 Didn't the transfer of the health  
15 endowment account really occur as part of Governor  
16 Rendell's 2010/'11 budget?

17 SECRETARY ZOGBY: Yes, sir. As I -- as  
18 I -- I think I mentioned -- as I answered in -- in  
19 response to an earlier question. We had two general  
20 fund budgets in a row that raided the tobacco monies  
21 and -- and put them into the general fund or -- or for  
22 uses other than originally intended.

23 REP. SCAVELLO: And so because of the  
24 clash -- the cash flow issues that were created in  
25 those two budget years, Act 46 of 2010, I believe,

1 addressed this?

2 SECRETARY ZOGBY: I believe that. I  
3 don't have the act number --

4 REP. SCAVELLO: Yeah.

5 SECRETARY ZOGBY: -- but that's probably  
6 the case.

7 REP. SCAVELLO: So it wasn't  
8 something that -- this was something that was really  
9 created in the last couple of years.

10 SECRETARY ZOGBY: Yes. Yes, sir.

11 REP. SCAVELLO: Okay. Now my favorite  
12 topic. What -- did you have the opportunity to -- to  
13 view the discussions that we had with the education  
14 secretary the other day?

15 SECRETARY ZOGBY: I saw part of them,  
16 representative, but not all of them, no, sir.

17 REP. SCAVELLO: I first want to clarify  
18 something, because I keep hearing that we cut basic  
19 education by a huge amount of dollars when, in fact,  
20 the last two years basic education was cut and back fed  
21 with one-time money -- monies, the stimulus money,  
22 654-million-747 two years in a row that we don't have  
23 the luxury of having this year.

24 And I warned -- I, on the House floor,  
25 warned folks two years ago that this was happening and

1 in two years we were going to face the mother of all  
2 tax increases.

3 I -- I stated that then, to use dollars  
4 that we don't -- the one-time dollars and -- and grow  
5 budgets is not a good thing to do.

6 About a week, two weeks ago, three weeks  
7 ago, I had the -- you came over and we met. I handed  
8 you a basic education funding sheet from my school  
9 districts and the one in Pike County and what had  
10 happened -- and showed you what had happened to us in  
11 the last four years versus the prior four and the  
12 effect that it's had on our -- on our school  
13 districts.

14 And I knew that there was going to be  
15 cuts. I even said it. I said -- but I clearly said,  
16 you know, Mr. Secretary, don't take more from us than  
17 we got the last two years because the last two years we  
18 got very little. We had 1.25 percent of that basic ed  
19 distribution in our school districts and 2010/2011 was  
20 1.26.

21 And we're hurting. I -- I -- I said this  
22 story the other day, and I'm going to repeat it. A  
23 home built five years ago purchased at 250,000, today  
24 that owner can't sell it for 150 with an 11,000 school  
25 property tax bill.

1                   Even with all the reforms that we're  
2                   planning, it doesn't help those school districts that  
3                   have really been getting shafted because of that hold  
4                   harmless.

5                   Is there any way, any way that at some  
6                   point, take all the education dollars, forget, you  
7                   know, for whatever purposes, lump it into one sum,  
8                   figure out what the population -- student population  
9                   is, not for one -- you know, whatever the counted  
10                  seats, the person showing up in that, and divide it  
11                  equally across the Commonwealth?

12                  Then I think those other things that  
13                  you're talking about work.

14                  SECRETARY ZOGBY: Well, I think,  
15                  representative, one of the things that the Governor  
16                  spoke quite clearly about in his campaign and I -- I  
17                  think he would very much like to be able to achieve as  
18                  Governor is a -- I'll call it a weighted student  
19                  funding system, a student centric system that we fund  
20                  based on the individual student and the student's needs  
21                  and -- and trying to attain that.

22                  And he's also talked about portability  
23                  and unbundling, the ability of those dollars to move  
24                  with the child to the school of their choice.

25                  You know, I -- I'm -- I need to recognize

1 as well, though, is that we have a system of -- of  
2 education funding here in the Commonwealth that -- that  
3 relies on, to a large extent, the relative wealth of  
4 individual school districts.

5 And so we ask the wealthier districts,  
6 again, relatively wealthier districts, compared to the  
7 other 500, to all other districts, we ask them to raise  
8 a greater share of their education funds locally than  
9 having to have the state tax our local citizens, send  
10 that money to Harrisburg, and then have it  
11 re-distributed out.

12 And so I think within that context the  
13 Governor would be very interested to see if we can, in  
14 fact, move towards, again, a weighted student funding  
15 system. To your point that we recognize the student,  
16 their individual needs, and we fund that student as  
17 opposed to funding a -- a system, if you will, funding  
18 buildings in districts.

19 So I think that's something that we'd  
20 very eagerly look to do if we could and -- and I think  
21 we do need to take a look at the -- at the hold  
22 harmless.

23 You know, we -- I don't think that we can  
24 be in the business of always protecting local districts  
25 from a -- an outflow or a decrease in student

1 population. At some point we need to manage.

2 And so I know that's a -- not always a  
3 easy discussion to have, and members are affected  
4 differently and their districts are affected  
5 differently, but I think the overall discussion on how  
6 we -- how we have a -- a student focused funding system  
7 is one, I think, the Governor is eager to join.

8 REP. SCAVELLO: You know, just to give  
9 you some numbers, from 1985 to 2003 -- and I know the  
10 hold harmless came in after 1990 -- most of this growth  
11 happened after 1990 -- Pocono Mountain School District  
12 grew 7,757 student. 7757 students. They built a  
13 tremendous amount of buildings. They're still paying  
14 debt on some of these buildings.

15 The portability -- and -- and I'm a  
16 supporter of it, but the portability will really affect  
17 these school districts negatively because those  
18 buildings are there. They're still paying for them.

19 They're looking right now -- this is  
20 before the Governor's proposed budget -- 124 reductions  
21 in staff, 93 professional, 88 teachers, 2 educational  
22 consultants, 2 guidance counselors.

23 This was going to happen before the  
24 proposed budget. 25 support staff and 6 Act 93  
25 administration and supervisory staff. Consolidate two

1 elementary schools. Close alternative high school  
2 building and move program to another school. Eliminate  
3 19 elementary classes K to 5. Eliminate the formal  
4 computer education program K to 5. Reduce the number  
5 of teams from four to three in grades 6 through 8.  
6 Realign -- realignment of massive schedules and  
7 balancing of class schedules in grades 9 to 12.  
8 Eliminate family dynamics and a couple of others.

9           After the Governor's proposed budget, on  
10 top of everything that I've given you that they're  
11 going to have to do, reduction of 68 full-time  
12 positions. Close another elementary center. Eliminate  
13 7 and 8 grade sports programs. Eliminate  
14 instructional support teacher positions. Eliminate 14  
15 varsity level coaching positions. Eliminate all head  
16 coaching positions in elementary school. Eliminate 22  
17 teaching positions in schools, two and three per  
18 schools. Reduce intramural programs.

19           And this -- with this they're still  
20 calling for the maximum tax increase allowable. That's  
21 what we're facing.

22           And it's been -- it isn't because of --  
23 it's because of the funding the past few years. We've  
24 gotten crippled. It got worse and worse.

25           The last -- the basic education in the

1 last three -- in the last two years, the five school  
2 districts that I talk about, the four in Monroe, the  
3 one in Pike, received 3.4 million in 2009/2010, 3.1  
4 million in 2010/2011.

5           There was almost \$526 million of new  
6 money and we -- we got nothing because of this hold  
7 harmless and because of this -- this cost-out study  
8 that was a great idea. However, the way that study was  
9 implemented was skewed to help the urban areas and not  
10 the rural areas and not the growing districts.

11           So when you introduced your budget, your  
12 education budget, you didn't go back two years. You  
13 went with the same amount of dollars. However, you had  
14 many more losers and folks that should have lost --  
15 that should have been zeroed out, as far as I'm  
16 concerned. Get rid of the two years. Give everyone  
17 what they -- what they received those last two years.  
18 We're taking it back. We don't have the money, the  
19 stimulus money.

20           But that's not what I see in the budget.

21           SECRETARY ZOGBY: Well, I would just say,  
22 representative, that we did try to maintain -- to your  
23 point, we did not try to maintain basic overall basic  
24 education funding at -- at the '08/'09 level.

25           I'm mindful that we did have a couple of

1 years of -- of changes. We also in our proposal tried  
2 to minimize the overall impact, not to have too wild a  
3 swing in terms of the winners and losers and the depth  
4 of those wins or losses, if you will, in terms of  
5 funding. We smoothed that out.

6 I kind of feel like I've been battered  
7 from all quarters, if you will, in terms of education  
8 funding. I don't know that there's ever a perfect  
9 solution. I don't know that I've ever seen one in my  
10 time in state government.

11 And -- and, again, I just go back to the  
12 point, if we could have a system that's focused on kids  
13 and their needs and -- and ensuring that between the  
14 state and local taxpayers there's the level of  
15 resources to fund their needs and we tie it to the  
16 child, then I think it will -- hopefully in my mind; I  
17 don't know that it will ever remove it all -- but cut  
18 out a lot of the noise that we tend to have around  
19 education funding.

20 And -- and I think we could all walk away  
21 knowing, again, that we've -- we've done right by the  
22 kids and knowing that money is actually going for their  
23 education in the school that they're attending.

24 REP. SCAVELLO: Uh-huh.

25 SECRETARY ZOGBY: So I know we've had,

1 you know, extensive discussions on the impact with your  
2 districts. I hear it from other members as well. I  
3 hear it from outside groups that somehow we've, you  
4 know, favored one class of districts versus another.

5 Again, I just -- it's -- it's a difficult  
6 challenging year for -- for everyone.

7 REP. SCAVELLO: Yeah. Just a final  
8 comment. I -- I -- I broke it down. It's 353 school  
9 districts receiving less than they had received -- you  
10 know, that should have -- that received less basic  
11 education funding versus 147 that received more than  
12 which they should have received.

13 And those 147 received -- their increases  
14 in the last couple of years were between 8 and 20 -- 8  
15 and 26 percent increases.

16 So what -- what's happened is --

17 SECRETARY ZOGBY: And you're comparing  
18 '08/'09 against '08/'09. Correct?

19 REP. SCAVELLO: I'm -- I'm comparing --  
20 to go back to '08/'09. The school districts from --  
21 from -- in 2009 to 2011, those two years -- those two  
22 years, you know, received -- the ones -- there are  
23 school districts out there that received a hundred and  
24 forty -- a 147 school districts received more in --  
25 in -- in -- in total dollars than they were supposed to

1 have received. And --

2 CHAIRMAN ADOLPH: Representative  
3 Scavello?

4 REP. SCAVELLO: Yes.

5 CHAIRMAN ADOLPH: All right. You've --  
6 you've gone over by about two minutes.

7 REP. SCAVELLO: Can I just finish it  
8 off?

9 CHAIRMAN ADOLPH: No. You cannot. I  
10 thought you were finishing two minutes ago.

11 REP. SCAVELLO: All right.

12 CHAIRMAN ADOLPH: Representative Scott  
13 Conklin.

14 REP. CONKLIN: Thank you, Mr. Chairman.

15 I'd like to thank Secretary Zogby for  
16 coming. I'll try to keep my questions short and I know  
17 Mr. Zogby will keep his answers short and I'll stay  
18 under that ten-minute time limit.

19 Secretary, are you happy with this budget  
20 and is this the budget the Governor wants passed?

21 SECRETARY ZOGBY: Overall I'm -- I'm  
22 happy with this -- with this budget. I know it's a  
23 difficult budget in some areas.

24 I know the Governor expects we'll be  
25 engaged with both the House and the Senate on what the

1 final budget would look like. I would expect  
2 there's -- will be negotiations around that and we'll  
3 see where those discussions lead us.

4 REP. CONKLIN: Thank you. On to -- I  
5 noticed your -- and for full disclosure, I'm one of a  
6 couple representatives that represent Penn State  
7 University, and I noticed in a lot of your comments  
8 you've fixated on four-year degrees, such as the DuBois  
9 campus, 29 percent, four-year degree graduation rate.

10 Is this -- is it your or the  
11 administration's, their -- their philosophy that all  
12 students should graduate in less than four years?

13 SECRETARY ZOGBY: I wouldn't say all  
14 students, representative. I -- I -- I think the  
15 expectation is, is that, you know, a great number of  
16 students should graduate in four years.

17 Certainly there's circumstances that  
18 would lead students, whether they're maybe working -- I  
19 talked to a mom not too long ago whose daughter faced  
20 an illness that did not allow her to graduate in four  
21 years.

22 But I would think overall the expectation  
23 is -- is that we ought to push for a four-year  
24 graduation rate. And I think, moreover, when you look  
25 at the significant federal and state tax dollars that

1 are backing these students, we can't afford to have  
2 students take five, six-plus years to graduate, if they  
3 graduate at all.

4 REP. CONKLIN: I'm just -- curiosity, how  
5 many years of higher education have you had?

6 SECRETARY ZOGBY: I -- four years of  
7 college. I did graduate in four years. And then I --  
8 law school four years at night.

9 REP. CONKLIN: So eight years?

10 SECRETARY ZOGBY: Yes, sir.

11 REP. CONKLIN: Okay. I'm just curious.  
12 Thank you.

13 Oh, by the way, DuBois is a two-year --  
14 mainly two-year degree campus and a stepping stone to  
15 the main university. So the 29 percent figure is -- is  
16 correct for four-year degrees but it skews the  
17 graduation rate dramatically since maybe those students  
18 move on.

19 SECRETARY ZOGBY: Well, if I could, just  
20 on that, representative, these statistics come directly  
21 from the U.S. Department of Education.

22 REP. CONKLIN: And what -- that's okay.  
23 We're done with that one. But I just wanted to let you  
24 know those statistics are correct for four years. So  
25 I'm not arguing that statistic. I just wanted to point

1 out the facts.

2 I'm just curious. On mandates, you talk  
3 about relieving mandates. What mandates do you want  
4 the counties to relieve? What pass down -- as a former  
5 county commissioner, not to pick on, when I normally do  
6 it -- as a former county commissioner, what county  
7 commissioner mandates do you want us to -- would you  
8 like the counties to stop?

9 SECRETARY ZOGBY: I think --

10 REP. CONKLIN: What mandates are you  
11 going to eliminate?

12 SECRETARY ZOGBY: I think,  
13 representative, with regard to mandates, the -- the  
14 primary discussion that the Governor has had is with  
15 respect to school districts and the Governor has  
16 proposed mandate relief for school districts.

17 I would say in the context of counties --  
18 and we've had discussions with the County Commissioners  
19 Association and some individual county commissioners.  
20 What we've talked about in that context is more of a  
21 block grant approach and could we give the counties  
22 greater flexibility to manage the dollars, living  
23 within an overall amount but giving them greater  
24 flexibility in the management of -- of those dollars.

25 Some county commissioners has -- have

1 said that they would welcome that opportunity and  
2 we've, in fact, talked about the potential of maybe a  
3 pilot program to see how that might work.

4 But I -- I see that as a potential  
5 win/win both for county commissioners that have to  
6 manage, particularly in tough times, as well as the  
7 state general fund, that we could perhaps create some  
8 incentives to -- to hold down spending and costs.

9 REP. CONKLIN: Thank you. Mr. Chairman  
10 -- how much time do I have left, Mr. Chairman?

11 CHAIRMAN ADOLPH: You started at 11:25 so  
12 you have till 11:35.

13 REP. CONKLIN: I'm going to finish up  
14 with just a couple statements. You know, it's very  
15 difficult when you look at this stip -- this budget,  
16 because you pass the budget, now you're talking about  
17 inclusion, but we weren't even allowed to have the  
18 budget to discuss the budget till after the budget  
19 presentation was over.

20 That's very difficult when you're talking  
21 about inclusion. When you're talking about mandates,  
22 you're painting with a broad -- or when you're talking  
23 about school districts, Mr. Secretary, in all due  
24 respect, you're painting with a broad brush.

25 One of my school districts has a 57

1 percent poverty rate. Teachers make from 24,000 to  
2 \$53,000 a year. They're getting a \$1.1 million cut in  
3 this budget. They've already closed elementary  
4 schools. They're closing junior high schools. They're  
5 consolidating children the best they can.

6           And I -- sometimes I take exception  
7 because -- I know you didn't say it, but it's somehow  
8 that these people who direct these school districts are  
9 just out wasting tax dollars.

10           They're saying that this budget is a tax  
11 increase. You may not view it that way, but this is  
12 raising people who live below the poverty level's  
13 property taxes.

14           And believe it or not, people who live  
15 below the property level -- or below the poverty level  
16 own property.

17           And the last thing I just want to bring  
18 up, as long as I'm railing, is that many times we  
19 forget the campaign's over. I keep hearing references  
20 back to what the old administration did.

21           You know, I'm not going to sit here and  
22 talk about the problem we're having with the pension  
23 under the Ridge administration. See, I believe Tom  
24 Ridge and that -- and the controlled Senate and the  
25 controlled House at that time made the choices they

1 made on the information in front of them.

2 Last year this body went forward to fix  
3 that without backward blame, and I know it's easier to  
4 blame backward, but it's been a policy, not just -- not  
5 just from yourself but from other folks.

6 I think it's time that we talk about  
7 working together and truly working together. Forget  
8 about what somebody else did, what Tom Ridge did, or  
9 Rendell did, or go back. But I appreciate just a  
10 little more of talking together.

11 And when we use statistics, one of the  
12 things that bother me -- and I'm not going to lie and I  
13 respect you; you're an intelligent man -- but it's hard  
14 for me when I know of the folks who work in these  
15 districts. I know how the Penn State budget works,  
16 that when you talked about a four percent decrease --  
17 four percent is all, to many of those that's Hershey  
18 Hospital, that's private grants put in, all that goes  
19 into the picture.

20 That main money we're talking about is  
21 tuition money and -- and -- and the money for our  
22 farmers.

23 And you're saying, well, make the  
24 choice. Do you raise tuition or do you help the  
25 farmers out? I just want to have a little more open

1 discussion as -- as we talk about this, Mr. Secretary.  
2 And it's not anything -- I respect you. You're doing a  
3 great job, and I appreciate what you've done.

4 But I think we need to just hold the  
5 rhetoric back a little bit, because we have good people  
6 on both sides of the aisle and I believe we have the  
7 opportunity to do some great things together.

8 SECRETARY ZOGBY: I appreciate your  
9 comments, representative.

10 CHAIRMAN ADOLPH: Thank you.

11 Representative Jeff Pyle.

12 REP. PYLE: Thanks for being here today,  
13 Mr. Secretary.

14 I -- one of the problems with following  
15 such eloquent speakers is they take questions you would  
16 inquire about, but there's a few in there that we  
17 haven't touched on yet.

18 I noticed that in this budget that the  
19 sinking line -- the sinking fund for new school  
20 construction renovation was reduced from 318 million to  
21 299 million.

22 We've got a situation back home where,  
23 contrary to what the gentlemen from Monroe, or the  
24 gentleman from Centre, or anybody here would like to  
25 think, they're embarking on an \$8 million bond project

1 to build onto schools, despite having a shrinking  
2 student population, dropping by 17 percent. It's --  
3 it's a bad situation.

4 What is your take on school construction  
5 that has not yet broken ground? Is this or is this not  
6 a good or bad year, your opinion, for school districts  
7 to be beginning new construction in light of the state  
8 funding decrease?

9 SECRETARY ZOGBY: I guess,  
10 representative, I -- I guess with reference to the  
11 broad brush comment, I think you have to look at every  
12 construction project.

13 Now, certainly if there is a school in a  
14 situation where the school or a particular building  
15 is -- is deteriorated to the point where it's unsafe  
16 for students and teachers, others to be in that  
17 building, then obviously there's -- there's a need  
18 there.

19 If it's -- if it's more of a  
20 discretionary project, I guess I would encourage where  
21 there maybe isn't a -- an immediate demand to undertake  
22 new construction, I would encourage a district to  
23 rethink that.

24 I think one of the things that we maybe  
25 also need to do is -- is look at the use of technology

1 more and the -- you know, the reuse of our buildings.  
2 We -- we build schools, but they're oftentimes just  
3 used maybe from 7:00 to 3:00 or 3:00 to 4:00 and then  
4 stand empty the rest of the time.

5 I think we need to rethink. Particularly  
6 in this day of technology. We have tens of thousands  
7 of students, for instance, that go to school through a  
8 virtual medium. Never show up in a building.

9 I know in my past life we did things like  
10 blended learning programs where kids came maybe a  
11 couple times a week to a particular place but didn't  
12 need to be in a brick-and-mortar facility every day.

13 So I think we need to -- to -- to look  
14 very hard at construction. They're very expensive.  
15 They're paid for -- you know, they're paid out over  
16 time, and I think we're -- given the difficult economic  
17 times that we're sailing in, I think to be prudent, I'd  
18 look more towards not building if at all possible.

19 But, again, I think it depends on the --  
20 the specifics of the project in question.

21 REP. PYLE: That's -- that's pretty much  
22 what about 85 percent of the people in Armstrong think  
23 right now. I'm glad to hear it from you, a man  
24 esteemed in finance and much more learned than I.

25 If you don't mind, I'd like to make a

1 comment. I'm about as common as a red brick,  
2 Mr. Secretary. I understand things on a very basic  
3 level.

4 But what I know is every month 12.7  
5 million Pennsylvanians sit down at the kitchen table  
6 and if they're -- when they pay their bills, if they  
7 only have X in their checking account, they cannot  
8 spend X plus one.

9 And I feel that's what the state has done  
10 over the last few years, and throw a shout out, again,  
11 to my friend from Centre who I agree with completely.  
12 It would be too easy to blame this guy and blame that  
13 guy, and I honestly really would like to forget most of  
14 the last six years. But that's just me.

15 And I'll leave you with something my dad  
16 told me when I was first elected, because he was a D.J.  
17 back in the '60s, a district justice.

18 You can't spend what you don't have. The  
19 easiest job in the world is spending other people's  
20 money. The hardest job is taking it from them.

21 I don't know that in this recession I  
22 want to be the one that takes it from them. I support  
23 Governor Corbett's ideology. I feel we are too  
24 intrusive.

25 Now, one of the things that the Governor

1 outlined that piqued my curiosity was identifying the  
2 core functions of government. And I'm curious what  
3 your take on core functions of government entails.

4 SECRETARY ZOGBY: Well, I think it's  
5 certainly public health, public safety. You know,  
6 education is a core function.

7 Again, I think if you go back through  
8 this budget, you know, it's having a banking department  
9 to regulate the financial services industry. Is that a  
10 core function? I think many people would say that  
11 we're better off as a -- as a Commonwealth for that.

12 If you look at insurance, PennDOT,  
13 other -- other areas of the -- of the budget that call  
14 on general fund dollars, those are all core functions.

15 Again, I go back, I think, to an earlier  
16 answer. There may be -- you know, there may be at at  
17 the margin some discussion of whether we need to do  
18 this or that, but there's a lot of areas I think if you  
19 get down to it in this budget you would say that we  
20 would be worse off as a Commonwealth if we didn't  
21 undertake that activity. So I think we have to look at  
22 it with that eye.

23 I go back to your comment about other  
24 people's money. I think the Governor looks at this  
25 as -- as exactly as you cast it. That Pennsylvania

1 businesses and Pennsylvania employers, job creators,  
2 sit down all the time and have to live within their  
3 means. They have to make difficult decisions.

4 I know friends and neighbors that have  
5 had to make some very difficult decisions over the last  
6 several years to live within their means. They don't  
7 have the luxury of, say, taxing their employers or  
8 taxing their friends and neighbors so they can afford  
9 things that they maybe want but don't have the dollars  
10 to -- to spend.

11 So I think that, you know, the  
12 Governor -- Governor's focus is making sure that we  
13 look long and hard in terms of state spending and  
14 trying to do everything that we can to lessen state  
15 spending before we ever go to -- to Pennsylvania  
16 families and job creators and ask them for more.

17 REP. PYLE: How am I doing for time,  
18 Mr. Chairman? I got one more question.

19 CHAIRMAN ADOLPH: You have three minutes.

20 REP. PYLE: Thank you, Mr. Chairman.

21 Secretary Zogby, I totally agree, once  
22 again, and -- and -- with the Governor. I think our  
23 focus needs to be on jobs and putting Pennsylvania back  
24 to work.

25 SECRETARY ZOGBY: Yes, sir.

1                   REP. PYLE: A vital component of that is  
2                   having the infrastructure that lets them get to work,  
3                   and what I'm referring to, sir, are deteriorating  
4                   bridges all over the Commonwealth.

5                   I notice we are eliminating the bridge  
6                   study money which is probably a wise move. I've served  
7                   on the Transportation for a number of years now. I  
8                   think we've -- we've done a pretty good job identifying  
9                   which bridges are deficient and which are not.

10                  My concern, and I'd like your take on it,  
11                  if that's all the same, we seem to be flexing a lot of  
12                  money away from bridge and highway repair into mass  
13                  transit systems that go into soft costs, like personnel  
14                  rather than hard capital, like bridge superstructures  
15                  and rollers and pylons, all that stuff.

16                  What -- what do you foresee as being the  
17                  Commonwealth's commitment to repair of our bridges and  
18                  roads over the next couple of years?

19                  SECRETARY ZOGBY: I would just say on the  
20                  specifics of the -- the bridge building, we do have a  
21                  bridge bond program, I think it's 200 million this  
22                  year, that we're -- we're looking to put into deficient  
23                  bridges.

24                  I think there's a concern that PennDOT  
25                  has in terms of the restricted account that those funds

1       come out of and the sustainability of that program  
2       going forward.

3                       So one of the things that we're going to  
4       be working with them on is, again, the -- that account  
5       and its sustainability going forward.

6                       Clearly there's tremendous infrastructure  
7       needs that we have --

8                       REP. PYLE:    Sure.

9                       SECRETARY ZOGBY:  -- as a Commonwealth.  
10       I know the Governor is interested in looking at  
11       public/private partnerships, perhaps tolling in those  
12       areas, and we'll be actively working, PennDOT,  
13       Secretary, with members of the General Assembly around  
14       those issues.  You know, there is a -- there is a  
15       tremendous need in those areas.

16                      I think one of the other things that he  
17       wants to look at is how we can maybe take more of the  
18       State Police funding and move it into the general fund  
19       that can free up -- I think it's about \$500 million  
20       this current fiscal year, but that we could free those  
21       monies up in the Motor License Fund that can go back  
22       into infrastructure concerns that -- that you and the  
23       Governor have.

24                      REP. PYLE:    Well, that -- that would  
25       certainly be a great add.

1                   And on that note, I want to thank you for  
2 being here today.

3                   And thank you, Mr. Chairman.

4                   SECRETARY ZOGBY: Thank you.

5                   CHAIRMAN ADOLPH: Thank you,  
6 representative.

7                   Representative Steve Samuelson.

8                   REP. SAMUELSON: Thank you,  
9 Mr. Chairman.

10                   My questions are about education funding,  
11 and at the beginning of our discussion one of my  
12 colleagues was talking about the budget overall and  
13 said that the \$2.6 billion in cuts was a step in the  
14 right direction.

15                   Now, when I look at the education budget,  
16 I think these deep cuts to education are the wrong  
17 direction for Pennsylvania.

18                   So I'm going to ask you about the  
19 magnitude of the cuts, but let me just lay out my  
20 concerns. When I look at this budget, it -- it looks  
21 like Governor Corbett has launched an assault on  
22 learning. It's -- the cuts are page after page.

23                   We look at the preschool and library  
24 funding, less than last year's level. Adult literacy,  
25 17 percent cut. Public schools are grappling with a

1 \$1.1 billion loss of funds. Community colleges, cut  
2 ten percent.

3 About the only area of the budget where  
4 the Governor is proposing an increase in education is  
5 the education of inmates. I'm not kidding about this.  
6 You could look it up in the Corrections budget.

7 And families are also bracing for steep  
8 tuition increases when the Governor talks about cutting  
9 higher education by 50 percent. An unprecedented level  
10 of cut.

11 So while I see many states around the  
12 country engaged in a race to the top, it appears that  
13 Governor Corbett with regard to education is launching  
14 a race to the bottom.

15 And I think families and constituents  
16 around the state are stunned by the size of these cuts,  
17 the magnitude of these cuts to higher education, basic  
18 education.

19 So my first question would be, why are  
20 the cuts to education so deep?

21 SECRETARY ZOGBY: Well, representative,  
22 I -- I would -- I guess there's so much there to  
23 unpack.

24 I think one of the issues is the fact  
25 that -- and, again, I guess, I don't know if this goes

1 back into looking in the rear-view mirror, but the  
2 reality is, is that the bulk of the stimulus funds that  
3 were received by the state in -- in the past couple of  
4 years were put into basic education.

5 I think everybody knew that those were  
6 one-time funds, that those funds should not have been  
7 put into ongoing operating and that the time for belt  
8 tightening was a couple of years ago, to begin to make  
9 adjustments, knowing this funding would go away.

10 I think members of this committee said  
11 publicly and in writing to school district and basic  
12 education leaders, putting them on notice, that these  
13 were one-time funds.

14 I know many of the leaders in the Senate  
15 did the same thing, that these funds were going to go  
16 away, that they were temporary, that they were  
17 one-time, and that they should not be used for ongoing  
18 operating.

19 As best as I can discern, most people  
20 just ignored that advice. And so -- and certainly no  
21 adjustments were made or I would say relatively few  
22 adjustments were made in the general fund budget to  
23 accommodate that, and drove the car right up to the  
24 edge of the cliff, \$4.1 billion in fiscal -- federal  
25 stimulus funds, in sort of budget ledger domain, as --

1 as I keep referring to it, one-time expenditures and  
2 the like, and it should come as no surprise to anyone  
3 that we had to cut this year.

4 And -- and I would say that, you know,  
5 overall education, we're talking about, again, I go  
6 back to those numbers, \$26 billion, double what it was  
7 eight, ten years ago. Basic education formula, 4  
8 billion versus 5.2. Over \$1 billion in basic education  
9 funding compared to eight years ago.

10 So we're -- we're still, even with these  
11 cuts, at -- at a -- at a very high base. And, again, I  
12 would suggest for all the money that has been poured  
13 into the system, I don't know and I don't believe that  
14 we've seen a commensurate increase in student  
15 achievement.

16 And so the Governor talks about the  
17 definition of insanity, doing the same thing over and  
18 over again expecting a different result, and what he's  
19 doing with this budget through the reforms that he's  
20 laid out is looking to spend the money differently and  
21 in a way that we believe is going to yield better  
22 results for our young people.

23 REP. SAMUELSON: Sounds like you're  
24 blaming the size of the cuts largely on the stimulus,  
25 the loss of the stimulus funds.

1                   I have two responses. One, in the  
2 Department of Corrections there was one-time stimulus  
3 money used and when we look at the Corrections budget,  
4 what Governor Corbett chose to do is replace every  
5 single stimulus dollar and then add another 13 million  
6 on top of that.

7                   So he replaced the stimulus money and  
8 added new state dollars in Corrections but he did not  
9 do that in education. And it gets worse.

10                  If -- if you were talking about a \$654  
11 million cut in education, it would be a legitimate  
12 argument to blame it on the stimulus; but when I look  
13 at the budget, the cuts to the school districts aren't  
14 654 million. They're 1.1 billion.

15                  So -- so what happened? There's taking  
16 the basic education funding back to the 2008 levels,  
17 eliminating the charter reimbursements, eliminating the  
18 accountability grants, eliminating the educational  
19 assistance program, eliminating the school improvement  
20 grants, and then sticking it to some of the wealthier  
21 districts by adjusting the Social Security formula.

22                  So when you look at the entire picture,  
23 what you might blame on a \$654 million loss of stimulus  
24 money adds up to over \$1.1 billion that our school  
25 districts aren't seeing this year.

1                   Now, let me just use two examples, one  
2                   from my colleague from Monroe and one from my own  
3                   district.

4                   The district that my colleague referred  
5                   to a few minutes ago, Pocono Mountain, I think you said  
6                   that it should come as no surprise that we're losing  
7                   the stimulus money and that the basic education money  
8                   might go down.

9                   Well, Pocono Mountain, if they were  
10                  looking at basic ed, they might have counted on a  
11                  one-and-a-half million dollar loss. But when you add  
12                  up all six of those line items, they're losing 5.6  
13                  million.

14                  In my district, in Bethlehem, they built  
15                  in a -- a \$1 million loss of state funding in their  
16                  budget. If they had fully anticipated the Governor  
17                  going back to 2008 levels, they would have counted on a  
18                  two-and-a-half million dollar loss.

19                  Then on March 8 they were stuck by  
20                  Governor Corbett with a 7.1 million loss of funding.  
21                  It's almost three times what they could have reasonably  
22                  expected if they were focused on that basic education  
23                  line item and if they were focused on the possibility  
24                  that the Governor could go back to the 2008 level.

25                  So the cuts are much deeper than just

1 going back to 2008, just reducing basic ed to the  
2 pre-stimulus levels.

3 Let me ask two questions. If you were a  
4 superintendent, if you were a school board member, and  
5 you were faced with Governor Corbett's budget, a  
6 statewide 17 percent loss of funding for school  
7 districts, and you don't want to raise taxes, as you  
8 previously said, how would you balance that school  
9 budget with the 17 percent loss of funding?

10 SECRETARY ZOGBY: I wouldn't have waited  
11 until this year to begin to bring my fiscal house in  
12 order. I wouldn't have been -- I wouldn't be handing  
13 out three, four-and-a-half percent increases on top of  
14 step increases to teachers year after year, signing  
15 three-, four-year contracts, and then expecting to send  
16 the bill to Uncle Sugar in Harrisburg to -- to pick up  
17 the -- the tab.

18 You know, you've mentioned the  
19 Corrections budget. It wasn't Governor Corbett's  
20 decision to put \$173 million of stimulus funding into  
21 the Corrections budget.

22 Now, is your suggestion that we ought to  
23 close a number of prisons on the order of \$173 million  
24 in order to bring our Corrections system in balance  
25 absent the \$173 million in stimulus funding?

1                   That's -- that's obviously not something  
2                   that this Governor was able to do. And so we had -- we  
3                   had to put those monies in to backfill those  
4                   decisions.

5                   It wasn't this Governor's decision to use  
6                   \$750 million in one-time expenditures to balance the  
7                   budget last year. It wasn't this Governor's decision  
8                   to use monies out of the tobacco settlement fund to  
9                   artificially reduce budget expenditures in this year  
10                  and the year before.

11                  So I would suggest that, you know, a --  
12                  the bulk of the problems that we have faced had to do  
13                  with decisions that this Governor had nothing to do  
14                  with and he was -- he's basically left holding the bag  
15                  to -- to balance a budget, 4.2 billion, \$4.16 billion.

16                  And so, again, you know, you look at the  
17                  spending in local school districts. It was maddening  
18                  to me in putting together this budget to open the paper  
19                  nearly every day and look at contract increases of  
20                  three-and-a-half, four percent, again, on top of -- of  
21                  step increases. I think the total salary increase in  
22                  basic education over the -- over the -- just the  
23                  recession years, over a billion dollars.

24                  I think what -- what's the lesson that we  
25                  learn, if you're in a hole, to stop digging?

1                   So, again, I think that -- this isn't a  
2                   problem that people were just confronted with post  
3                   January 18th. This is a problem that's been with us  
4                   for a couple of years and just to wake up today and  
5                   blame it on this administration, to blame it on this  
6                   Governor that had all of this left at his doorstep, I  
7                   think it's -- that -- that's what I find  
8                   unconscionable, quite honestly.

9                   REP. SAMUELSON: My point on the  
10                  Corrections was the different choice that Governor  
11                  Corbett made. When faced with the loss of 173 million  
12                  in stimulus money in Corrections, he used state tax  
13                  dollars to backfill that.

14                  When faced with the choice of 654 million  
15                  in education, he did not replace that funding and, in  
16                  fact, he cut much deeper, the 1. --

17                  SECRETARY ZOGBY: I would -- I would  
18                  suggest, representative, that what -- that what we did  
19                  in the exercise is that we backed out all of the  
20                  stimulus funding.

21                  And, again, I go back to, like, the  
22                  Corrections budget. Which -- which state prison should  
23                  we close in order to -- to bring the Corrections budget  
24                  into balance to -- to make up for that \$173 million --

25                  CHAIRMAN ADOLPH: Excuse me.

1 SECRETARY ZOGBY: -- loss in --

2 CHAIRMAN ADOLPH: Excuse me.

3 SECRETARY ZOGBY: -- stimulus funding?

4 CHAIRMAN ADOLPH: We've gone past the  
5 allotted time, and we'll catch you again on the second  
6 round, representative.

7 REP. SAMUELSON: Thank you, Mr. Chairman.

8 CHAIRMAN ADOLPH: Representative Brian  
9 Ellis.

10 REP. ELLIS: Thank you very much,  
11 Mr. Chairman.

12 Mr. Secretary, to your right.

13 SECRETARY ZOGBY: Sorry.

14 REP. ELLIS: How are you doing? Thank  
15 you for being here today and I appreciate your  
16 testimony so far.

17 And one of the comments you were just  
18 making I found extremely interesting, that, you know,  
19 we are making cuts this year, cuts we should have made  
20 in previous years.

21 Now, it's my understanding -- and I don't  
22 know if you have the numbers on it -- but there's 50  
23 states in the United -- 50 states faced with problems  
24 that we had over the last few years, over the recession  
25 years. The federal government gave us an opportunity

1 to roll back our spending.

2 Most of the other states did that.  
3 Pennsylvania did not. We continued to fund at -- at a  
4 higher level and filled in with the stimulus dollars.

5 And I believe your point goes to that,  
6 saying that we're actually not surprised that these  
7 cuts had to come. And I -- and I just want to thank  
8 you for your view on that because I think it's a  
9 hundred percent accurate.

10 But I do have a -- a question about  
11 the -- the property taxes that -- that our constituents  
12 are facing. Now, certainly there have been claims  
13 throughout the hearings here that the Governor is  
14 raising property taxes, and clearly we do not raise  
15 property taxes.

16 We do have the ability to lower property  
17 taxes in one capacity or another. And when we brought  
18 in gaming into Pennsylvania, the idea was we're going  
19 to have table games -- I mean we're going to have slot  
20 machines and then eventually it became table games, the  
21 money is going to help offset the property taxes and  
22 realistically at this point folks in my district are  
23 averaging about a \$130 dollars per year as a rebate.

24 But according to the -- the Governor  
25 anticipates that the amount of general property tax

1 relief will be about 595 million again this year, but  
2 it appears to provide an amount of relief of 19.8  
3 million will be needed to be borrowed to put into that  
4 fund.

5           And my question is, if we borrow this  
6 year to put into that fund, are we going to have to  
7 borrow again next year to put back into that fund? Or  
8 are we going to be in the situation where the \$130 that  
9 my folks are getting will be in jeopardy? They might  
10 not even get that next year.

11           SECRETARY ZOGBY: Our belief is that the  
12 -- those funds will not be in jeopardy, that we'll be  
13 able to sustain the property tax relief going forward.

14           Again, you know, our crystal ball is --  
15 reaches, I guess, only so far; but right now we feel  
16 comfortable that we can -- we can maintain those --  
17 those -- that level of tax relief you cited.

18           REP. ELLIS: And I hope we would. Are  
19 you anticipating the other casinos coming online within  
20 this year? Or --

21           SECRETARY ZOGBY: I don't know the -- the  
22 status of those, representative.

23           REP. ELLIS: Okay. Very good. We'll --  
24 and I think, Mr. Chairman, if I can just make a comment  
25 on this, you know, I think I can speak for my

1 constituents and -- and probably many of the other  
2 folks in this room.

3 We were anticipating a lot coming from --  
4 a lot more coming from this gaming, and so we find out  
5 after the fact -- and I remember whenever I was first  
6 running for office -- it passed right before I got  
7 here -- but I -- I used to call gaming the big bucket  
8 of ifs. If this happens. If that happens. If this  
9 happens, then you'll see a reduction in your property  
10 taxes.

11 Now, in the meantime, in my district,  
12 like I said, about 130. School property taxes have  
13 gone up \$650 in the last six years. So it's  
14 substantially under-achieving the goal that it was sold  
15 to the public on.

16 And I think really we want to know where  
17 the money is. I mean today I read an article, just  
18 this morning before I came in here, about how  
19 Pennsylvania has surpassed Nevada and New Jersey as far  
20 as revenue collected, and partly because of our tax  
21 revenue that we have. We're the biggest gaming state  
22 in the country right now as far as revenues collected.

23 And I think a great question, and I don't  
24 know if you can provide it now or if you could provide  
25 it in writing, where is the new money going?

1                   We got table games in. Where is it  
2 going?

3                   And, again, I -- I think it would be  
4 great for clarification sake, because I face that  
5 question all the time, and it just seems amazing to me  
6 that, you know, every year we expect things to get  
7 better with the -- with the gaming and we read these  
8 reports and yet we're still at the same level of relief  
9 we had three years ago.

10                   Do you have any comments on that?

11                   SECRETARY ZOGBY: I can get you,  
12 representative -- I don't have at my fingertips the  
13 specifics in terms of where those gaming dollars are --  
14 are going. I'd be happy to provide that.

15                   I would just go back and reiterate the  
16 Governor's proposal in terms of -- of enabling local  
17 voters to have -- to have control of -- of local school  
18 budgets and having that vote on budgets that go above  
19 inflation. I think that ultimately is going to have  
20 the most powerful mechanism that we have, in addition  
21 to the other reforms that the Governor has put on the  
22 table to get at this issue of continually escalating  
23 property taxes.

24                   REP. ELLIS: Thank you very much,  
25 Mr. Secretary.

1                   CHAIRMAN ADOLPH: Representative Matt  
2                   Smith.

3                   REP. SMITH: Thank you, Mr. Chairman.  
4                   Thank you, Mr. Secretary, for your  
5                   testimony today. I just want to sort of hopscotch  
6                   around a couple different topics.

7                   The first one is there's been some  
8                   discussion over the last couple days about  
9                   Pennsylvania's economic growth and where we fit in from  
10                  a job standpoint in terms of economic growth.

11                  And I just want to read a statement to  
12                  see whether you agree or disagree with it. And that  
13                  statement is, quote, "Pennsylvania's economy has  
14                  performed better than the economies of its neighbor and  
15                  competitor states throughout the recession that began  
16                  in late 2007. From 2007 to 2009 Pennsylvania's GDP  
17                  growth of 3.8 percent was over three times the national  
18                  rate of 1.18 percent and exceeded GDP growth rates of  
19                  our neighboring and competitor states."

20                  Do you agree or disagree with that  
21                  characterization?

22                  SECRETARY ZOGBY: I guess I'd have to  
23                  look at those -- those figures, representative. I've  
24                  not looked at that data. I think for every family that  
25                  is -- is impacted by the recession, for them



1 will. He said that the unemployment rate remained  
2 below the national rate throughout the recession and in  
3 personal income per capita we're surpassing those of  
4 our neighboring and competitor states.

5 So I'm just trying to figure out whether  
6 it's the 47th, that ranking, or whether we're 7th or  
7 where we are in your opinion.

8 SECRETARY ZOGBY: Well, I would say,  
9 representative, whether it's 47th or 7th, when we have  
10 Pennsylvania families who are in need of jobs, when we  
11 have Pennsylvania families who are struggling because  
12 of -- of tough economic times --

13 REP. SMITH: You would agree it's a big  
14 difference, 47th versus 7th?

15 SECRETARY ZOGBY: But I can --

16 REP. SMITH: Excuse me.

17 SECRETARY ZOGBY: Sure.

18 REP. SMITH: Just let me finish my  
19 question.

20 SECRETARY ZOGBY: Sorry.

21 REP. SMITH: If we're 47th, it would  
22 obviously be a lot worse for Pennsylvania families than  
23 if we were 7th. And it would seem to me that there's a  
24 lot less folks unemployed if we ranked 7th than 47th.

25 And I agree, if you're unemployed, it

1 really doesn't matter what the ranking of the state  
2 is.

3 But I think in order to get a baseline of  
4 where we are as a state it's important to get some  
5 facts out to people rather than mischaracterizing the  
6 state's job growth as 47th when really, you know,  
7 you've testified right here that you don't know if it's  
8 47th.

9 So I think it would probably be prudent  
10 for the administration to -- to stop throwing out the  
11 47th figure unless you're willing to testify today that  
12 we are, in fact, 47th.

13 SECRETARY ZOGBY: Well, again, those are  
14 not statistics I have at the ready, representative.

15 REP. SMITH: Okay.

16 SECRETARY ZOGBY: Again, I think the  
17 Governor's focus is -- is job creation, promoting job  
18 creation and economic growth.

19 REP. SMITH: Yeah. And I thought the  
20 Governor did a press conference yesterday on it, but I  
21 could be mistaken, and quoted that 47th ranking  
22 figure.

23 But let me move on to another topic. You  
24 had mentioned, I think, in response to another  
25 question, that the Governor at least was willing to

1 entertain an impact fee now as part of the Marvellous  
2 shale dialogue. And I'm just trying to figure out -- I  
3 know specifically during the campaign -- and I could  
4 cite a KDKA TV interview with Jon Delano where the  
5 Governor specifically stated that his no tax pledge  
6 includes fees.

7                   So is he now qualifying that statement or  
8 are fees not included in the no tax pledge now?  
9 Because it would seem that if he's considering a  
10 Marvellous shale impact fee he's not considering --  
11 he's no longer considering fees as part of his tax  
12 pledge like he did with the interview with Jon Delano.

13                   SECRETARY ZOGBY: I think the distinction  
14 there, representative, is -- is where that money goes.  
15 And I think when the Governor said no new taxes and  
16 fees, I think he's talking about state taxes and fees  
17 that come into the general fund to feed a general fund  
18 spending.

19                   REP. SMITH: So if there was --

20                   SECRETARY ZOGBY: And an impact fee,  
21 again -- and I -- and I forget who asked the question,  
22 but at least I can just speak to what I've heard the  
23 Governor say which is he's willing to entertain it.

24                   And I think he's seen that as -- as  
25 revenues that would go to local counties or

1 municipalities.

2 REP. SMITH: So as long as the tax or fee  
3 goes to a specific purpose, the Governor would view  
4 that as not breaking his no tax pledge?

5 SECRETARY ZOGBY: Well, again, I'd -- I'd  
6 go back to the purposes. I don't think he's looking  
7 for revenues at the state level.

8 REP. SMITH: Right. If it goes right --

9 SECRETARY ZOGBY: It would go back --

10 REP. SMITH: Putting aside --

11 SECRETARY ZOGBY: -- to the impact fee  
12 with Marvellous shale.

13 REP. SMITH: Yeah. Putting aside the  
14 general fund, if it goes to transportation, fixing  
15 roads and bridges, if it goes to environmental  
16 protection in municipalities, I think what you're  
17 saying -- correct me if I'm wrong -- but that the  
18 Governor views a -- there's a distinction between the  
19 tax or fee that goes directly for a specific purpose  
20 and doesn't go into the general fund versus a tax or  
21 fee that is -- either through mixture or totally goes  
22 to the general fund?

23 SECRETARY ZOGBY: Yeah. I don't want to  
24 go into -- into parsing the Governor's statement, and  
25 I -- and I guess I'd defer to the Governor to provide

1 sort of the definitive view on -- on -- or definitive  
2 statement on this issue.

3 But, again, I -- I know my marching  
4 orders as budget secretary were to put together a  
5 budget with no new taxes and no new fees, and -- and  
6 that's the guidance that -- that I'm living by and that  
7 this budget delivers on.

8 REP. SMITH: Okay. And just to sort of  
9 transition off to a different topic. The Liberty Loan  
10 Fund has been, I think, the subject of a lot of  
11 confusion during our hearings.

12 From what I understand that is a \$2  
13 billion and change economic development fund that will  
14 be created by way of a transfer of 330 million from the  
15 tobacco settlement fund, as well as a consolidation of  
16 other economic development programs, PIDA, Commonwealth  
17 Financing Authority, SBF, M -- MLEF, a bunch of  
18 different ones that total \$2 billion.

19 Is that correct? Is that how we get to  
20 the \$2 billion number?

21 SECRETARY ZOGBY: I believe the number  
22 we've been using, representative, is 1.9 billion. And  
23 the only I guess -- I think you captured the funds  
24 correctly. The only exception that I'd -- I'd point  
25 out is, again, just on those tobacco investments that

1 we're simply -- we're proposing to move those tobacco  
2 investments, about 220 million, to the Liberty Loan  
3 Fund that would hold and manage those investments for  
4 their -- for the original purposes and not commingled  
5 with the Liberty Loan Fund dollars.

6 But the other funds that you cited would  
7 be -- would be brought together for -- for a new  
8 funding mechanism through the Liberty Loan Fund.

9 REP. SMITH: So except for the 200  
10 million of the tobacco fund that's being transferred,  
11 which, from what I understand from your testimony, is  
12 that would be restricted to the purposes pursuant to  
13 the master agreement with the tobacco companies?

14 SECRETARY ZOGBY: The tobacco funding  
15 would -- would be dealt with -- would be separate, yes,  
16 sir.

17 REP. SMITH: That would be carved out.  
18 And then all the other funds, 1.7 billion, would be put  
19 in this Liberty Loan Fund and those would not be  
20 restricted. They could be used for any particular  
21 purpose?

22 SECRETARY ZOGBY: I've not seen the exact  
23 details of the department's proposal. I think their  
24 thought is, again, to combine all those various funds  
25 that you mentioned. Again, absent the tobacco and,

1 again, go for -- go for those uses that are now in  
2 the -- in sort of the silos of those different funds,  
3 be able to go for those same purposes, but, by bringing  
4 them together, make it more flexible and more -- and  
5 more user friendly for the -- the end users of those  
6 funds.

7 REP. SMITH: But they would still be in  
8 their individual silos? So, in other words, each H2O  
9 money that's transferred over into the Liberty Loan  
10 Fund would only be used for sewer or water projects,  
11 that sort of thing.

12 SECRETARY ZOGBY: I'm not sure that the  
13 H2O funds are -- were -- are commingled. I don't want  
14 to misspeak here. And, again, I've not had the  
15 opportunity to see the exact detail.

16 But, again, I would say that right now we  
17 have a number of funds that are siloed. It's a  
18 specific purpose, and I think the thought is --

19 REP. SMITH: It would stay that way.

20 SECRETARY ZOGBY: No. That we would  
21 bring them together in -- in a Liberty Loan Fund that  
22 would have as -- sort of an umbrella of uses the  
23 different --

24 REP. SMITH: Oh, okay.

25 SECRETARY ZOGBY: -- the different

1 silos. But it would be, again, blended together --

2 REP. SMITH: So you could have a --

3 SECRETARY ZOGBY: -- in the fund.

4 REP. SMITH: A -- money that was  
5 originally in the CFA for green building, loans and  
6 grants, could be used to build a coal plant in Erie  
7 County and there could be changes made obviously if --  
8 if that was necessary.

9 SECRETARY ZOGBY: If -- I guess to your  
10 point, if there were maybe higher demand in one  
11 particular area than another, then there may be the  
12 flexibility to, again, go to those -- what I would  
13 perceive as higher, better uses than maybe other -- I  
14 guess people might quibble on better, but at least  
15 flexibility on other uses.

16 REP. SMITH: So it could be changed if  
17 there's tremendous demand in one area and not --

18 SECRETARY ZOGBY: Perhaps --

19 REP. SMITH: -- in the green building  
20 area.

21 SECRETARY ZOGBY: -- yes.

22 REP. SMITH: And what would the -- would  
23 the transfer of the tobacco money entail? Would that  
24 just be a cash transfer or would that include cash and  
25 assets held?

1                   SECRETARY ZOGBY: I think those are,  
2 right now, as I understand it, I want to say about 125  
3 million in investments. And, again, these are  
4 outstanding investments with tobacco dollars, and then  
5 I want to say another 80 to 90 million.

6                   We have contracted capital calls, and so,  
7 again, that would simply be managed by the Liberty Loan  
8 Fund, again, for their intended uses as -- as defined  
9 by the tobacco legislation.

10                  REP. SMITH: And I know one of the things  
11 Secretary Walker talked about was the Liberty Loan Fund  
12 would actually create a larger pot of available funds.

13                  And now that -- that seems to indicate  
14 that there would be some effort to securitize or borrow  
15 against that Liberty Loan Fund.

16                  Are there any plans to -- in order to  
17 grow it to \$1.9 billion, because the only way to grow  
18 it would be to securitize and borrow against -- is that  
19 the plan for the Liberty Loan Fund, in order to grow it  
20 above the 1.9 billion?

21                  SECRETARY ZOGBY: Again, representative,  
22 I think the 1.9 billion is the number that I've heard  
23 out of the DCED secretary. I'm not aware of any  
24 securitization plans that -- that we have.

25                  And, again, I've not seen the specific

1 detail of the proposal, but I know that's something  
2 that the Secretary is, you know, eager -- eager to  
3 achieve this proposal for the fund and something that  
4 he intends to engage members of the General Assembly on  
5 in -- in this discussion of how to best consolidate  
6 those funds in the Liberty Loan Fund.

7 REP. SMITH: So we'd be looking at 1.9  
8 billion, nothing above that amount? As far as you  
9 know. No efforts --

10 SECRETARY ZOGBY: As far as I know. But,  
11 again, I -- I really would refer -- refer you to  
12 Secretary Walker.

13 CHAIRMAN ADOLPH: Thank you,  
14 Representative Smith.

15 REP. SMITH: I'll be back.

16 CHAIRMAN ADOLPH: I'm sure you will.  
17 Representative Gordon Denlinger.

18 REP. DENLINGER: Thank you,  
19 Mr. Chairman.

20 And good morning.

21 SECRETARY ZOGBY: Good morning,  
22 representative.

23 REP. DENLINGER: First of all, a word of  
24 thanks to you reaching out, personal diplomacy, to so  
25 many of us here. It was greatly appreciated. So thank

1 you.

2 SECRETARY ZOGBY: I'm pleased --

3 REP. DENLINGER: And, please, keep up the  
4 points of contact.

5 SECRETARY ZOGBY: Thank you.

6 REP. DENLINGER: I'd like to go back  
7 after an area of question that Representative Pyle went  
8 to some time ago and that's transportation funding  
9 specifically.

10 I was looking at some data the other day  
11 that indicated that in terms of gasoline used that in  
12 '07 -- '07 was our peak year nationally. And I'm going  
13 from memory.

14 But I believe what I read was that we  
15 burned 790 million gallons of gasoline and that it's  
16 been declining every year from then to this point.  
17 Most recent year measured being '10, burned 789 million  
18 gallons or an 11 million decrease. Pennsylvania would  
19 have our pro rata share of that, of course.

20 But what it indicates is that we are  
21 using less gas, which is great, you know, as far as  
22 foreign dependence, but we are tied to a taxing system  
23 that is going to run into a real problem and is already  
24 in a problem.

25 Believing, as Representative Pyle went

1 into and you agreed, that -- looking at those core  
2 functions of government, roads, bridges,  
3 transportation, safety is -- is right there at the top,  
4 what should we as policymakers be looking to in the  
5 future in terms of replacing our current fuels tax  
6 model as we get into the future?

7           We -- you mentioned the transfer of the  
8 police and that's -- you know, movement of funds and  
9 that's a good, short-term solution. But we have a  
10 taxing model that's broken when you get out five, ten  
11 years into the future.

12           Have you given some thought to that and  
13 can you share your perspective with us?

14           SECRETARY ZOGBY: I would say,  
15 representative, that it's -- you know, it's an issue  
16 I've given some thought to. I can't say that -- a lot  
17 of extensive research or extended thinking about it.

18           It's certainly an important area. I know  
19 it's one our -- our Secretary of Transportation thinks  
20 about all the time. And, you know, I think it's  
21 something where we -- we have to look at things like  
22 public/private partnerships, maybe a broader tolling  
23 strategy for the Commonwealth is maybe a step out of  
24 it.

25           I certainly -- you know, at -- at 3.50, I

1 forget what I paid at the pump the last time I went,  
2 but 3.50 and some folks suggesting \$4 a gallon by  
3 summer. I'm not going to be up much of an appetite for  
4 gas tax increases and -- and the like.

5 I think we really need to think about how  
6 we best invest in our transportation infrastructure.

7 One of the things that I think the  
8 Governor very much wants to do is to charge our  
9 transportation secretary, bring together a group to  
10 look at globaling transportation funding and kind of  
11 take on that rethinking that you talked about.

12 I think it is something that we need to  
13 do. I know it's a difficult conversation whenever you  
14 get into taxes and fees.

15 I think one of the things that, you know,  
16 Pennsylvania has been very good about is the fact that  
17 our -- our gas taxes, our registration fees do go  
18 directly into the maintenance and -- and the  
19 construction of our roads and bridges and people can  
20 feel, I think, good or at least heartened that every  
21 time they fill up at their pump, they don't like to pay  
22 necessarily the taxes but that that money is going  
23 right back to those end uses.

24 And I think there's an integrity there,  
25 and it was our state spending that serves -- serves us

1 well in that regard. So I think it's an important  
2 discussion, and one we're going to be engaged in.

3 But I don't know that right now we have  
4 any sort of set path, if you will, in terms of how best  
5 to achieve the kind of rethinking that -- that you're  
6 thinking about.

7 REP. DENLINGER: And just two quick  
8 follow-ups on that. I did read somewhere that I think  
9 the Governor will be pursuing going back after the  
10 tolling of 80 issue potentially?

11 SECRETARY ZOGBY: I think that's  
12 something that's certainly on the table for discussion.

13 REP. DENLINGER: Has there been any  
14 turnpike lease discussion in your knowledge?

15 SECRETARY ZOGBY: Not that I'm aware of  
16 to date, no, sir.

17 REP. DENLINGER: Okay. I want to shift  
18 over then to something that has been a personal point  
19 of concern, and I hale from an accounting background so  
20 forgive me some of that.

21 But -- and that is you had referred to --  
22 I think it was Representative Reichley. You were going  
23 through a discussion of how we fill the gap of 4.16  
24 billion and got to, I think, 2.3.

25 You mentioned lapsed funds. We have

1 occasionally looked at that issue, particularly in  
2 regard to the previous administration in the proper  
3 application of policy.

4 Can you share with me how much of the gap  
5 that you went down through was filled with an  
6 adjustment in policy, perhaps, on the lapsing of  
7 funds?

8 SECRETARY ZOGBY: Well, I don't know it's  
9 an adjustment of policy. I believe, securing from my  
10 notes here, I think it's about a hundred million  
11 dollars that we had in our mix for the lapses. But I  
12 can check on that number.

13 REP. DENLINGER: If you could. And if  
14 you could share that with the chairman.

15 SECRETARY ZOGBY: I would be pleased to.

16 REP. DENLINGER: Very good. And I guess  
17 beyond that, this is the beginning of -- of your  
18 service with us and as you got into exploring the  
19 details of your office, and particularly the  
20 application of policy in this area or any other that  
21 you would care to share, were there things that you  
22 needed to do with this budget that corrected what you  
23 felt were inappropriate applications of budgetary  
24 policy?

25 SECRETARY ZOGBY: Not that come

1 immediately to mind. I would say that I've resisted,  
2 avoided, and will continue to resist and avoid sort of  
3 one-time budget gimmicks, the ledger domain, the  
4 one-time uses of funds to prop up spending.

5 And I don't think that's a path that the  
6 Governor is interested in going down and -- and -- and  
7 I'll continue to resist those. I'd like to stay away  
8 from those and -- and get back to sort of what I, you  
9 know, think of honest budgeting, revenues in,  
10 expenditures out, and -- and doing it straight up that  
11 way.

12 REP. DENLINGER: I appreciate that as  
13 a -- as a prospective direction.

14 I guess to come at this another way, was  
15 there a dollar amount that you had to go and backfill  
16 because you felt that that had been done in prior years  
17 and -- and some amounts needed to be corrected?

18 SECRETARY ZOGBY: Well, I guess I've  
19 cited here -- I think it's \$750 million in -- in -- in  
20 one-timers. I forget the other amount that -- that I  
21 mentioned in terms of sort of budget gimmicks. 121  
22 million from tobacco fund to lessen school employee  
23 retirement funding in this year's budget.

24 Those sorts of things combined with,  
25 again, just putting the stimulus money into ongoing

1 operating. That's really the -- the basis of the 4.2  
2 billion, 4.16 billion dollar hole that we found  
3 ourselves in.

4 REP. DENLINGER: Okay. Very good. Thank  
5 you. Appreciate that, and we look forward to working  
6 with you in the years ahead.

7 SECRETARY ZOGBY: Thank you.

8 CHAIRMAN ADOLPH: Thank you.

9 Representative Matt Bradford.

10 REP. BRADFORD: Thank you, Chairman.

11 And thank you, Secretary, and also thanks  
12 for the opportunity to meet with you before the  
13 hearing. I do appreciate the opportunity.

14 One of the things you said, and that  
15 actually struck a chord, was that it's unconscionable  
16 to blame the new governor for the situation we find  
17 ourselves in. And I think that's true frankly. I  
18 think the blame game is -- is -- on how we got here  
19 is -- is wrong.

20 But I think that overlooks something,  
21 which is a lot of us are offended really by the  
22 priorities, what the new Governor has decided to strike  
23 a balance in his budget, and I think that is where a  
24 lot of us take issue.

25 You talked a lot, and I think rightfully

1 so, about the need for transparency, honesty, in  
2 budgeting, getting away from the gimmicks. I think  
3 there's a lot of gimmicks in the budget and -- and I'll  
4 be glad to discuss them.

5           But one of the things, I think, it fails  
6 to discuss is the tax shifting nature of this budget.  
7 It's a budget that, you know -- and I think  
8 Representative Samuelson laid out some of the issues on  
9 the school funding, an honest discussion about what the  
10 Governor's proposes to do with K through 12 education  
11 is to admit he's taking out the stimulus funds. And he  
12 is.

13           But he's also cutting every other line  
14 item to basic education funding and I think that  
15 honestly requires us not to demonize our local school  
16 boards.

17           Every school board, except for one board,  
18 in my district is controlled by the -- there's actually  
19 not a single Democratic member. They will tell you  
20 that they didn't go out and willy nilly just spend  
21 stimulus money. They knew that money was going away.

22           The cuts that the Governor proposed are  
23 much further than the stimulus. It touches on the  
24 Social Security, accountability block grant, so there  
25 are real cuts there.

1                   So let's be honest and let's be fair to  
2                   our partners at local school districts. Let's not  
3                   demonize them and let's not also say to the local  
4                   community that they were just at fault here.

5                   Let's be honest. There's a huge economic  
6                   problem. Governor Corbett has inherited it, and  
7                   they're going to have to deal with it.

8                   So I think on the education funding a  
9                   little bit of honesty in saying this isn't just  
10                  stimulus funding, Governor Corbett has chosen to make  
11                  cuts. They are his choices and he's going to have to  
12                  take ownership of those and we're going to have to take  
13                  ownership of the last couple years of how we wound up  
14                  in this situation.

15                  Do you think there's been cuts in  
16                  education beyond stimulus funding?

17                  SECRETARY ZOGBY: Yes, there has.

18                  REP. BRADFORD: Okay. What is the nature  
19                  of those cuts?

20                  SECRETARY ZOGBY: I think you -- I think  
21                  you cited a couple. But, again, I go back that --

22                  REP. BRADFORD: Notice, you didn't have  
23                  to be living under a rock. You may have just been  
24                  surprised on March 8th when the Governor came out with  
25                  Social Security, accountability block grant, charter

1 school reimbursement.

2 I remember speaking to you in our meeting  
3 a week or two before the budget address and I said I  
4 assume stimulus money will go away and I said I think  
5 these other line items are where you would really  
6 potentially create an issue.

7 And I remember drawing that up and kind  
8 of throwing that out there, and I don't think we really  
9 fleshed out that discussion because frankly that idea  
10 was so preposterous that I don't think anyone thought  
11 that the Governor would propose it. Clearly he has,  
12 and that's the impact our school districts are going to  
13 face.

14 SECRETARY ZOGBY: If I could,  
15 representative, first of all, my living-under-the-rock  
16 comment had to do and has to do with the --

17 REP. BRADFORD: Absolutely.

18 SECRETARY ZOGBY: -- the no new --

19 REP. BRADFORD: The collective  
20 bargaining. I understand.

21 SECRETARY ZOGBY: -- the no new -- the no  
22 new taxes discussion. It wasn't with regards to  
23 spending cuts.

24 REP. BRADFORD: No. When we met, you  
25 used it in that context. But, again, I don't want a he

1 said she said.

2 SECRETARY ZOGBY: That's okay. And --  
3 and, please, you know, I -- I think your point in terms  
4 of looking in the rear-view mirror, I've tried not to  
5 spend -- you know, very much time at all. But the  
6 reality of the exercise that we're engaged in, I mean  
7 we didn't get here right -- overnight.

8 REP. BRADFORD: No. I often blame  
9 President Bush. So it's okay.

10 Let me -- let's just go on real quick if  
11 we could. The shifting nature of the budget, pushing  
12 this down on the local school property taxes, shifting  
13 it down to tuition increases on middle class families,  
14 shifting to it tolling and use --user taxes, what's the  
15 impact on middle class Pennsylvania families when we  
16 kind of -- you know, we act like we're being honest and  
17 we're the heroes up here and we're making tough  
18 choices.

19 But in reality we're cutting things, but  
20 we're just pushing it down to the locals. It's kind of  
21 a federalism in reverse at the state level, where we're  
22 just basically saying the obligations are yours, the  
23 problems are yours.

24 We're -- you know, we can talk about  
25 mandate relief, but we've not talked about anything

1 serious to help these local communities. We're talking  
2 about increasing property taxes, increasing tuitions on  
3 families.

4 What are we really offering them? And  
5 then we say on transportation, tolls.

6 SECRETARY ZOGBY: Well, representative,  
7 again, I guess I would take issue with the -- the  
8 notion that we're simply pushing it down to the local  
9 level.

10 You know, in -- in basic education, for  
11 instance, I mean we did -- we did take a -- we did take  
12 a run at -- at reducing mandates. Things like the  
13 economic furloughs, some of the other proposals that  
14 are out there.

15 REP. BRADFORD: Laying off teachers.

16 SECRETARY ZOGBY: Again, let's -- we've  
17 got -- we had six weeks to put together a -- a budget.  
18 We've maintained funding for core education programs in  
19 this.

20 REP. BRADFORD: Well, it's funny you --

21 SECRETARY ZOGBY: An example,  
22 representative, for instance is that the Governor  
23 called for an end to salary bumps for master's degrees  
24 that we estimate would save at least \$200 million.  
25 It's actually an older number. It's probably much

1 larger than that.

2 I know it's a little bit of -- sort of an  
3 esoteric area of policy, but if I might --

4 REP. BRADFORD: No, it's not.

5 SECRETARY ZOGBY: If I might, please,  
6 just to make the point.

7 REP. BRADFORD: I get ten minutes  
8 though. That's the only problem.

9 SECRETARY ZOGBY: Well, if -- if you  
10 might just indulge for a minute, Mr. Chairman.

11 CHAIRMAN ADOLPH: Yes. He's correct  
12 about the ten minutes, but, you know, you asked a  
13 question. He's going to answer it. Okay. And let him  
14 answer the question, and then you can ask another  
15 question.

16 SECRETARY ZOGBY: And I'll try -- I'll  
17 try to be quick about it, but I guess the suggestion  
18 is, is that we're running at peak efficiency in basic  
19 education.

20 REP. BRADFORD: So I was --

21 SECRETARY ZOGBY: The suggestion is often  
22 made that there aren't savings. When I --when you can  
23 put your finger on something like master's degrees, for  
24 instance, and I don't know how many untold --

25 REP. BRADFORD: Right. Secretary, if I

1 could, please.

2 SECRETARY ZOGBY: If I, please, could  
3 finish.

4 REP. BRADFORD: Secretary -- Secretary  
5 Duncan has talked about the issue with the American  
6 Enterprises Institute. I know where the citing comes  
7 from. I've read it.

8 SECRETARY ZOGBY: But we've not talked  
9 about it in Pennsylvania, and yet we're spending \$200  
10 million that can be rechanneled. There's \$200 million  
11 that can be put into the system. There's probably in  
12 tuition support another hundred -- tens of millions,  
13 hundreds of millions of dollars.

14 So I've not heard anybody stand up and  
15 say, well, that isn't -- you know, that's -- that's  
16 high -- that's really efficient money that we're  
17 spending today. We shouldn't -- we shouldn't do that.

18 REP. BRADFORD: I think we --

19 SECRETARY ZOGBY: It isn't a decision I  
20 made as budget secretary. Those are decisions that  
21 local school boards made.

22 Why do we give teachers simply for  
23 existing another year a -- a salary increase?

24 So I think we need to look at these  
25 practices and before, again, we -- before we ask local

1 property taxpayers to foot the bill, let's look inside  
2 the system for the savings.

3 REP. BRADFORD: I agree completely.

4 Let's look at being more efficient. I think Secretary  
5 Duncan and the Obama administration has a lot of great  
6 ideas on education reform.

7 But I will also say this. In  
8 southeastern Pennsylvania where I represent, we pride  
9 ourselves, our home values are largely based on good  
10 public schools which, by the way, in large part are  
11 doing a great job of educating our kids with some  
12 notable exceptions which absolutely need to be dealt  
13 with and need to be dealt with through true reform,  
14 thinking outside the box, and a lot of the ideas you're  
15 talking about.

16 But I think in Montgomery County and a  
17 lot of areas in Pennsylvania we just refuse to believe  
18 that dumbing down our teachers, that increasing our  
19 class sizes, will improve student's performance. We  
20 just don't believe it.

21 You may have a philosophical ideologic  
22 bent that this administration wants to push down from  
23 these, you know, right wing think tanks, but we just  
24 don't agree, and that's what I'm trying to say.

25 And I realize you need to -- to give your

1 point of view and the Governor won his election and he  
2 has his own views on this.

3 My views are very different. I think  
4 what we're engaging in is a very regressive policy  
5 where we're pushing our obligations down to the local  
6 levels, giving them less tools. And you can say, oh,  
7 well, you know, they need to deal with it through  
8 collective bargaining. I agree.

9 But this administration has also talked  
10 about the importance of empowering local school  
11 districts. I don't know how you create that balance.  
12 I think that's part of the question.

13 These school districts, we need to  
14 empower them to make the tough choices, but all we're  
15 doing is pushing more of the problems down and less of  
16 the resources to deal with them.

17 SECRETARY ZOGBY: Well, again, I guess  
18 we'll just to agree to -- to disagree on this. I think  
19 -- I think that, you know, we have -- we have a lot of  
20 talented and committed people in our -- in our public  
21 education system. I think that's sometimes lost in  
22 this discussion --

23 REP. BRADFORD: I agree.

24 SECRETARY ZOGBY: -- that we sometimes  
25 have. What, I think, the Governor is talking about is

1 smarter, better in the sense that we ought to -- we  
2 ought to pay teachers -- we ought to pay effective  
3 teachers a lot more than they're getting today but we  
4 don't have the right tools to discern effectiveness.

5 We ought to channel monies into  
6 professional development, but we ought to do it in a  
7 way that really builds the skills of our -- of our  
8 local teachers.

9 So all of these things are important.  
10 But, again, right now we have single salary schedules  
11 that pay teachers without regard to effectiveness. We  
12 don't have the right set of tools to measure --

13 REP. BRADFORD: Sir --

14 SECRETARY ZOGBY: -- equality.

15 REP. BRADFORD: Right.

16 SECRETARY ZOGBY: So these are things  
17 that I think the reforms that the Governor is talking  
18 about --

19 REP. BRADFORD: And the amazing --

20 SECRETARY ZOGBY: -- we have to get at --

21 REP. BRADFORD: What the amazing thing  
22 is, the Governor is not talking about those reforms.  
23 If you want to talk about merit pay, if you want to  
24 talk about tenure reform, if you want to talk about  
25 these things, let's have that conversation.

1                   But that conversation doesn't lead you to  
2 cutting aid to local school districts. They're very  
3 different discussions. And you continue to try to  
4 combine them as one.

5                   And what I said is let's have an honest  
6 discussion about these issues. You have budget  
7 issues. You've made your decision.

8                   But when you say let's do these reforms,  
9 I'm not opposed to those reforms. Like I said, we want  
10 high skills, high wage jobs. We want the eds and meds  
11 to continue to come to southeastern Pennsylvania. We  
12 want big pharmaceutical companies to relocate there  
13 because we have a well-educated, well-skilled  
14 workforce. We want to create that climate.

15                   The way we do that is good schools, not  
16 by cutting our contribution to higher education in  
17 half. You can't possibly tell me that you have reforms  
18 for Penn -- for West Chester University that's going to  
19 allow them to live on half of their state  
20 contribution.

21                   Tell me, how are they going to do that?

22                   CHAIRMAN ADOLPH: He'll tell you that in  
23 the second round. Thank you.

24                   Representative Glen Grell.

25                   REP. GRELL: Thank you, Mr. Chairman.



1 I think we're headed in the right direction and I'm  
2 pretty confident that we can work together to resolve  
3 some of those issues and come up with a timely budget  
4 and one that's good for the -- all the people of  
5 Pennsylvania.

6 Having said all that, I just wanted to  
7 ask you a couple questions. I'm concerned about  
8 potential job losses from cuts at -- at the state  
9 government level, and I'm wondering -- I know a lot of  
10 the proposed job losses will be covered through already  
11 vacant positions.

12 SECRETARY ZOGBY: Yes.

13 REP. GRELL: And we've heard a lot of  
14 good information from the other cabinet secretaries on  
15 that subject, how many vacancies and all that.

16 I'm wondering if you have considered or  
17 would consider some sort of a -- a voluntary retirement  
18 incentive?

19 Now, I'm not talking about a 30 and out  
20 kind of thing that costs the pension fund money but  
21 kind of an early retirement incentive similar to what  
22 we heard from the Auditor General, and I think the  
23 State System of Higher Education used a similar kind of  
24 incentive to take some money that they would -- if they  
25 had to do furloughs they would otherwise have to pay

1 that money out in severance or unemployment benefits,  
2 but using that money to incent some senior state  
3 employees to voluntarily conclude their service and  
4 that might be a way that we could minimize job losses  
5 and impacts on individuals and families.

6 SECRETARY ZOGBY: I think that's  
7 something that, you know, we certainly could consider,  
8 representative. I guess I'm mindful that of the, I  
9 think, 1,500 positions that we've targeted for  
10 elimination, you're correct, about a thousand of them  
11 are vacancies.

12 The other areas -- I guess the one caveat  
13 I'm just thinking of is that the other areas are very  
14 specific, pinpointed forensic units, for instance, and  
15 so whether an incentive, like you're talking about,  
16 whether that would work in those particular areas, I'm  
17 not exactly sure.

18 I guess I'd defer to -- to Secretary  
19 Logan and -- and her team on that.

20 But in terms of prospectively, perhaps  
21 applying something like that, I think if it made fiscal  
22 sense for the Commonwealth and perhaps was maybe  
23 another tool in the kit --

24 REP. GRELL: Right.

25 SECRETARY ZOGBY: -- for our managers,

1 that might be something to consider.

2 REP. GRELL: That's the --

3 SECRETARY ZOGBY: I would be open to at  
4 least a discussion.

5 REP. GRELL: Yeah, I think we probably  
6 should have that discussion, because both the Auditor  
7 General and the PASSHE system had a pretty good success  
8 with it.

9 I -- I just want to throw out there  
10 whether you've given any thought to what we do with  
11 municipal retirement systems. I'll preface it by  
12 saying I'm -- I'm very appreciative that the Governor  
13 doesn't walk away from the pension obligations at the  
14 state level and fully funds the pension obligations in  
15 this budget.

16 But I am concerned about the -- the PERC  
17 report earlier this year that identifies some really  
18 difficult municipal pension situations. I know it's  
19 probably not part of this budget, but if it's something  
20 the administration has given some thought to that would  
21 be helpful.

22 SECRETARY ZOGBY: I -- I know we -- we  
23 definitely have a challenge coming down the pike in  
24 terms of -- of distressed communities and I guess by  
25 extension of that distressed municipal pension

1 systems.

2                   It's not an area, frankly, that I've had  
3 an ability to spend a lot of time with. But it's  
4 certainly, I think, something that we're going to need  
5 to come to grips with.

6                   REP. GRELL: Okay.

7                   SECRETARY ZOGBY: And be -- I know of  
8 your expertise in that area, so I'd be -- be happy to  
9 work with you or talk to you more about maybe some  
10 options that we would have in --

11                   REP. GRELL: Yeah. It's certainly not a  
12 front burner issue; but I think as soon as we get past  
13 this -- this budget, it's something we do need to look  
14 at.

15                   And my final question is, do you have any  
16 information on how many school districts or staffs of  
17 school districts have taken up the Governor's challenge  
18 in terms of a salary freeze?

19                   I've heard some anecdotal reports, but  
20 hopefully somebody is -- is tracking that so we can  
21 build a little momentum behind that.

22                   SECRETARY ZOGBY: Yeah. I've -- I've  
23 only heard of a few. I'm not sure I'd get run over in  
24 the -- the doorway of people looking to embrace those.  
25 There have been and I -- I applaud those.

1 I've seen both local teacher unions and  
2 some superintendents that have come out and adopted  
3 the -- the freeze stance and applaud them for that. I  
4 don't know the number, but I'd be happy to go back.  
5 Secretary Tomalis may be -- Department of Education --  
6 tracking that, and giving you any numbers that we get.

7 REP. GRELL: Yeah. If somebody is  
8 tracking that, it might be helpful to us when we talk  
9 -- when we speak with our local school districts that  
10 we can point to some other examples that might help  
11 build a little momentum for that.

12 Finally, I will mention that I do  
13 appreciate the funding for the black fly spraying  
14 program in there, and with that I will yield the rest  
15 of my time.

16 Thank you, Mr. Chairman.

17 SECRETARY ZOGBY: Thank you,  
18 representative.

19 CHAIRMAN ADOLPH: Thank -- thank you,  
20 representative.

21 For the members information we had  
22 scheduled members of the House to come before us  
23 starting at one o'clock. Because of the number of  
24 members still to speak on the first round and several  
25 of them have requested the second round, we've started

1 to contact those members to move them back about half  
2 an hour.

3 So the members' part of this budget  
4 hearing will start at 1:30 rather than 1:00.

5 The next representative is Representative  
6 John Bear.

7 REP. BEAR: Thank you, Mr. Chairman.

8 And thank you for joining us,  
9 Mr. Secretary. Since then -- there's so many folks  
10 that went before me, all of my questions were  
11 answered.

12 But the one I have left for you really is  
13 dealing with the Commonwealth Financing Agency and, in  
14 particular, the H2O grants. I think there's about \$172  
15 million left in the second round, and I didn't know  
16 when you anticipate that that might actually be awarded  
17 and given out to the local municipalities.

18 SECRETARY ZOGBY: Representative, I think  
19 the concern is whether the revenues are sufficient to  
20 support that \$170 million bond issue that you're  
21 referring to.

22 And so I think we want to make sure that  
23 there is the -- the ability -- of course, any bonding  
24 that we would do, we want to make sure that there's  
25 sufficient revenues to support that -- that -- that

1 capacity.

2 I -- I don't have the -- I don't have the  
3 specific details on -- on when the next CFA meetings  
4 are and when that -- that may be considered, but I  
5 think that's something that -- that we're looking at  
6 and -- and maybe if -- again, if the revenues are there  
7 to support it, it may be sufficient that we can get  
8 that done.

9 REP. BEAR: Where do those revenues  
10 usually come from?

11 SECRETARY ZOGBY: I believe it's  
12 partially gaming revenues, if I'm not mistaken, but I'd  
13 want to go back and check to be absolutely certain,  
14 have my memory refreshed on that.

15 REP. BEAR: So is the concern that  
16 basically they might fall a little short to cover the  
17 actual bonding?

18 SECRETARY ZOGBY: Whether there's  
19 sufficient revenues to support. I think the -- I think  
20 the belief is that there's revenues to support some  
21 level of bonding for those projects that you referred  
22 to.

23 I think the concern is whether there's  
24 the types -- the level of revenues to support the level  
25 of the bond issue with the hundred and I think seventy

1 million dollar number you referenced.

2                   So I think we want to -- we just want to  
3 be concern -- we are concerned about that, and we just  
4 want to make sure that there's the capacity there to do  
5 it at the level that -- that we might get to do it at.

6                   REPRESENTATIVE BEAR: Well, if you didn't  
7 have the gaming funds to do it, where are the other  
8 alternatives to cover that?

9                   SECRETARY ZOGBY: I don't know. I don't  
10 know offhand if there are other alternatives. So,  
11 again, I think that's why I want to be absolutely sure  
12 that we have sufficient revenues to support the  
13 capacity of the issue.

14                   REPRESENTATIVE BEAR: Well, how do we  
15 usually handle R -- RCAP capital projects? How is that  
16 usually covered?

17                   SECRETARY ZOGBY: Well, I think that's --  
18 there's been some differences in -- in the  
19 administrations, and I know Governor Ridge, when I  
20 served in Governor Ridge's administration, we'd have  
21 had one process for that. I think Governor Rendell  
22 was -- maybe approached it -- approached it in a  
23 slightly different way.

24                   We're really -- I think amidst all the  
25 things we're dealing with in the budget office, we're

1 going through a number of -- of the prior  
2 administration RCAP releases and trying to assess  
3 those.

4           And I think, again, in looking at those  
5 in the context -- a number of members in this venue and  
6 in other areas that have -- have brought up just the  
7 overall notion of the Commonwealth's debt and our  
8 capacity to take on -- on debt.

9           Again, I go back to that 550 million that  
10 we were spending in interest ten years ago. Now we're  
11 up over a billion. And I think we need to kind of  
12 reassess where we are in terms of ongoing debt  
13 issuance, particularly in these constrained economic  
14 times.

15           Every dollar that we put into debt  
16 service and lock into debt service going forward for a  
17 number of years is a dollar that can't go into -- to  
18 operate programs. So --

19           REPRESENTATIVE BEAR: Sure.

20           SECRETARY ZOGBY: -- I want to take a  
21 look at that, and -- and we're going to be doing that  
22 reassessment in the -- in the weeks and the months  
23 ahead.

24           REPRESENTATIVE BEAR: I appreciate your  
25 concern, and honestly these are lean times. The reason

1 I was asking that is I was just going back and looking  
2 through the numbers and I -- I do think the proposed  
3 budget includes full RCAP bonding authority over the  
4 next five years.

5 So the only concern I have, you know, if  
6 that's true, and I think it is, if we're able to do it  
7 for RCAP bonding authority, why can't we do it for  
8 these H2O grants that mean a lot to the municipalities,  
9 whether it be for the water or sewer upgrades.

10 Because certainly there's been a lot of  
11 pressure on the local municipalities to come into  
12 compliance with the federal government and the  
13 Chesapeake Bay and, as you know, everything is  
14 trickling down and they're getting squeezed.

15 So I would just ask if there is a way, if  
16 we can do that for the RCAP bonds, you know, please,  
17 let's find a way to do this for the H2O bonds, because  
18 that means a lot to the municipalities.

19 SECRETARY ZOGBY: And I appreciate that  
20 point. And, you know, you're exactly right. The area  
21 of -- of water and sewer is a huge area of need, system  
22 upgrades that we need and the like, and that's  
23 something that we'll be -- we'll be taking a look at.

24 I know the importance of the projects,  
25 not only to members, but to the -- to the local

1 communities that they ultimately end up serving.

2 REPRESENTATIVE BEAR: Okay. And one last  
3 question, and it's really appropriate because over the  
4 last several weeks we've heard from all the secretaries  
5 and I think the message has been really clear that, you  
6 know, these are difficult -- difficult financial  
7 times. We all have to tighten our belts.

8 And, you know, I guess as a governor they  
9 have a couple tools to use. You know, one is taxes.  
10 Another way is program cuts which is where we're going  
11 because we had a short-time frame, I guess, with the  
12 budget.

13 But the third part is really internal  
14 savings, like how can we be leaner, meaner, get better  
15 return on investment for the taxpayer dollars?

16 And what are your plans to really  
17 modernize your state agencies and the overall  
18 operations?

19 SECRETARY ZOGBY: You know, I think the  
20 -- the charge the Governor has given every cabinet  
21 member is to, you know, not only make do with -- with  
22 what they have, but to try to do more with the same or  
23 less.

24 And -- and, again, I think the challenge  
25 was how much of that we could do in the six -- in the

1 six short weeks that we had to put together this  
2 budget.

3 But certainly the marching orders going  
4 forward are -- are, you know, looking at every area of  
5 our department, departments for efficiency. I think  
6 the Department of Public Welfare is sort of first and  
7 foremost in that list.

8 And I would very much help -- hope that  
9 particularly the -- again, given the challenges that  
10 we're going to have -- you know, that we have not only  
11 this fiscal year, but we'll continue to have going  
12 forward, that our cabinet secretaries are going to be  
13 focused, as the Governor directed, in looking for  
14 efficiencies, looking for areas of savings.

15 We've tried to do this in this budget to  
16 a degree. We've merged some appropriations, for  
17 instance, knowing that, well, if we're going to have  
18 the same amount, maybe we give the -- the end users the  
19 ability to manage those funds in a -- in a better way.

20 I've talked a little bit here today about  
21 block grant funding at the county level that maybe  
22 gives our counties the ability to manage.

23 We're doing it in basic education as I've  
24 talked about. You know, let's set the goals in  
25 Harrisburg but try to cut the mandates and strings and

1 give our local educators greater freedom and  
2 flexibility.

3           So I think it's not only in state  
4 government, but it's across levels of government that  
5 we need to kind of rethink service delivery,  
6 privatization, you know, another area, use of  
7 technology. Again, all towards the realization that  
8 we're going to be in constrained fiscal times for, you  
9 know, going forward and we need to look at how best to  
10 more efficiently use our -- our tax dollars.

11           REP. BEAR: Yeah. Along the lines of  
12 DPW, it seems like that Secretary and that staff has a  
13 good jump on -- and a handle even, moving forward, on  
14 what to do.

15           Do you think there's any opportunity to  
16 see some of the savings before we even get this budget  
17 finalized or in mid fiscal year?

18           SECRETARY ZOGBY: You know, we tried  
19 to -- we tried to ferret out every nickel of savings  
20 that we could within the Department of Public Welfare.  
21 I think some of this, as I've talked to the department,  
22 the Secretary and his staff -- I think one of the  
23 members of the committee pointed out, for instance, I  
24 think some administrative costs, I want to say, in  
25 child welfare areas that we think are -- well, maybe

1 those do look high, but they're bound up in contracts  
2 that have a life of a year or 18 months.

3 So I think the challenge is getting to  
4 savings that we can realize in this fiscal year and  
5 from my vantage point, you know, I've got to budget on  
6 actuals, on actual savings that we can achieve, not  
7 what's hoped for. So that's really, I think, the  
8 limitation.

9 But, you know, even with this budget,  
10 our -- our hunt for savings doesn't stop. We're going  
11 to constantly be on the prowl for efficiencies,  
12 savings, dollars, because we're going to need them year  
13 -- again year in and year out.

14 REPRESENTATIVE BEAR: Well, certainly.  
15 Yeah, this is not going to end this fiscal year, and  
16 anything we can do to have a sustained effort to do  
17 this methodically so next year we're not in the same  
18 boat, that would be appreciated. So thank you.

19 SECRETARY ZOGBY: Thank you.

20 CHAIRMAN ADOLPH: Thank you.

21 Representative David Millard.

22 REP. MILLARD: Thank you, Mr. Chairman.

23 Thank you, Mr. Secretary for being here.

24 I'm over here.

25 SECRETARY ZOGBY: Yes, sir.

1                   REP. MILLARD: I want to just do a couple  
2 follow-up questions to the CFA and H2O program.

3                   The current debt service payable on the  
4 CFA debt, excluding the H2O debt, that's paid from  
5 gaming development, from the information that I have,  
6 it comes in a little over \$82 million.

7                   Can you verify that number?

8                   SECRETARY ZOGBY: Yeah. I have,  
9 representative, the line item in the budget, row 140,  
10 Commonwealth Financing, we have projected in our budget  
11 \$85.5 million for the coming fiscal year in CFA debt  
12 service.

13                  REP. MILLARD: And I -- I have that  
14 number also, but the other number that I had was 82.019  
15 and I was wondering what the difference in the three  
16 million was going to be used for?

17                  SECRETARY ZOGBY: I'm not sure. I'm not  
18 sure of that \$82 million number, representative.  
19 That's the first time that I've heard that number.

20                  REP. MILLARD: I'll be happy to share  
21 this.

22                  SECRETARY ZOGBY: But I'd be happy --

23                  REP. MILLARD: Okay.

24                  SECRETARY ZOGBY: -- happy to go back  
25 with staff and take a look at that and -- and share

1 with you and the rest of the committee any --

2 REP. MILLARD: Okay.

3 SECRETARY ZOGBY: -- any difference or  
4 where those numbers come from.

5 REP. MILLARD: I understand CFA  
6 administers the H2O program, and I also understand that  
7 you're the gatekeeper, as far as being budget  
8 secretary, on who will determine how much will be  
9 allocated in the next round.

10 Now, I'm also led to believe that there's  
11 \$172 million available in this program. DCED Secretary  
12 was in the other day and I asked this round of  
13 questions to him.

14 Can you tell this committee today how  
15 much is going to be allocated for this and when a  
16 decision will be made?

17 SECRETARY ZOGBY: Representative, my  
18 notes, again -- and I think I answered this earlier,  
19 you're correct in -- in talking about the five percent  
20 of the gross terminal revenues that go to support H2O,  
21 I think it's a question of that amount and whether that  
22 amount is sufficient to support the level of bonding,  
23 the \$172 million for the H2O.

24 And I think as we get a little farther  
25 here into the fiscal year, we'll have greater clear --

1 clarity, better visibility into that number, and  
2 whether indeed the revenues are there at that five  
3 percent level to sustain the -- the amount of bonding.

4 REP. MILLARD: And I guess my concern is  
5 the longer that we go before we release these funds is  
6 that the expectation, of course, with the deadline  
7 having been July 1st of last year, the expectation was  
8 that a lot of these program funds, you know, would be  
9 released in a timely fashion.

10 And I know that especially in -- in my  
11 district, with expectation that it would be, a lot of  
12 estimates have been received concerning the expectation  
13 of getting these grants, and I think that the concern  
14 is if the -- the pricing will hold steady on the  
15 estimates that they were given. What they want to do  
16 is operate within the parameters of the dollars that  
17 they're hoping to receive.

18 So I'm just saying that.

19 SECRETARY ZOGBY: I appreciate that,  
20 representative, and we're certainly sensitive to that.  
21 I'm not aware of sort of a -- the discussion or  
22 expectation sort of prior to this administration, but I  
23 would just say as Budget Secretary that I'm also  
24 concerned, too, that, again, we have sufficient  
25 revenues to support -- support that level of bonding.

1                   We don't want to be in a position to let  
2 those projects out and then find that we're in a  
3 shortfall position and really can't back those bonds  
4 with the -- the revenues that we're relying on.

5                   So I appreciate your concern and -- and  
6 that's definitely something we're going to be looking  
7 at.

8                   REP. MILLARD: Well, thank you for your  
9 response. Look forward to working with you.

10                  SECRETARY ZOGBY: Thank you.

11                  REP. MILLARD: Thank you, Mr. Chairman.

12                  CHAIRMAN ADOLPH: Thank you,  
13 representative.

14                  The good news is that's the end of the  
15 first round. The bad news is the second round is  
16 starting. Okay. Thank you for your cooperation.

17                  And the first one on the second round is  
18 Representative Mario Scavello.

19                  REP. SCAVELLO: Thank you, Mr. Chairman,  
20 and I'm not going to talk about education. I think  
21 I've did -- beat it up enough that you know our  
22 situation. Hopefully you'll be -- you'll be able to  
23 help.

24                  But you mentioned something about saving  
25 dollars, and I just got an e-mail on my iPad from the

1 parole -- head of parole in my county that -- and  
2 they've been speaking to other heads of paroles in  
3 other counties.

4 The parole budget that is before us  
5 is hundred and -- probation and parole is 128.1  
6 million. It's an increase of 7.5 million I believe --  
7 or six -- yes. 7.5 million. About 6.25 percent.

8 I'm being told that county probation  
9 handles 88 percent of the case load in the Commonwealth  
10 and that 12 percent is handled by the state.

11 Why not give ten percent to -- of the  
12 budget to the counties and let them take the whole  
13 thing over? In many case, like, for example, in Monroe  
14 the office is in Scranton and they're traveling 40  
15 miles to do the work in Monroe.

16 And I'm -- I'm -- you know, you're paying  
17 for buildings and everything else. I think it's  
18 something that you guys should take a look at and it  
19 could be a tremendous savings.

20 You already have the bricks and mortars  
21 in these county buildings and -- and it's 12 percent of  
22 the total state population, you know, on the probation  
23 and parole people.

24 SECRETARY ZOGBY: Excuse me.  
25 Representative, you know, I would say that one of the

1 areas of discussion that we had in sort of putting  
2 together the budget was the whole criminal justice  
3 area, and I'm mindful to point out that, you know,  
4 between the Governor and -- and many of the folks in  
5 the Governor's office, they've forgotten more about  
6 criminal justice policy than I know.

7 REP. SCAVELLO: I understand.

8 SECRETARY ZOGBY: But I think that's one  
9 of the areas that you're going to see us moving on  
10 fairly quickly in a holistic way, PCCD, J -- Juvenile  
11 Court Judges Commission, Probation and Parole,  
12 Corrections, State Police, the whole water --  
13 waterfront criminal justice around some make-sense  
14 reforms, ways to reduce our -- our population in a  
15 make-sense way that's consistent with public safety.

16 Certainly this budget we have, I think,  
17 53 new positions for probation and parole. It's an  
18 important area. If we are going to do -- to do the  
19 work of -- of reducing our inmate population, where  
20 Pennsylvania is one of the states that's going in the  
21 opposite direction of the rest of the nation.

22 REP. SCAVELLO: Right.

23 SECRETARY ZOGBY: I think working with  
24 the counties, as you suggest, that's a discussion that  
25 needs to take place, and I'm sure they're going to have

1 a seat at the table in -- in that broader discussion we  
2 have.

3 REP. SCAVELLO: Okay. Well, thank you.

4 CHAIRMAN ADOLPH: Thank you.

5 Representative Greg Vitali.

6 REP. VITALI: Thank you, Mr. Chairman.

7 And thank you for your endurance and patience,

8 Secretary Designee Zogby.

9 I wanted to return to the Marvellous  
10 drilling tax and potential revenue gain there, and I  
11 had mentioned to you that every major gas producing  
12 state, save Pennsylvania, has such a tax, save  
13 California, which has a fee, and you had mentioned,  
14 well, you're comparing apples to oranges and I -- and  
15 to some degree you're right.

16 Because I -- I have a list of the 15 gas  
17 producing states, and Texas is 7.5 percent of the  
18 market value and they have a franchise tax, and  
19 Oklahoma is 7 percent of the average monthly and they  
20 have an income tax, and other states don't have a  
21 corporate tax.

22 And you're right. Every state is a  
23 little different. But I wanted to kind of point out a  
24 couple facts and maybe you can respond to them.

25 Fact one, 15 -- only 15 percent of the

1 gas producers in Pennsylvania paid any corporate net  
2 income tax in 2008. Only 15 percent of gas producers  
3 in Pennsylvania paid any corporate net income tax for  
4 2008.

5 Two, 70 percent of the gas drillers in  
6 Pennsylvania are organized either as a limited  
7 liability corporation or a partnership, so they don't  
8 pay -- they pay tax at the state rate of 3.07 percent  
9 and even then the amount of income they show is  
10 sometimes zero because of federal depletion allowances,  
11 general depreciation -- generous depreciation for  
12 domestic drilling of the Delaware loophole.

13 Third point, and yet we're proposing \$200  
14 million severance tax to give you a sense of scale.  
15 We're -- we're -- and which is modest. We're proposing  
16 200 million.

17 So if you added up all of the -- all of  
18 the tax paid by natural gas producers in 2008 between  
19 the personal income tax, the capital stock and  
20 franchise tax, and the corporate net income tax, all of  
21 those things which gas producers paid would only be 38  
22 million compared to the two.

23 So the point is -- the point is these  
24 companies are paying very little tax, and the reason --  
25 the reason every one of these other states are doing

1 this -- this severance tax is because that's the only  
2 way you can get at these guys, because of the various  
3 loopholes and -- and other -- other things.

4 So my -- my question to you is -- I mean  
5 could you comment on this analysis? Do you think it's  
6 valid? And do you think -- the idea -- that this  
7 really is the way to get at the drillers and having  
8 them pay their fair share?

9 SECRETARY ZOGBY: Well, again,  
10 representative, I think we just have a -- you know,  
11 sort of a fundamental difference here. The Governor  
12 has said that he does not intend to raise taxes. He's  
13 said that he does not see imposing a tax on this  
14 industry as the best way to nurture its development,  
15 create jobs, expand economic opportunities, create  
16 economic growth here in the Commonwealth.

17 I think you're -- you're right in  
18 pointing out that there are differences. Some states  
19 don't -- don't impose, say, a personal income tax or  
20 corporate tax but tax at another level.

21 So I think we do have to kind of, you  
22 know, separate out the apples and the oranges, if you  
23 will. You know, some -- my -- I don't know the  
24 specifics on what you're citing with respect to gas  
25 producers and gas drillers.

1 I'm mindful that sometimes people don't  
2 pay taxes because they don't make profits, and  
3 certainly in a tough economic year where, you know,  
4 we've had probably one of the worst recessions in  
5 recent memory.

6 There's a lot of companies that are not  
7 making profits; just as when people don't have incomes,  
8 they don't pay personal income tax. It isn't because  
9 they're nefarious. It isn't because they're somehow  
10 seeking to skirt our -- our tax laws and like and --  
11 and sort of operating in some inappropriate way. It's  
12 simply that they're not making profits to pay taxes  
13 on.

14 So, again, I -- I think we can go round  
15 and round the barn on this one. I think it comes down  
16 to the fact that the Governor is -- Governor's position  
17 of not taxing this industry.

18 REP. VITALI: Let's get to profits.  
19 Anadarko Petroleum Corporation, gross profits 2010 \$9.1  
20 billion, 2010. Chesapeake Energy 2010 gross profits  
21 4.7 B, a billion. Talisman Energy 2010 gross profits  
22 4.9 billion.

23 These companies are -- are very  
24 profitable. When you talk about companies like Exxon  
25 Mobil and nurturing them along, I just -- frankly, I

1 just roll my eyes. I just roll my eyes.

2 SECRETARY ZOGBY: Well, it's -- it's not,  
3 representative --

4 REP. VITALI: These companies have spent  
5 40 -- Exxon Mobil, for example, \$40 billion in  
6 acquiring leasehold interests in Pennsylvania.  
7 Nurturing them along? Come on.

8 SECRETARY ZOGBY: I don't think --  
9 representative, we're not talking about nurturing the  
10 Exxons. We're talking about nurturing this activity  
11 here in the Commonwealth. We're talking about  
12 nurturing an industry in the Commonwealth that creates  
13 jobs for Pennsylvania families. Economic opportunity  
14 for Pennsylvania communities. We're talking about  
15 nurturing this economic activity to benefit  
16 Pennsylvania, not to benefit these outside  
17 corporations.

18 So I think we could, you know, cite all  
19 day long -- and I'm not -- and I want -- I'm not quite  
20 sure when profit became a dirty word in the United  
21 States of America.

22 REP. VITALI: Certainly -- certainly not  
23 in my book.

24 SECRETARY ZOGBY: The focus here is on  
25 Pennsylvania jobs and economic activity --

1 REP. VITALI: Okay.

2 SECRETARY ZOGBY: -- and Pennsylvania  
3 communities benefiting, not -- not these companies.

4 REP. VITALI: Let me -- let me just make  
5 one final point here. Maybe you're familiar with  
6 this. A 2010 Penn State Pennsylvania study, the  
7 Pennsylvania Institute for Research and Training and  
8 Development, they concluded with their study for every  
9 hundred million dollars raised as far as a severance  
10 tax goes, if that were spent by government, that would  
11 create between 1,100 and 1,900 jobs. They say a third  
12 in the private sector and a -- two-thirds in the public  
13 sector.

14 And it makes sense. You know, if  
15 you're -- if you're cutting monies, you're laying off  
16 teachers, you're laying off police, you're laying off  
17 public employees, but if you're spending the money just  
18 the opposite is going to happen. If you are -- have  
19 this tax revenue and are spending it, you're also  
20 creating jobs in the private sector through contracts  
21 and so forth.

22 So there is a relationship, according to  
23 Penn State, between imposing a Marvellous drilling tax  
24 and creating jobs.

25 What is your response to that study?

1                   SECRETARY ZOGBY: I've not read the  
2                   specifics of the Penn State study. I -- I've -- I've  
3                   seen cited oftentimes and have used the Penn State, I  
4                   believe, talking about Marvellous shale activity  
5                   generating \$10 billion in economic activity.

6                   I'm -- I'm not necessarily certain I can  
7                   think of many taxes that lead to job creation. That's  
8                   kind of counterintuitive, I guess, to my thinking.

9                   So I'll try to familiarize myself, I  
10                  guess, with the study and take a look at that in deeper  
11                  detail.

12                 REP. VITALI: Thank you. That concludes  
13                 my questions.

14                 CHAIRMAN ADOLPH: Thank you.

15                 Representative Doug Reichley.

16                 REP. REICHLEY: Thank you, Mr. Chairman.  
17                 I'll try to -- I may be the last one for you,  
18                 Mr. Secretary, so we're -- we're getting near the end.

19                 SECRETARY ZOGBY: That's all right.

20                 REP. REICHLEY: Just -- just to take it  
21                 one step further, I guess it's implied from  
22                 Representative Vitali's questions but is there anything  
23                 to assert that any of those gas companies violated the  
24                 law by the amount of the taxes they were paying?

25                 SECRETARY ZOGBY: Not that I'm aware of.

1                   REP. REICHLEY: I mean it's not, to the  
2 best of your knowledge, that any of them skirted the  
3 law, violated the law, took advantage of deductions or  
4 exclusions of taxes they were not legally entitled to?

5                   SECRETARY ZOGBY: Not -- again, not that  
6 I'm aware of. I've not -- you know, I don't spend my  
7 time familiarizing myself with -- with Exxon's tax  
8 reports or any other company's tax reports.

9                   But I guess my presumption is that most  
10 businesses, as with most individuals, seek to comply  
11 with the law in terms of the taxes that they're legally  
12 obligated to pay.

13                   REP. REICHLEY: And to the best of your  
14 knowledge, for instance, Anadarko, did they do \$9  
15 billion worth of business in Pennsylvania?

16                   SECRETARY ZOGBY: Not that I'm aware of.  
17 I -- I don't have any specific information on their  
18 activities in Pennsylvania or across the globe, for  
19 that matter.

20                   REP. REICHLEY: Okay. You've had a  
21 series of vigorous, I'll say, question-and-answer  
22 sessions here this morning. But I -- it's afternoon  
23 now.

24                   Getting back to one of the final areas I  
25 was asking you about, the issue of eliminating the

1 exceptions on Act 1 back in referendums.

2 I guess I'm concerned about the premise  
3 of those exceptions was, for instance, if school  
4 districts received less in funding on basic ed or on  
5 special education and -- and to me it does seem that  
6 there may be a easier solution, as I referred to in my  
7 first set of questions, that instead -- unless the  
8 Commonwealth was prepared to flatline year after year,  
9 starting with the year one, saying this year, and then  
10 to give the Department of Education the discretion to  
11 say we don't believe that your exceptions are valid,  
12 meritorious, whatever it might be.

13 This really does push this completely  
14 back on to the school districts. And I'm just  
15 wondering if there's not a more balanced approach to  
16 take to the issue of the education funding.

17 SECRETARY ZOGBY: Well, I think,  
18 representative, you know, the Governor starts from the  
19 belief that, I think, all of it is best left in the  
20 hands of -- of local voters and that we need to have  
21 our local school districts manage within an amount.

22 And, you know, maybe at a high level one  
23 could say that, whether it's special education or other  
24 areas, for instance, there might be a reason or a  
25 rationale to allow for increased spending in those

1 areas.

2 But, you know, I -- I go back to the  
3 earlier comments that were made about, you know, family  
4 budgets. You have to make choices and you set  
5 priorities. And when you are forced to live within  
6 your means, all of a sudden, I think, you know, you  
7 begin to think differently about areas where you're  
8 spending money.

9 You know, I'm mindful in -- in special  
10 education, for instance, a lot of our kids in special  
11 education are labeled learning disabled, and at least  
12 in my experience it's because of reading deficiencies  
13 that are within the control oftentimes of -- of local  
14 educators.

15 So maybe in that area, instead of just  
16 simply saying, well, our special ed costs have  
17 increased, we need to pass those on to local voters,  
18 maybe it's a case of maybe we need to look internally  
19 in terms of our reading instruction programs and maybe  
20 we're not reaching kids with the right curriculum or  
21 with the right approaches or with using the right  
22 technologies.

23 And so we begin to think of areas that  
24 are cost drivers and maybe we could figure out ways to  
25 reduce spending.

1                   If we get kids -- more kids to grade  
2 level readers by third grade maybe that mitigates  
3 special education costs down the road.

4                   I think those are healthy discussions to  
5 have, and I think the Governor's belief is that if we  
6 have those discussions at a local district level,  
7 again, living within a number, that that begins to --  
8 to drive the discussion and -- and begins to drive the  
9 rethinking that he believes is -- is needed in our  
10 education system.

11                   REP. REICHLEY: And -- and maybe there  
12 was a logic behind the cut in the basic ed funding  
13 because you're forcing that conversation to take  
14 place.

15                   I think Representative Bradford is  
16 correct in the sense that we need to have a more  
17 broad-based discussion on the subject of the merit pay,  
18 of the tenure issues. You mentioned about the -- the  
19 matrix to allow bumps up for -- for education  
20 compensation.

21                   But I do believe there -- there has to be  
22 some better consultation with the legislation, and  
23 that's our constitutional obligation here that we  
24 discuss this with you.

25                   Let me move to two other areas where some

1 of the members were sort of doing clean up for them.

2 The issue of Department of Public  
3 Welfare, yesterday Secretary Alexander was here and, I  
4 guess, intimated or maybe implied that he was going to  
5 be looking for an estimated \$400 million in cuts by  
6 eliminating waste, fraud, and abuse from that  
7 department.

8 And are you at this time able to say when  
9 you're going to be able to step forward to say that  
10 these are the areas where we're proposing \$400 million  
11 in cuts or is this going to be more of an overall goal  
12 through reining in fraudulent contracts?

13 SECRETARY ZOGBY: Well, I've not heard  
14 and I did not hear yesterday. I didn't get to see the  
15 Secretary's testimony at length and I -- so I did not  
16 hear that number.

17 Again, I think, you know, with respect to  
18 the Department of Public Welfare budget, we've -- we  
19 felt that -- and I think this budget has over \$600  
20 million in cuts that we're proposing for DPW.

21 And certainly that's an area that's been  
22 a tremendous cost driver in our budget and one that I'm  
23 very much hopeful that the Secretary is going to be  
24 able to get his arms around in terms of producing the  
25 savings.

1                   And I certainly would hope it would be,  
2                   you know, at least that amount. We certainly are going  
3                   to have challenges. We've got continued pressures in  
4                   health care costs and the like.

5                   I -- I don't have any particular target,  
6                   and I think a lot of the -- the cuts that we've been  
7                   able to achieve in this fiscal year are in -- in the  
8                   budget.

9                   I would suspect as he goes forward those  
10                  are things that we would more likely see in the -- in  
11                  the next fiscal year.

12                  REP. REICHLEY: Just at first glance  
13                  within DPW, it's more my impression that you have at  
14                  the very least a \$300 million increase, net increase in  
15                  that spending, not 400 -- or \$600 million in cuts.

16                  And when you put it side by side with the  
17                  members -- certainly the members at least on our side  
18                  of the aisle -- about cuts in basic education funding,  
19                  we're most interested in seeing cuts in the Department  
20                  of Public Welfare.

21                  And so having closer scrutiny on child  
22                  care provider contracts, the various benefits programs  
23                  that are out there, we think those are where the  
24                  department and your office needs to look more -- much  
25                  more carefully.

1                   SECRETARY ZOGBY: And we are looking at  
2 those. I just if I might, representative, to offer  
3 some context, I guess my understanding in looking back  
4 at DPW, one person termed it to me as a runaway freight  
5 train in terms of spending with yearly increases of 800  
6 million to a billion dollars.

7                   And you had a department that had a  
8 significant reliance on federal stimulus funds. 1.7  
9 billion in -- in -- FMAP, increased federal match  
10 monies alone through the federal stimulus. We've held  
11 that increase to 300 million and, again, we're looking  
12 and will be looking continually for savings.

13                   And so I get the message loud and clear  
14 in terms of needing to find savings, and particularly  
15 in the Department of Public Welfare, and that's  
16 something that -- that we intend to do, not just in  
17 that department, but every area of state government.

18                   REP. REICHLEY: Okay. And my last area  
19 for -- just for suggestion to you, I know you've  
20 mentioned a couple of times of -- sort of -- almost  
21 daring us to suggest reducing funding for new prison  
22 construction; and as a former prosecutor and a person  
23 who -- who has been -- certainly also on the Sentencing  
24 Commission, I don't take the issue of somehow releasing  
25 dangerous people onto the streets lightly.

1                   But at the same time I think there needs  
2                   to be a -- a broader consideration by the  
3                   administration for altering current law to allow dual  
4                   diagnosis defendants to be considered for state  
5                   Intermediate Punishment and that would allow trial  
6                   judges to put defendants into consideration for those  
7                   programs rather than mainstream prison population and,  
8                   in turn, that may allow you to reduce costs and maybe  
9                   not need the additional -- I forget. Is it two or  
10                  three new prisons?

11                  And also I think there was legislation  
12                  moving last year which would allow defendants who have  
13                  made 100 -- perhaps 110 percent of their minimum but  
14                  are still being held in because they've not been able  
15                  to complete programs required for treatment, to be at  
16                  least moved into community correction settings.

17                  Again, there has to be some discretion  
18                  allotted to the Secretary in terms of which offenders  
19                  would be put into those situations, but I think there's  
20                  a way of finding cost savings without sort of dangling  
21                  in front of us that we're going to be weak on crime if  
22                  we don't build two or three more prisons. So --

23                  SECRETARY ZOGBY: And as -- as you know,  
24                  representative, one of our first acts our Secretary of  
25                  Corrections did was to cancel the construction of the

1 new prison.

2                   And just a comment, too. I don't think  
3 that I was trying to dare anyone to -- to cut  
4 Corrections spending. We need to reduce certainly the  
5 growth, but we need to reduce our -- our spending in  
6 the area of Corrections.

7                   I think I was referring earlier to having  
8 to backfill one-time stimulus monies. But, again, I  
9 think that's an area where the Governor very much hopes  
10 that with his team in place, working with the various  
11 constituency groups that we could together embrace some  
12 make-sense reforms of the kind that you speak to that's  
13 both protective of public safety as well as cognizant  
14 of fiscal realities that we have as a state.

15                   We need to do that, and I certainly  
16 expect that we're going to get about that business  
17 fairly quickly here.

18                   REP. REICHLEY: Okay.

19                   CHAIRMAN ADOLPH: Thank you.

20                   Representative Steve Samuelson.

21                   REP. SAMUELSON: Thank you,

22 Mr. Chairman.

23                   And two follow-up questions on education  
24 funding. And let me start by agreeing with the  
25 statement you made earlier when I think you were

1     answering Representative Kula and you said that  
2     education is the key to success in our global  
3     knowledge-based society.

4                     And, my goodness, I think we all agree  
5     with that, and I think that's why you're getting so  
6     many questions on the education proposals the -- the  
7     Governor has put forward.

8                     My two questions are first about student  
9     achievement. I think one of your statements was that  
10    the student achievement is relatively flat.

11                    Now, we went to the Pennsylvania  
12    Department of Education website and took a look at some  
13    PSSA scores from the 2001 school year to the 2009  
14    school year, over a span of eight years, comparing how  
15    students did back then with more recently, and it seems  
16    like in all three grade levels, in both reading and  
17    math, the number of students achieving is up.

18                    The goal I guess -- the goal set forth by  
19    our No Child Left Behind law is every student should  
20    eventually get to proficient or advanced, the top two  
21    categories.

22                    So let's start with the fifth graders.  
23    Over the eight years they went from 53 percent to 74  
24    percent in those top two categories in math. 57 to 64  
25    in those top two categories in reading.

1 Eighth graders also improved in math. 51  
2 up to 75. In reading, 58 up to 81.9.

3 And 11th graders also improved in math.  
4 eight years ago we were at 49 percent in those top two  
5 categories, now 59.9. In reading they were at 59, now  
6 67.

7 So in all six categories, three grade  
8 levels, two subjects, the student achievement has  
9 actually increased over the last -- over the last eight  
10 years.

11 So I wouldn't view those -- those  
12 statistics as flat. I think we may agree that we  
13 should continue to try to improve and get even more of  
14 those students in those top two categories.

15 SECRETARY ZOGBY: Certainly proficiency  
16 is -- is -- proficiency in math and reading and other  
17 language -- or other subject areas is a standard that  
18 we have set as a Commonwealth for our students, for our  
19 young people, yes, sir.

20 REP. SAMUELSON: And my second question  
21 is follow-up on the basic education line item and the  
22 use of the phrase student centered funding in the  
23 budget.

24 Now, earlier I talked about my overall  
25 concern with the basic education with several other

1 line items when you add in the accountability block  
2 grants, when you add in the reimbursement of charter  
3 schools, taken as a whole, our school districts are  
4 seeing funding that used to be 6.3 billion down to 5.2  
5 billion.

6 That's the \$1.1 billion loss of funding  
7 that I was speaking of, the 17 percent loss of  
8 funding.

9 But when we look at the fine print on  
10 that basic ed line item, the -- the 5.2 billion, and I  
11 think I understand how the administration got there. I  
12 think last year it was about 5.75. 5.1 of state money  
13 and 650 of stimulus. So by taking out the stimulus,  
14 you're -- I think what you're saying is that the \$5.2  
15 billion line item consists of two pots of money, basic  
16 education and some new category of student centered  
17 funding.

18 Now, that might be a surprise to the  
19 schools that are looking at these cuts and -- and  
20 focusing on the \$5.2 billion line item.

21 Is that all basic education funding or is  
22 the administration proposing taking a hundred million  
23 off of that and counting it in a different category of  
24 student centered funding?

25 SECRETARY ZOGBY: No. I think as part

1 of -- representative, as part of the 5.2 billion in  
2 basic education funding, going back to last fiscal  
3 year, backing out federal stimulus funding, to get back  
4 up to the 5.2 billion, we added -- I think it's roughly  
5 \$105 million in state funds to -- and, again, that 5.2  
6 billion represents the overall level of basic education  
7 funding that we were at in state funds back in  
8 2008/2009.

9           The \$105 million increase that we added  
10 in state funds to attain that level was driven out.  
11 There was a base amount of a hundred dollars per  
12 student, and that was distributed to school districts  
13 based on aid ratio.

14           And then there were in that 105 million  
15 supplements for poverty, English language learners, I  
16 believe, and a small district component that together  
17 equates with the 105.

18           So when I talk about student centered  
19 funding, at least with the \$105 million component, what  
20 we did was -- was to fund that or to drive those  
21 dollars out again based on -- based on the student and  
22 the relative wealth of the district. If that's --

23           REP. SAMUELSON: When -- when we're  
24 looking at printouts of district-by-district funding  
25 and when our schools are looking at those same

1 printouts, is that hundred million dollars counted in  
2 the 5.2 million? Is it?

3 SECRETARY ZOGBY: Yes, sir.

4 REP. SAMUELSON: Is it -- is that going  
5 to be distributed through the schools or is that going  
6 to be held back through some separate process in  
7 Harrisburg?

8 SECRETARY ZOGBY: Well, it's -- no. It's  
9 distributed through the basic education funding --

10 REP. SAMUELSON: Okay.

11 SECRETARY ZOGBY: -- formula. I think  
12 when I talk about, though, the Governor's goal,  
13 representative, of student center funding, I think what  
14 the Governor would like to achieve is that we have a  
15 funding system where those dollars that we're talking  
16 about actually attach to the student based on the  
17 student individual needs.

18 So many other states, for instance, use  
19 a -- like a student waiting system. So if you have a  
20 child that's -- that's economically disadvantaged or a  
21 special needs learner or an English language learner,  
22 that there's beyond a base amount additional funds and  
23 that, again, those funds raised together with local  
24 contribution and the state contribution based on,  
25 again, the relative wealth of -- of the communities, of

1 the districts; that those funds attach to the child,  
2 move with the child to the school that they attend,  
3 become portable and then unbundled, and that their  
4 ability -- like dual enrollment, the ability to take a  
5 portion of those funds and maybe go take a -- a course  
6 at a post secondary institution or some other type of  
7 approach.

8 REP. SAMUELSON: So but for this budget  
9 that 5.2 billion, that is the number that's being  
10 driven out to schools and ultimately to students across  
11 the state?

12 SECRETARY ZOGBY: Yes, sir.

13 REP. SAMUELSON: Okay. Well, just in  
14 closing, I -- I know you said earlier that the way out  
15 of our fiscal crisis is economic growth and job  
16 creation, and I believe that education is absolutely  
17 vital to economic growth and really the commitment that  
18 we make to our -- to our young people, I believe is  
19 directly tied to the future of our state.

20 So thank you for your dialogue with our  
21 committee together.

22 And thank you, Mr. Chairman.

23 SECRETARY ZOGBY: Thank you,  
24 representative.

25 CHAIRMAN ADOLPH: Thank you.

1 Representative Matt Smith.

2 REP. SMITH: Thank you, Mr. Chairman.

3 Thank you, Mr. Secretary, for your  
4 testimony today. I just want to follow up on something  
5 Representative Vitali said. And I -- I think the point  
6 he was getting at was not so much a profit versus no  
7 profit. I think that's a false choice.

8 I think the issue is really profits at  
9 that level without a severance tax, being the only  
10 state in the union without a severance tax, and at the  
11 same time eviscerating higher education and basic  
12 education.

13 So I think that's more the choice. I  
14 don't think anyone is saying companies shouldn't make a  
15 profit.

16 But just to sort of touch on something.  
17 You've testified here, I think, frequently about the  
18 fact that this year's budget does not utilize any  
19 one-time gimmicks, any nonrecurrent revenue, and really  
20 is moving away from that dynamic.

21 But in this year's budget there's a \$388  
22 million one-time EduJ jobs fund that was part of the  
23 stimulus that's being used as part of the basic  
24 education funding formula and the \$340 million tobacco  
25 payment that the state will receive next April, not

1 this April, but April of 2012 that is being used as  
2 part of the general fund this year.

3 So there's a total of, I think, \$730  
4 million that is being used as part of the general fund  
5 this year that will not be available in the 2012/2013  
6 cycle. Is that correct?

7 SECRETARY ZOGBY: I believe the number  
8 I've used is 750 million, or in that zone, of one-time  
9 revenues in this current -- in this current year  
10 budget, fiscal year '10/'11, that is, again, I think,  
11 important to point out, that isn't Governor Corbett's  
12 budget. That was the budget established by the prior  
13 administration

14 REP. SMITH: But in this year's proposed  
15 budget, in 2011/2012 there's \$388 million EduJ jobs  
16 federal stimulus money that's being used as part of the  
17 \$5.2 billion that you went through with Representative  
18 Samuelson?

19 SECRETARY ZOGBY: No, sir. That's not  
20 the case. The federal --

21 REP. SMITH: Where is it?

22 SECRETARY ZOGBY: The federal education  
23 jobs would be for this current fiscal year.

24 REP. SMITH: It's being used this year?

25 SECRETARY ZOGBY: Yes, sir.

1 REP. SMITH: This current fiscal year?

2 SECRETARY ZOGBY: Yes.

3 REP. SMITH: And then the tobacco payment  
4 that is going to be received by the state in April of  
5 2012 at 340 million is also being used as part of the  
6 '11/'12 general fund?

7 SECRETARY ZOGBY: Well, I think what's  
8 important to point out about next year's tobacco  
9 payment is we've brought all the funding sources of  
10 that payment, or many of them, because many of them are  
11 through lottery and the like, but we're bringing those  
12 into the general -- we're bring the tobacco payment, in  
13 effect, into the general fund and then driving those  
14 monies to exactly the end uses that is outlined or at  
15 least that remain, that haven't been taken away in  
16 prior fiscal years, we're driving those monies to those  
17 uses.

18 It's really -- the notion was to bring  
19 the tobacco money into the general fund because of  
20 the -- maintaining the integrity of the programs, where  
21 we didn't have to delay payments to vendors or float  
22 loans to the tobacco fund in order to make up for  
23 shortfall.

24 REP SMITH: But isn't it typically the  
25 case then that when -- that when the Commonwealth

1 receives that tobacco payment, and we're going to  
2 receive a payment of 330, 340 million next month, in  
3 April of 2011, that typically that money is used for  
4 the budget year we're looking at at that point:

5           So the April 2011 would be used for the  
6 2011/2012 budget. The April 2012 receipt of money as  
7 part of the tobacco fund would be used for the  
8 2012/2013 budget. Isn't that the way it's historically  
9 been done?

10           SECRETARY ZOGBY: I guess I want to  
11 reflect on the sequencing there, representative. I  
12 mean it is the case, we will receive a tobacco payment  
13 next month, April 2011, and the 2010/'11 budget year  
14 that we're in now directs that \$250 million of those  
15 funds go to the general fund. Not for the end uses of  
16 tobacco, but those monies were used to have the general  
17 fund be in balance this fiscal year.

18           We have another 120 million of that  
19 payment that will come next month that will go to the  
20 state employ -- the School Employees Retirement  
21 System.

22           So I'm not quite sure. I guess you're  
23 saying that somehow the funds are used for the  
24 following fiscal year. We have a payment that's coming  
25 in in the current fiscal year that's used for current

1 fiscal year purposes, not for tobacco end uses but just  
2 in the general fund to help balance.

3 REP. SMITH: Okay. And that payment  
4 coming in April of 2012, what budget year will that be  
5 --

6 SECRETARY ZOGBY: That's in the  
7 proposed --

8 REP. SMITH: -- budgeted for?

9 SECRETARY ZOGBY: -- '11/'12 budget.

10 REP. SMITH: That would be in '11/'12.

11 SECRETARY ZOGBY: And that, again, will  
12 go for the -- the end uses laid out in the tobac --  
13 tobacco law.

14 REP. SMITH: Okay. And I just want to  
15 touch on one of the things we've sort of talked about  
16 and, you know, again, with all due respect, I think to  
17 say that all of the education cuts are directly a  
18 result of the stimulus money not being available in the  
19 2011/2012 budget is -- is just simply not true.

20 And I would point you to the higher  
21 education cuts that have been proposed in this budget.  
22 You know, just to give you an idea, the state system --  
23 this is just state money; forget about the stimulus  
24 money, this is as though the stimulus never happened --  
25 the state system schools are going from '09/2010 --

1 '09/2010 budget year being funded at 460 -- 465 million  
2 to 232 million this year. Penn State is going from  
3 '09/2010 from 318 million to 165 million this year.  
4 Pitt's going from 160 million to 80 million, and Temple  
5 is going from 164 million to 82 million.

6 None of those dollars in any way, shape,  
7 or form relate to the federal stimulus program. So to  
8 say that the stimulus is causing the higher ed cuts  
9 really isn't true.

10 I agree with one of the things you said  
11 earlier. It is a matter of choices and it's a matter  
12 of placing priorities. And in this instance, and, as I  
13 think Representative Bradford said earlier, it's a --  
14 yeah, it really is -- should be the Governor taking  
15 ownership of these cuts. It has nothing to do with the  
16 stimulus. These higher ed cuts are solely a result of  
17 the Governor's decision to cut higher ed funding,  
18 irrespective of any loss of federal stimulus funds.

19 So I think, you know, it is a matter of  
20 choices. It is a matter of priorities. And the  
21 priorities in this instance, I think, are unfortunately  
22 to cut higher education funding.

23 SECRETARY ZOGBY: Well, representative, I  
24 don't know that I've necessarily said that the cuts  
25 that are taking place in any area of the budget,

1 including education, are solely due to federal stimulus  
2 funds.

3           Going -- I go back to the budget  
4 presentation that I gave on -- on March 8th. We have  
5 \$2.65 billion in federal stimulus funds, and that's the  
6 -- the FMAP, that's the fiscal stabilization fund, 750  
7 million in one-time revenues that were used to balance  
8 the current year budget. Another \$665 million in  
9 one-time expenditures, like taking tobacco funds to  
10 reduce -- and if I can --

11           REP. SMITH: Right.

12           SECRETARY ZOGBY: Just very quickly, that  
13 total magically equals \$4.1 billion.

14           REP. SMITH: But as Representative --

15           SECRETARY ZOGBY: So to get to balance --

16           REP. SMITH: Yes.

17           SECRETARY ZOGBY: -- we had to make cuts.

18           REP. SMITH: Just to wrap up, as  
19 Representative Samuelson said, the cuts -- and as  
20 I've -- as I've just said, the higher ed cuts don't in  
21 any way relate to the loss of federal stimulus money,  
22 point number one.

23           Point number two, the cuts in K through  
24 12 funding, as was pointed out by Representative  
25 Samuelson, don't add up to the loss of the federal

1 stimulus funds.

2 We're losing less in federal stimulus  
3 funds than what the Governor is proposing to cut in  
4 basic education funding.

5 So at the end of the day it really is  
6 about choices. The Governor seems to be in favor of  
7 less funding for early childhood education even though  
8 that was something he campaigned on. Because the  
9 accountability block grant program, 75 percent of that  
10 funding was used by local schools for early childhood  
11 funding.

12 So we're going to have lower childhood  
13 education funding, we're going to have larger  
14 classrooms, and really at the end of the day fewer kids  
15 doing the dual enrollment program and taking college  
16 credits in high school that the Governor has advocated  
17 for.

18 So I agree that it is about choices.  
19 It's just a matter -- I think in this instance a lot of  
20 us disagree with the choice to cut higher education  
21 funding.

22 So thank you, Mr. Chairman.

23 CHAIRMAN ADOLPH: Thank you,  
24 representative.

25 Representative Matt Bradford.

1 REP. BRADFORD: Thank you, chairman.

2 And thank you again, Secretary.

3 Real quick, before we get back to talking  
4 about funding for schools like West Chester, I want to  
5 talk again about the EduJ jobs thing and just follow up  
6 on what Representative Smith said which was trying to  
7 put some transparency on what's going on here.

8 I think one of the things, again, I  
9 really liked about what you said at the beginning was  
10 being honest about what's going on.

11 Is it true that basically all we're doing  
12 here is a giant shell game with the EduJ jobs money?  
13 We took money out of the state based -- state money  
14 this year out, filled it in the EduJ jobs money, then  
15 in next year's budget, Governor Corbett's proposed  
16 budget, we're going to use the EduJ -- we're going to  
17 use the state money that we're pushing from this year  
18 into next, and we've created a new funding cliff?

19 Secretary Tomalis, when he was here,  
20 basically conceded as much, that we've simply deferred  
21 that part of the funding cliff and what you've really  
22 done is transfer stimulus money and tried to make it  
23 into state money.

24 It's a -- it's a -- it's a -- you know,  
25 a -- a wash. I mean we're basically trying to launder

1 and not in -- not to put any bad intent on it, but  
2 we're turning stimulus money into state money and then  
3 claiming, oh, no, we've -- we've reset the base.

4 SECRETARY ZOGBY: I -- I don't think  
5 that's accurate at all, representative, with all due  
6 respect.

7 I think what we did this year was -- and,  
8 again, in the current fiscal year, the '10/'11 budget  
9 year that we're in, what we did is we took state funds  
10 out of basic education, 300 and --

11 REP. BRADFORD: 88 million.

12 SECRETARY ZOGBY: -- 88 million.

13 REP. BRADFORD: Yep.

14 SECRETARY ZOGBY: Those are state funds  
15 that went to -- to reduce the deficit. Now, to -- to  
16 not have substituted those EduJ jobs money that -- the  
17 federal EduJ jobs money for the state funds would have  
18 meant that that's just another 350, \$380 million in  
19 cuts that we would have had to make in the '11/'12  
20 fiscal year.

21 REP. BRADFORD: You filled it with  
22 additional stimulus money, EduJ jobs money.

23 SECRETARY ZOGBY: What we did is we've  
24 held the overall -- by substituting the state funds,  
25 instead of taking basic education even higher in the

1 current fiscal year, we maintained the overall level of  
2 funding and then what we did in the '11/'12 proposal  
3 that we have on the table, all the \$5.2 billion in  
4 basic education funding that's in the Governor's  
5 proposal is all state funds.

6 REP. BRADFORD: Yes, it is. Because  
7 you --

8 SECRETARY ZOGBY: There's no federal  
9 stimulus monies. There's no other monies in that  
10 proposal.

11 REP. BRADFORD: Secretary --

12 SECRETARY ZOGBY: It's all state funds.

13 REP. BRADFORD: Secretary, because --  
14 Secretary, but in all candor, and let's be transparent,  
15 I mean we're talking about close to a third of a  
16 billion of the people's money. You're taking money out  
17 of this year's basic ed subsidy state money. You're  
18 filling it in with stimulus money. You're using the  
19 state money that you pulled out and you're using it in  
20 next year's budget.

21 And the following year and the year after  
22 unless there's additional revenue to support those  
23 monies you've created a new funding cliff. Secretary  
24 Tomalis conceded as much.

25 You've just deferred it. It's another

1       trick. It's another accounting trick. I think you  
2       called them ledger maneuvers.

3                       SECRETARY ZOGBY: Ledger domain.

4                       REP. BRADFORD: Yeah. It's -- it's one  
5       of those.

6                       And, look, I understand why you're in a  
7       tough spot. I'm conceding that. There's a lot of us  
8       here who recognize the fact you have tough budget  
9       choices.

10                      But I think you've got to be honest with  
11       the people that when you're playing one of these shell  
12       games that you admit that that's what's going on.

13                      I think Representative Smith asked the  
14       same question, and we're kind of moving the ball a  
15       little bit. So I -- I would just ask for a little bit  
16       of transparency on that one.

17                      SECRETARY ZOGBY: Well --

18                      REP. BRADFORD: Moving right on though  
19       because that was more of a --

20                      SECRETARY ZOGBY: Well, representative,  
21       I -- I think that if we're going to be intellectually  
22       honest about it, we should not create the fiction that  
23       there's somehow a funding cliff being created by this  
24       Governor's budget.

25                      If we're truly being intellectually

1 honest, that's not the case here. And so I just -- I  
2 guess I would respect -- respectfully disagree with  
3 your characterization on this point.

4 REP. BRADFORD: I -- I disagree. We --  
5 we're in agreement with that.

6 SECRETARY ZOGBY: Let's agree to  
7 disagree.

8 REP. BRADFORD: Yes. Okay. Real quick,  
9 you were going to explain how West Chester was going to  
10 deal with the 50 percent cut in their state  
11 appropriation as Governor Corbett proposes in his  
12 budget. What mandate relief are we offering them?  
13 What -- what are we giving them?

14 SECRETARY ZOGBY: Well, representative,  
15 again, I think to -- you know, I think higher education  
16 is -- and particularly with the state system, is one of  
17 those areas in the budget, when we talk about difficult  
18 and tough choices that the Governor had to make, given  
19 the problem that he inherited, I think that is -- that  
20 is --

21 REP. BRADFORD: Conceded.

22 SECRETARY ZOGBY: That is one of them.  
23 And, you know, I would just suggest that -- again, it  
24 was something in the order of -- I want to say 225  
25 million or so in -- in state system cuts.

1 I'm not sure where we get that in other  
2 parts of the budget. We could eliminate --

3 REP. BRADFORD: No. No. I'm not --

4 SECRETARY ZOGBY: -- wholesale cabinet  
5 departments.

6 REP. BRADFORD: Respectfully, just my  
7 question is what does West Chester do? I understand  
8 what you did. You pushed it off to the university.  
9 What does West Chester do?

10 SECRETARY ZOGBY: Well, I think with  
11 respect to the state system, like areas of -- of higher  
12 education, I think we have to look at -- we have to  
13 look at belt tightening. Certainly the amount of, you  
14 know, the amount of --

15 REP. BRADFORD: Specifically what does it  
16 do?

17 SECRETARY ZOGBY: Well, I don't -- I  
18 don't have West Chester's budget --

19 REP. BRADFORD: Any of the  
20 state-relateds -- state schools.

21 SECRETARY ZOGBY: -- in front of me.  
22 And, you know, if I were -- if I were in the position  
23 of being the -- the -- the budget person for the state  
24 universities, I'd be at the same business that I'm here  
25 today with the Commonwealth, trying to balance that

1 budget in a way that doesn't come down on the backs  
2 of -- of the students.

3 REP. BRADFORD: Wait. You -- you spoke  
4 to the chancellor of the PASSHE schools. I assume this  
5 budget is one you'll stand by and say that there is  
6 some basis for these cuts.

7 SECRETARY ZOGBY: Yes.

8 REP. BRADFORD: What's the basis?

9 SECRETARY ZOGBY: Well, the basis is, is  
10 that we had to balance a budget and we have to make  
11 cuts and we have to set priorities and one of those  
12 priorities is -- or among the priorities, you know,  
13 public health, public safety, basic -- maintaining  
14 basic education funding at prior year levels,  
15 maintaining other important areas of state government.  
16 And cuts had to be made.

17 This is one of the areas that we made  
18 cuts.

19 REP. BRADFORD: 50 percent cut in higher  
20 ed was one of those priorities?

21 Okay. Moving on, just in terms of things  
22 that also got cut, the phase-out of the capital stock  
23 and franchise, that's a corporate tax cut. I think  
24 it's actually a bad tax and one that we should look  
25 at. But let's be honest. We're cutting this year. Is

1 that correct? We're cutting that --

2 SECRETARY ZOGBY: The Governor's budget  
3 calls for reinstating the phase-out of the capital  
4 stock and franchise tax.

5 REP. BRADFORD: All right. What's the  
6 bottom line hit to the budget for that corporate tax  
7 break?

8 SECRETARY ZOGBY: I think it's the  
9 cost -- it's a half-year cost, because it comes into  
10 effect January 1, 2012. So I believe it's about a \$70  
11 million cost.

12 REP. BRADFORD: 70 million? Would that  
13 take care of West Chester?

14 SECRETARY ZOGBY: I don't know if it  
15 would take care of West Chester.

16 REP. BRADFORD: How much does the  
17 accelerated depreciation cost us this year?

18 SECRETARY ZOGBY: I don't have those.  
19 I think 69 million in the current year budget, if I'm  
20 not mistaken. I'd want to go back and check my figures  
21 on that.

22 REP. BRADFORD: Okay. A real quick  
23 question on the Liberty Loan Fund, because when  
24 Secretary Walker was here, he certainly led us to  
25 believe that a securitization was in the works.



1 detail in terms of this \$2 billion. This looks like a  
2 giant borrowing, frankly, to a lot of us.

3 To me what this appears like is a lot of  
4 loans that were taken out by Governor Rendell for an  
5 economic development program which were not supported  
6 in a bipartisan fashion, as you well know. Now, the  
7 solution to a certain pledge that a Governor took is to  
8 borrow against borrowed money. That's what sometimes  
9 securitization is viewed as.

10 Whether one supports it or is against it,  
11 it does fly in the face of a lot of what we've heard  
12 from the Governor.

13 One last point on a couple things here.

14 CHAIRMAN ADOLPH: Representative --

15 REP. BRADFORD: If you'll just indulge  
16 me.

17 CHAIRMAN ADOLPH: Your ten minutes on the  
18 second round is over. It's your privilege, if you  
19 like, to start a third round. Okay?

20 REP. BRADFORD: It would be very short.

21 CHAIRMAN ADOLPH: I would ask you, most  
22 of your points that are being made, quite frankly, have  
23 been made. You're clarifying some. I would agree with  
24 you there.

25 But I'd like you to consider some of the

1 members, some of your colleagues, that we've always --  
2 that we've already pushed them back 40 minutes, and  
3 I'm sure -- I'm sure you could put these questions in  
4 writing to the Chair and I will have the Secretary  
5 answer that if you would consider it.

6 REP. BRADFORD: Chairman, you put a very  
7 good guilt trip on me. Can I ask for one minute?

8 CHAIRMAN ADOLPH: You have one minute --

9 REP. BRADFORD: Okay.

10 Chairman ADOLPH: -- representative.

11 REP. BRADFORD: Real quick, if we do away  
12 with capital need -- oil company franchise, will that  
13 be a tax increase under the Americans for Tax Reform  
14 pledge?

15 SECRETARY ZOGBY: I'm sorry,  
16 representative, I --

17 REP. BRADFORD: The oil company franchise  
18 that's wrapped into the gas tax in Pennsylvania, it's  
19 been talked about as -- to alleviate part of our  
20 transportation needs.

21 SECRETARY ZOGBY: I've not heard that  
22 discussion. So I --

23 REP. BRADFORD: Is tolling a violation of  
24 the Governor's tax pledge?

25 SECRETARY ZOGBY: I don't -- I would not

1 view it as such, but I don't want to speak --

2 REP. BRADFORD: All right.

3 SECRETARY ZOGBY: I don't want to speak  
4 for the Governor in that regard.

5 REP. BRADFORD: Is closing the Amazon  
6 loophole a violation of the tax pledge?

7 SECRETARY ZOGBY: I think tax -- tax  
8 enforcement, to make sure that we're properly  
9 collecting taxes, in -- in my understanding of it, and,  
10 again, I don't want to speak for the Governor in this  
11 area, I'm not the -- I'm not the policy director, but I  
12 wouldn't -- I wouldn't see tax enforcement as violative  
13 of the no tax pledge.

14 REP. BRADFORD: All right. So Delaware  
15 loophole would get us there, too?

16 CHAIRMAN ADOLPH: Ten seconds.

17 REP. BRADFORD: So the Delaware loophole,  
18 again, would just be enforcement, that wouldn't be a  
19 tax -- a corporate tax increase?

20 SECRETARY ZOGBY: Well, I -- I've not  
21 really looked into that issue sufficiently, whether  
22 there truly is a loophole. I know that Secretary  
23 Meuser would very much like greater enforcement  
24 powers.

25 But I -- in that regard I would not look

1 at enforcement of existing tax laws or perhaps future  
2 tax laws as violative of a no tax --

3 CHAIRMAN ADOLPH: Thank you.

4 SECRETARY ZOGBY: -- pledge.

5 CHAIRMAN ADOLPH: Thank you so much,  
6 Mr. Secretary.

7 Thank you, representative.

8 I'd like to thank Secretary Zogby for his  
9 presentation, his direct answers to some very difficult  
10 questions.

11 I'm not going to summarize these three  
12 weeks of budget hearings right now, and I just want to  
13 thank you.

14 And I also want to thank all the members  
15 on both sides of the aisle for their participation in  
16 this process and I -- we will continue to work on the  
17 budget. And I know one thing. This budget will be  
18 done on time and there will be no new taxes in this  
19 budget.

20 So I think the Governor has given us a  
21 parameter, and we're -- we're here to work with him and  
22 work with the other side if they so please.

23 Representative -- Representative Markosek  
24 for closing comments.

25 REP. MARKOSEK: Yeah. Thank you,

1 Mr. Chairman. And I -- I echo your sentiments in the  
2 fact I want to thank all the members. They've done a  
3 wonderful job here, both sides of the aisle.

4 And -- and I -- I have no doubt that this  
5 will be a no tax state budget, although, again, I would  
6 say it will not necessarily be a no tax local budget.

7 And I do have some very grave concerns  
8 about the Liberty Loan Fund. I believe, and I think a  
9 lot of our members believe, that it's a discretionary  
10 grant fund that the Governor will, in fact, control and  
11 we certainly aren't happy moving tobacco money from the  
12 tobacco fund, which are health care dollars, over to  
13 that fund either.

14 But other than that, Mr. Secretary, thank  
15 you. You did a good job here today. It was a long day  
16 and we appreciate your testimony. Thank you.

17 SECRETARY ZOGBY: Thank you. Thank you,  
18 Mr. Chairman.

19 CHAIRMAN ADOLPH: Thank you. Okay. This  
20 part of the budget hearing is adjourned. And we will  
21 begin the members' requests in approximately three  
22 minutes. So the stenographer, you may or may not  
23 continue. That's up to you. But we're going to  
24 continue right away with this -- with this budget  
25 hearing. So thank you.

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(The proceedings were adjourned at  
1:40 p.m.)

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2 I hereby certify that the proceedings and  
3 evidence are contained fully and accurately in the  
4 notes taken by me on the within proceedings and that  
5 this is a correct transcript of the same.  
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9 Brenda S. Hamilton, RPR  
Reporter - Notary Public  
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