

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE HEARING

STATE CAPITOL
MAIN BUILDING
ROOM 140
HARRISBURG, PENNSYLVANIA

THURSDAY, FEBRUARY 27, 2014
9:30 A.M.

PRESENTATION FROM THE
BUDGET SECRETARY

BEFORE:

HONORABLE WILLIAM F. ADOLPH, JR., MAJORITY CHAIRMAN
HONORABLE KAREN BOBACK
HONORABLE JIM CHRISTIANA
HONORABLE GARY DAY
HONORABLE GORDON DENLINGER
HONORABLE BRIAN ELLIS
HONORABLE GLEN GRELL
HONORABLE SETH GROVE
HONORABLE ADAM HARRIS
HONORABLE TOM KILLION
HONORABLE DAVID R. MILLARD
HONORABLE MARK T. MUSTIO
HONORABLE DONNA OBERLANDER
HONORABLE BERNIE T. O'NEILL
HONORABLE MICHAEL PEIFER
HONORABLE JEFFREY P. PYLE
HONORABLE CURTIS G. SONNEY

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BEFORE (cont.'d):

- HONORABLE JOSEPH F. MARKOSEK, MINORITY CHAIRMAN**
- HONORABLE BRENDAN BOYLE**
- HONORABLE MATTHEW D. BRADFORD**
- HONORABLE MICHELLE F. BROWNLEE**
- HONORABLE MIKE CARROLL**
- HONORABLE H. SCOTT CONKLIN**
- HONORABLE MADELEINE DEAN**
- HONORABLE DEBERAH KULA**
- HONORABLE MICHAEL O'BRIEN**
- HONORABLE STEVEN SANTARSIERO**

ALSO IN ATTENDANCE:

- DAVID DONLEY, REPUBLICAN EXECUTIVE DIRECTOR**
- DAN CLARK, REPUBLICAN CHIEF COUNSEL**
- MIRIAM FOX, DEMOCRATIC EXECUTIVE DIRECTOR**

JEAN M. DAVIS, REPORTER
NOTARY PUBLIC

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I N D E X

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<u>NAME</u>	<u>PAGE</u>
CHARLES ZOGBY, BUDGET SECRETARY	7

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

2 * * *

3 MAJORITY CHAIRMAN ADOLPH: Good morning,
4 everyone.

5 I'd like to reconvene the House Appropriations
6 Committee. Today we have the Secretary of the Budget,
7 Charles Zogby.

8 Before we get going, we'll just go over a couple
9 housekeeping rules. Turn off your cell phones, your
10 iPhones and iPads.

11 And I'm sure the Secretary will have all the
12 answers to the questions that we're going to be asking him
13 today. We'll have an opportunity to ask him questions
14 regarding the Governor's proposed budget.

15 We're going to take a brief minute or two so we
16 can introduce ourselves to the Secretary and to the viewers
17 watching at home.

18 Good morning, Mr. Secretary. My name is Bill
19 Adolph. I am the Republican Appropriations Chairman. I am
20 from Delaware County.

21 Chairman.

22 MINORITY CHAIRMAN MARKOSEK: Thank you, Chairman
23 Adolph.

24 I'm State Representative Joe Markosek from
25 Allegheny and Westmoreland Counties.

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SECRETARY ZOGBY: Good morning.

MINORITY CHAIRMAN MARKOSEK: And to my immediate right is Miriam Fox, who is the Executive Director of the Democratic House Appropriations Committee.

Good morning.

SECRETARY ZOGBY: Good morning, Mr. Chairman.

REP. OBERLANDER: Representative Donna Oberlander. I represent Clarion and part of Armstrong County.

REP. BOBACK: Karen Boback, House District 117, parts of Luzerne, Wyoming, and Columbia Counties.

REP. GRELL: Good morning, Secretary.

SECRETARY ZOGBY: Good morning.

REP. GRELL: Glen Grell, Cumberland County, 87th District.

REP. DAY: Good morning.

SECRETARY ZOGBY: Good morning.

REP. DAY: Gary Day, 187th District, Lehigh and Berks Counties.

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

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

REP. O'NEILL: Good morning, Mr. Secretary.

SECRETARY ZOGBY: Good morning.

1 REP. O'NEILL: Representative Bernie O'Neil,
2 Bucks County.

3 REP. ELLIS: Good morning. Representative Brian
4 Ellis, Butler County.

5 REP. MUSTIO: Good morning. Mark Mustio,
6 Allegheny County.

7 REP. CHRISTIANA: Good morning, Mr. Secretary.

8 SECRETARY ZOGBY: Good morning, Representative.

9 REP. CHRISTIANA: Jim Christiana, 15th District,
10 Beaver and Washington Counties.

11 REP. GROVE: Good morning, Mr. Secretary.

12 SECRETARY ZOGBY: Good morning.

13 REP. GROVE: Seth Grove, York County, 196th
14 District.

15 REP. SANTARSIERO: Good morning, Mr. Secretary.
16 Steve Santarsiero, Bucks County, 31st District.

17 SECRETARY ZOGBY: Good morning, Representative.

18 REP. BRADFORD: Matt Bradford, Montgomery County.

19 REP. DEAN: Good morning. Madeleine Dean,
20 Montgomery County.

21 REP. CONKLIN: Scott Conklin, Centre County.

22 REP. KULA: Good morning.

23 SECRETARY ZOGBY: Good morning, Representative.

24 REP. KULA: Deberah Kula, Fayette and
25 Westmoreland Counties.

1 REP. CARROLL: Mr. Secretary, good morning. Mike
2 Carroll, Luzerne and Monroe Counties.

3 SECRETARY ZOGBY: Good morning.

4 REP. O'BRIEN: Good morning, Mr. Secretary. Mike
5 O'Brien, Philadelphia County.

6 SECRETARY ZOGBY: Good morning.

7 REP. BROWN: Good morning. Michelle Brownlee,
8 Philadelphia, 195th District.

9 REP. BOYLE: Representative Brendan Boyle,
10 representing Philadelphia and Montgomery Counties.

11 SECRETARY ZOGBY: Good morning, Representative.

12 MAJORITY CHAIRMAN ADOLPH: Thank you.

13 Also with us is Representative Jeff Pyle of the
14 Appropriations Committee as well as the Majority Leader of
15 the House, Representative Mike Turzai. Thank you for being
16 with us. Also I see Representative Pam DeLissio of
17 Philadelphia County.

18 And I'm sure, Mr. Secretary, there will be other
19 members coming in.

20 SECRETARY ZOGBY: Sure.

21 MAJORITY CHAIRMAN ADOLPH: Would you like to
22 start with an opening statement for the Committee?

23 SECRETARY ZOGBY: I don't have an opening
24 statement, Mr. Chairman.

25 MAJORITY CHAIRMAN ADOLPH: Okay. Thank you.

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SECRETARY ZOGBY: Sure.

MAJORITY CHAIRMAN ADOLPH: Well, once again, I want to welcome you to the House Appropriation Hearing.

SECRETARY ZOGBY: Thank you.

MAJORITY CHAIRMAN ADOLPH: I look forward to our conversation today about the Governor's proposed '14-'15 fiscal year budget. I know that once again we will work together to adopt a fourth consecutive on-time budget with no tax increases for the residents of Pennsylvania.

There are a lot of variables that we need to monitor between now and June 30th. But these hearings really do help us understand the proposal the Governor has presented to the Legislature.

We have met with most of the other Cabinet members to talk about details of this plan. And we have had a productive dialogue. Provided your revenue collections are met as we close the fiscal year, there are some good and worthy initiatives contained in this proposal. The increase to Basic Education of \$363 million; \$25 million for the new Ready to Succeed Scholarship program for Higher Education; a \$20 million increase for Special Education; \$24 million to add to additional services for the 1,250 individuals with intellectual disabilities; and four additional state trooper cadet classes.

1 SECRETARY ZOGBY: Yes.

2 MAJORITY CHAIRMAN ADOLPH: On the other hand --

3 and you know I would not let you leave here without

4 commenting on this -- last year I also had some concern.

5 Last year I asked if we could forgo this annual exercise of

6 cutting very, very small targeted programs in the Health

7 Department and Ag programs.

8 SECRETARY ZOGBY: Yes.

9 MAJORITY CHAIRMAN ADOLPH: And unfortunately,

10 this legislative versus administrative tug-of-war continued

11 with this proposal.

12 SECRETARY ZOGBY: Yes.

13 MAJORITY CHAIRMAN ADOLPH: It represents, you

14 know, 200ths of 1 percent of the total budget. And

15 unfortunately, some of these families have a very hard

16 time. They don't have high-paid lobbyists to come here and

17 walk the halls of this Chamber. They don't have the

18 transportation ability to do it.

19 SECRETARY ZOGBY: Yes.

20 MAJORITY CHAIRMAN ADOLPH: And I was just hoping

21 that we would be able to stop that practice. But it did

22 not happen. So I can assure you that I will be plugging

23 those line items in this year's budget as well.

24 Mr. Secretary, I know the economy is slowly but

25 surely coming back. And I know your budget revenue

1 projections are based upon that happening. And I am
2 looking forward to working with you between now and June
3 30th.

4 SECRETARY ZOGBY: Thank you.

5 MAJORITY CHAIRMAN ADOLPH: Chairman Markosek.

6 MINORITY CHAIRMAN MARKOSEK: Thank you, Chairman
7 Adolph.

8 Good morning, Secretary.

9 SECRETARY ZOGBY: Good morning, Mr. Chairman.

10 MINORITY CHAIRMAN MARKOSEK: Good to see you
11 again.

12 SECRETARY ZOGBY: Thank you. Nice to see you.

13 MINORITY CHAIRMAN MARKOSEK: First of all, let me
14 just say that many of your colleagues have come before us
15 here in the last three weeks.

16 SECRETARY ZOGBY: Yes.

17 MINORITY CHAIRMAN MARKOSEK: And you're somewhat,
18 I guess, for the lack of a better way to put it, kind of
19 the dessert of the whole budget hearing process here. And
20 much of what they have said emanated from your office,
21 obviously, as the way it should be.

22 If I had to give them a collective grade on their
23 presentations -- and many of them were very articulate and
24 they were very cordial and obviously you could tell that
25 they knew their stuff.

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SECRETARY ZOGBY: Sure.

MINORITY CHAIRMAN MARKOSEK: But I would have to give them a grade of incomplete. What they told us was very interesting. What they left out was very vital. We've seen here this year that the Governor's budget -- and I've characterized it on the Floor in my budget speech this year as a one time -- a budget with one-time funding gimmicks, a rob-Peter-to-pay-Paul budget where you've reached into many, many other funds to do really what we should be doing from the General Fund. Because of politics -- let's face it. This is an election year. And we think that the Governor is doing these things to get by this year but with grave, grave consequences in future years in future budgets.

And make no mistake about this, this is now your, meaning collectively, your, the Governor, and his Cabinet's, budget. This isn't any previous Governor's budget at this point in time. We're four years into it. And some of the decisions that you made four years ago have come home now to really hurt us.

For example, big cuts in corporate tax and taxes several years ago when we really couldn't afford to do that have now created budget holes that we -- and I see, you know, you and your staff have tried to find gimmicks to try to fill. And many of those budget holes will just be

1 compounded next year because of this.

2 We also have a situation, the \$2 billion, at our
3 estimate, of lost revenues because of these corporate taxes
4 that really haven't done what you and the Governor have
5 said they were supposed to do, create jobs. Our
6 unemployment rate in Pennsylvania is now higher than the
7 national average. And that historically has not been the
8 case. We've always been lower than the national average.

9 So we really haven't seen a big, huge uptick in
10 that. And we've left a lot of money on the table. And
11 you've heard this before.

12 SECRETARY ZOGBY: Yes.

13 MINORITY CHAIRMAN MARKOSEK: You've heard
14 refrains, you know, about we're one of the only two states
15 that don't tax smokeless tobacco and cigars.

16 I think all these other states must look at us
17 and say, what's wrong with you? We've not really closed
18 the Delaware loophole. We've closed it a little bit. But
19 we've created some other loopholes as well. The vendor
20 discount can be modified so that we would save some money
21 there. And certainly kind of the mother of all our revenue
22 issues, a reasonable severance tax on natural gas drilling
23 should have been applied several years ago instead of the
24 very somewhat even onerous and now unconstitutional Act 13
25 that was really a hodgepodge on trying to find money for

1 and provide money from gas drilling. And we've not seen
2 the revenues there that we should see.

3 I guess I don't have any specific questions.
4 Part of my thoughts here today are to get all these things
5 out on the table.

6 SECRETARY ZOGBY: Okay.

7 MINORITY CHAIRMAN MARKOSEK: I know our members
8 on both sides of the aisle will have some pointed questions
9 for you, I'm sure. But I just think it's time that you and
10 the Governor took ownership of this bad budget and quit
11 blaming it on other people and other Administrations. It's
12 yours. It's bad.

13 And I'll just add one thing. My colleague,
14 Representative Adolph, reminded me it was not an on-time
15 budget last year. It seemed to me that I had to come back
16 in July to put a vote up for a piece of that budget that
17 had not yet passed. So this whole idea of another on-time
18 budget I think went out the window certainly last year.

19 With that, I will listen to the questions.

20 Mr. Chairman, thank you very much.

21 MAJORITY CHAIRMAN ADOLPH: You are more than
22 welcome to respond to that, Mr. Secretary. I'd be glad to
23 respond for you. But I think at this particular time I
24 think you'd be best to respond to some of the statements
25 that the Chairman made.

1 SECRETARY ZOGBY: I appreciate that opportunity,
2 Mr. Chairman.

3 And really, I think it's a total
4 mischaracterization. This is a very good budget. And what
5 the Governor has done now for four years in a row is to
6 present budgets that bring spending in line with revenues.
7 We've delivered them on time collectively, this General
8 Assembly with the Administration.

9 And more importantly, Chairman Markosek, we are
10 not going back to Pennsylvania families and asking them to
11 take more out of their household budgets to send here to
12 Harrisburg so that we can spend more. And I think the
13 Governor believes that's very important. And I think to
14 your comments, I think the evidence suggests that the
15 Governor's approach, the Governor's strategy, is paying
16 off.

17 We're seeing nearly 140,000 new jobs created in
18 the Commonwealth. We're seeing economic activity and
19 development happening in areas of this Commonwealth that
20 haven't seen it in decades, particularly with the Marcellus
21 Shale activity.

22 We have in this budget, as the Chairman
23 indicated, hundreds of millions of new dollars for Basic
24 Education, the first increase in Special Education in six
25 years. We have tens of millions of dollars for supports,

1 additional expanded supports, for individuals with
2 disabilities, intellectual disabilities, physical
3 disabilities. We have expanded supports for low-income
4 seniors, older Pennsylvanians, particularly expansion of
5 home- and community-based care, allowing them to stay in
6 their homes, stay in their communities where they want to
7 be.

8 We have the single largest investment in an
9 upgrade of our parks and forest infrastructure I think in
10 recent memory and in areas that are visited across the
11 Commonwealth by, you know, tens of thousands, millions of
12 Pennsylvanians who enjoy these resources. And I could go
13 on and on of all the good things that are in this budget.

14 And, you know, you're right. We are looking at
15 things to balance here. And I think the Governor's
16 calculus is we want to look at every last efficiency,
17 savings, things that we can do to balance this budget that
18 isn't going to require us to go back to Pennsylvania
19 taxpayers and ask them to send more to Harrisburg. We're
20 not raising their taxes.

21 And there's a lot of people that are chafing
22 under the Governor's commitment to not raise taxes. But
23 he's made the ends meet now four years in a row. And I
24 don't think we're in a position of blaming things on the
25 prior Administration.

1 And, you know, I think the facts hurt sometimes.
2 We had eight years where we had spending that was out of
3 control, more and more debt foisted on the books, our
4 fiscal books. Our fiscal house was in a shambles. We had
5 the last two budgets that were built on billions of dollars
6 in stimulus money that everybody knew was going to go away.

7 And, you know, we're digging out of that hole.
8 And it's taking a little bit of time. But I think with
9 this budget, we've seen a pivot point where we're able to
10 invest in Basic Education. We're able to put some modest
11 sums into Higher Education, new grants for middle-class
12 families who want to take advantage of postsecondary
13 opportunities. We're able, as I said, to put more into our
14 parks and forests, more into supports for seniors and
15 individuals with disabilities, increases in rape crisis and
16 domestic violence, very important programs that members on
17 both sides of the aisle feel very strongly in support of.
18 So I think the characterization that this is a bad budget I
19 think couldn't be more off the mark.

20 And to the extent that we need to balance going
21 forward, there's some initiatives that you've mentioned
22 that the Governor has advanced in prior years that the
23 General Assembly has not embraced. And we'll come back
24 with those if need be to balance the budget.

25 I think every member here on this Committee and

1 in this Chamber, I think we're all going to have to weigh
2 the alternatives. Do we want to do some of the hard things
3 that need to be done, like Pension reform, that bring these
4 costs under control for our local school districts and shed
5 risk on taxpayers in the Commonwealth going forward or do
6 we just want to simply say, it's too hard. Let's raise
7 taxes on the families of Pennsylvania. Those are the kinds
8 of choices that we face.

9 And I think from the Governor's perspective, it's
10 much better that we all look at the hard work that we
11 should do here in balancing our books in real ways in
12 reforms and efficiencies and productivity gains than going
13 back to Pennsylvania taxpayers and asking them to pay more
14 through higher taxes.

15 MAJORITY CHAIRMAN ADOLPH: Thank you.

16 At this time Representative Peifer,
17 Representative Denlinger, and Representative Harris, of the
18 Appropriations Committee, have joined us.

19 And the first question will be asked by
20 Representative Bernie O'Neill.

21 REP. O'NEILL: Thank you, Mr. Chairman.

22 Again, good morning, Mr. Secretary.

23 SECRETARY ZOGBY: Good morning.

24 REP. O'NEILL: As you know, I'm very involved
25 with education and education budget issues.

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SECRETARY ZOGBY: Sure.

REP. O'NEILL: The first thing I want to ask and have you talk about is the education funding and the amount of money and appropriation into it.

SECRETARY ZOGBY: Okay.

REP. O'NEILL: I had the opportunity to chair a Republican House Caucus Committee on Education Finance some years back under the prior Administration. And one of the things that we came up with after 30, 35 hours of decision with the Obama Administration was that we would be able to use our stimulus money that we'll be receiving for education for the Pension Fund. Unfortunately, it fell on deaf ears. And, you know, we couldn't convince that Administration and, quite frankly, some leaders in the House and Senate to do the same thing.

SECRETARY ZOGBY: Right.

REP. O'NEILL: And now I'm hearing some people say, I wish we did, because that would have made a nice piece for the Pension.

SECRETARY ZOGBY: Okay.

REP. O'NEILL: But regardless, that Administration decided to put that money into our school budget, our education budget, that was being driven out to the schools and basically was being used for operating costs.

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SECRETARY ZOGBY: Yes.

REP. O'NEILL: So I'd like you to address that. And please correct me if I'm wrong. Because you're hearing on both sides of the aisle that this Governor is cutting education and has been, you know, cutting Basic Education. Others are saying, no, he isn't. We've been putting in the most that, you know, that's ever happened.

From my stance, from, you know, working on that Committee that year, if I'm not mistaken, Governor Rendell cut Basic Education funding \$500 million.

SECRETARY ZOGBY: Sure.

REP. O'NEILL: And then he backfilled it with stimulus money; is that correct? Is that basically what happened?

SECRETARY ZOGBY: That's absolutely correct, Representative.

REP. O'NEILL: Okay.

SECRETARY ZOGBY: The prior Administration took about \$500 million in State funds out of the Basic Education funding line item, which you know is the largest single line item in support of public education in the Commonwealth.

REP. O'NEILL: Right.

SECRETARY ZOGBY: Moved that money to spend elsewhere in the budget; put Federal stimulus monies in

1 that they knew were going to go away not only to backfill
2 that hole but to actually increase it, sort of a mirage of
3 a budget increase; and then also sent guidance out to
4 school districts to say, put the money into new programs,
5 new investments, at a time when, again, they knew the money
6 was going to go away.

7 REP. O'NEILL: Right.

8 SECRETARY ZOGBY: In addition to things like
9 underfunding, say, the school Employee Retirement Pension
10 System by nearly \$4 billion, using that money to spend
11 elsewhere and leaving all the sizable increases in our
12 Pension cost to fall miraculously just as the former
13 Governor was leaving office.

14 REP. O'NEILL: Right.

15 SECRETARY ZOGBY: And that's the kind of hole
16 that we've been digging ourselves out of.

17 REP. O'NEILL: And I guess my issue is because
18 what I'm hearing is people are, you know, saying that those
19 cuts are coming from different areas. And one of the areas
20 -- and I was just watching last night on PCN the Secretary
21 of Education in front of the Senate. And she was being
22 really interrogated, I guess the word is, on that subject.
23 And correct me if I'm wrong. But from my stance -- and,
24 you know, I was a former educator.

25 SECRETARY ZOGBY: Yes.

1 REP. O'NEILL: I know my school district is about
2 75 percent, if not higher than, of their budget is salary
3 and benefits. It's human driven, their budgets. And I'm
4 pretty sure that's the way it is across the board.

5 What they were driving at last night was they
6 were saying that, you know, Pension obligation and benefits
7 and that sort of thing shouldn't be counted into the
8 education budget line item. I guess that's basically what
9 they were saying.

10 Could you correct that or do you agree that since
11 the budget of a school district, 75 percent is driven by
12 human services, wouldn't, as any other company does, that
13 take into effect that their Pension obligations, their
14 benefit obligations, and any other obligations going into
15 human services is part of that budget and therefore it
16 would be part of their funding?

17 SECRETARY ZOGBY: Absolutely. And I've heard the
18 Chairman speak on this, and he's been very eloquent in
19 pointing out that not just every private business but every
20 agency in State Government has, as part of their general
21 government operations cost, salary and benefits, including
22 Pension benefits. And how it is that Pension benefits for
23 teachers, which are really our main -- as you say, our main
24 cost in Basic Education, how their salary and benefit costs
25 are not part of public education spending? It's just

1 mystifying to me. And particularly when, as you point out,
2 the private sector and the rest of State Government counts
3 it as such.

4 REP. O'NEILL: Great. And I'd just like to put
5 something out there. People say teacher pensions. I like
6 to say school employee, school district employee pensions,
7 because, you know, I think teachers get an unfair blame
8 because it's just not teachers. You have bus drivers, you
9 have secretaries, you have administrators. You know,
10 there's so many people that go into educating our students.
11 So I think they all need to be included in that.

12 SECRETARY ZOGBY: Yes.

13 REP. O'NEILL: The next thing I'd ask you very
14 quickly is, you're proposing to take away what people more
15 commonly refer to as the double-dip for charter and cyber
16 schools where they're receiving monies from their home
17 school districts for their Pension obligation and then
18 they're receiving a 50 percent match from the State.

19 And you're proposing getting rid of that 50
20 percent match, is that correct, in your budget?

21 SECRETARY ZOGBY: That's correct.

22 REP. O'NEILL: I guess my -- I applaud you for
23 that.

24 SECRETARY ZOGBY: Thank you.

25 REP. O'NEILL: But I guess my issue is that at

1 the local level, they're actually overfunding -- most
2 school districts are overfunding the charter and cyber
3 schools on the Pension side. I know we passed a bill
4 through here, House Bill 618, that was trying to address
5 that part of the double-dip, if you call it that.

6 And I'll just give you an example. My one school
7 district -- I'll use a cyber school -- their exact cost,
8 because I did my homework, was \$241 per student towards the
9 Pension Fund.

10 SECRETARY ZOGBY: Okay.

11 REP. O'NEILL: That was their average.

12 SECRETARY ZOGBY: Okay.

13 REP. O'NEILL: My school district was sending
14 \$1,200. Now this was last year's numbers. They were
15 sending them \$1,200 for that obligation under that funding
16 formula that we have for charter and cyber schools.

17 SECRETARY ZOGBY: Okay.

18 REP. O'NEILL: So they were overpaying them 80
19 percent, almost 80 percent. I was wondering if you could
20 address that in some way that we, as an Administration, and
21 the House and Senate can get together and do something.
22 Because in my opinion, that's taxpayer money that's, you
23 know -- we all talk about taxpayers' money. You were
24 talking about it eloquently to the Democratic Chairman. I
25 think we need to be looking at it as -- not as home school

1 district money but the taxpayers' money. And if they're
2 being overfunded, I think we need to be addressing that.

3 SECRETARY ZOGBY: Well, I would agree,
4 Representative. And I would be remiss, too, if I didn't
5 complement you and the work that you did with Senator
6 Browne on the Special Education Funding Commission.

7 REP. O'NEILL: Thank you.

8 SECRETARY ZOGBY: I think the product there was
9 really a very good product. And we're building on that in
10 this budget. I think what the Governor is concerned about
11 is that, you know, we've heard a lot of calls over the past
12 many months about what we have is a broken sort of finance
13 system for education.

14 REP. O'NEILL: Right.

15 SECRETARY ZOGBY: And I'm mindful that, you know,
16 we fund school districts. We don't fund kids. And I think
17 from the Governor's standpoint, he's really looking at how
18 do we move from this system where we have a
19 student-centered funding system and that we fund much as
20 you tried to do in your Special Education Commission. You
21 fund the child and the challenges that that child brings to
22 school. As you know, with Special Education, those
23 children that are on sort of the lower end, if you will, in
24 terms of the intensity of their challenges, they are less
25 expensive to serve than maybe a child on the higher end.

1 REP. O'NEILL: Sure.

2 SECRETARY ZOGBY: And it's similar I think in
3 basic education spending, where we know that children come
4 to school with additional challenges, English language
5 learners, poverty, other challenges that need to be
6 addressed.

7 REP. O'NEILL: Sure.

8 SECRETARY ZOGBY: We know that it costs more in
9 some parts of our State to deliver education than it does
10 in others.

11 REP. O'NEILL: Right.

12 SECRETARY ZOGBY: So I think the Governor would
13 very much like to be able to take a look at the formula
14 holistically --

15 REP. O'NEILL: Sure.

16 SECRETARY ZOGBY: -- and, again, focus on a
17 formula that's not only fair to taxpayers and school
18 districts but really is focused on funding children and
19 meeting their needs and assist them where, again, that
20 money is portable.

21 REP. O'NEILL: Right.

22 SECRETARY ZOGBY: I think one of the important
23 pieces for the Governor is that we not delink funding for
24 the child that, and their parents, makes a choice of a
25 cyber school, a charter school, or maybe some other

1 education alternative. We have \$10 million in the budget
2 for hybrid learning, which blends technology with
3 traditional classroom learning. I think that linkage is
4 important. But clearly I think we're at a point in time
5 where the entire system needs to be looked at. And we need
6 to come up with a more rational, again, student-centered
7 approach to funding our public schools.

8 REP. O'NEILL: All right. Thank you very much.

9 I apologize for going so long.

10 MAJORITY CHAIRMAN ADOLPH: Thank you,
11 Representative.

12 Representative Mike O'Brien.

13 REP. O'BRIEN: Thank you, Mr. Chairman.

14 Mr. Secretary, I have a deep and unabiding
15 concern for clean and potable water. Quite honestly, sir,
16 I think that it's probably a looming pandemic. We can see
17 the first signs of this on the West Coast where we have
18 rivers that don't reach the ocean.

19 And of the many things in the budget that give me
20 pause, probably one of the things that gives me the
21 greatest concern is a cut to the Delaware River Basin
22 Commission of 54 percent. Now, in the overall view of the
23 budget, the money that goes to do DRBC is little more than
24 loose change on the nightstand. What's the rationale for
25 this cut?

1 SECRETARY ZOGBY: Well, I think, Representative,
2 you know, we're looking at meeting all of our obligations.
3 I think one of the things that should concern Commonwealth
4 taxpayers is that increasingly with some of these
5 multi-state commissions, it's the Pennsylvania taxpayer
6 who's bearing the brunt of the load. We've seen other -- I
7 think, in DRBC's case, we've seen other states cut back
8 their support. And more and more of the Commission's
9 budget activities are leaning on support from Pennsylvania
10 taxpayers.

11 REP. O'BRIEN: Okay.

12 SECRETARY ZOGBY: So I think we were looking at,
13 I'll say, rationalizing our support for the Commission in
14 line with what other states have done. We just can't look
15 to Pennsylvania taxpayers to pick up the tab when the
16 taxpayers in other states are deciding that maybe these
17 activities aren't important for them. We can't be expected
18 to carry the entire load or shoulder more and more of the
19 burden.

20 REP. O'BRIEN: And the Administration has made
21 equal cuts in other Commissions?

22 SECRETARY ZOGBY: I don't know that we've made
23 equal cuts in other Commissions. I'd have to go back and
24 look line item by line item to see. Certainly in the
25 context of DRBC, there is and, as I said, the dynamic of

1 other states cutting their support. And if that isn't
2 occurring in other areas, then I think you would probably
3 see consistent Commonwealth support.

4 REP. O'BRIEN: Okay.

5 SECRETARY ZOGBY: But, again, I'd want to go back
6 and check on that before I respond more fully.

7 REP. O'BRIEN: But in fact, we have other
8 Interstate Water Commissions; is that correct?

9 SECRETARY ZOGBY: I believe so, yes, sir.

10 REP. O'BRIEN: And as other Interstate Water
11 Commissions, the people of the Commonwealth are also
12 bearing a burden; is that correct?

13 SECRETARY ZOGBY: I believe so, yes, sir.

14 REP. O'BRIAN: That is correct. Okay. So now we
15 have the cut targeted only to the Delaware River and the
16 Delaware River Basin Commission. Now I have to ask -- the
17 Delaware River Basin Commission has taken a hard stand on a
18 fracking moratorium -- did this play any role in the
19 Administration's decision? In short, is the Administration
20 using this money to leverage DRCB to lift that moratorium?

21 SECRETARY ZOGBY: No.

22 REP. O'BRIEN: No. But yet DRBC stands out where
23 the other Commissions don't. Thank you, Mr. Secretary. I
24 appreciate your comments on that.

25 SECRETARY ZOGBY: Thank you, Representative.

1 REP. O'BRIEN: Thank you, Mr. Chairman.

2 MAJORITY CHAIRMAN ADOLPH: Thank you,
3 Representative.

4 The next question will be from Representative
5 Gary Day.

6 REP. DAY: Thank you, Mr. Chairman. Thank you
7 for being here today. I appreciate your answers.

8 SECRETARY ZOGBY: Thank you.

9 REP. DAY: You touched on one of my questions. I
10 wanted to first make a statement that I'd like to impress
11 upon you how much I value the approach that you've taken to
12 the budgeting process, working with this Committee to
13 negotiate and compromise. The Governor has his ideas. The
14 Legislature has a long history with a lot of information of
15 what's good for Pennsylvania.

16 SECRETARY ZOGBY: Right.

17 REP. DAY: I just want to say over the last three
18 years, it matters in my district that we've had an on-time
19 budget. And I appreciate that.

20 SECRETARY ZOGBY: Thank you.

21 REP. DAY: The people in my district understand
22 that economic times are tough. They know it's tough. They
23 don't think, yeah, they want more money.

24 SECRETARY ZOGBY: Right.

25 REP. DAY: But the most important thing, the

1 worst thing that happened to them is when they had to wait
2 months, not days, months. And all they kept doing was
3 calling me, saying, Gary, just tell me what the number is.
4 I can take a 1 percent cut. I can take a 10 percent cut.
5 But I need to know what the number is. So I just want to
6 impress upon you how important it is in my district to all
7 the local agencies, government, whether it's government,
8 school districts, counties, non-profits, who receive money
9 how important that is in my district.

10 SECRETARY ZOGBY: Sure.

11 REP. DAY: With an eye towards revenue sources
12 other than, as you put it so well, taxing working families
13 across Pennsylvania, taking what we believe, I believe, and
14 it sounds like you and the Governor believe is the easier
15 pathway to balancing the budget. Let's talk about Keno.
16 Let's talk about gaming, Internet gaming and Keno.

17 SECRETARY ZOGBY: Okay.

18 REP. DAY: With Keno, how much additional revenue
19 could be generated? What type of establishment is the
20 Governor thinking and your team thinking that we would see
21 Keno be offered in? And overall, just generally, what's
22 the Governor's intention with Keno?

23 SECRETARY ZOGBY: I think we have in this budget,
24 Representative, another \$20 million in Lottery fund money
25 from Keno, net profit from Keno.

1 REP. DAY: Okay.

2 SECRETARY ZOGBY: Ramping up to about \$40 million
3 in the coming year. And I think we're looking at -- you
4 know, learning from the exercise that we've done, the
5 challenges with the Lottery remain -- more demand, higher
6 cost, and a relatively sort of flat-revenue growth.

7 REP. DAY: Okay.

8 SECRETARY ZOGBY: So we need to make those meet.
9 Those supports for seniors are critical, as you know.

10 REP. DAY: Sure.

11 SECRETARY ZOGBY: So I think the expansion of
12 Keno is a way to generate new activity, new gains. I guess
13 I would say I'm not exactly sure the plan in terms of the
14 outlets. I would expect many of those that are selling
15 Lottery tickets currently. There may be new outlets as
16 well. But again, this is, I think, from the Governor's
17 perspective, a way to enhance the Lottery Fund and make
18 sure that it's here not only today but for years to come
19 for those Pennsylvania seniors who rely on the important
20 programs that are funded out of the fund.

21 REP. DAY: One of the things that I'm curious
22 about, and maybe just not a question but to take back, when
23 you're talking about this, I'm interested, is it going to
24 be offered where you walk up to the machine like a Lottery
25 ticket, as you said, or is it going to be like an off track

1 betting parlor? That's a big difference.

2 SECRETARY ZOGBY: Yes.

3 REP. DAY: So I'd be interested in that as this
4 develops and as you develop this idea. Internet gaming,
5 I'm on the Gaming Committee. And I'm very concerned about,
6 you know, you can go on the Internet and you can play free
7 gaming. So they definitely have all the games set up. And
8 they're starting to get the public by giving it to them
9 free, whether it's through Facebook or some other means.

10 SECRETARY ZOGBY: Right.

11 REP. DAY: When you play that -- if I go into a
12 casino, I have some semblance of regulatory ability there.
13 I have no idea. And I swear when I fold those cards in
14 that free game that I'm playing, I swear they always throw
15 down other cards that make me think I should have stayed in
16 when I know mathematically I should have folded those
17 cards. I don't know how we're going to regulate this.

18 I'm a pretty creative person. Do we have that
19 locked up? Do we know how we would regulate Internet
20 gaming if we would go that way?

21 SECRETARY ZOGBY: I am not an expert in that
22 area, Representative. And I'll say personally I don't have
23 any experience in terms of online gaming. So I really
24 can't speak to it with any authority.

25 REP. DAY: Okay.

1 SECRETARY ZOGBY: I think the Governor though
2 shares some of your concerns. And I think more broadly the
3 fact is today that Pennsylvania relies fairly heavily on
4 gaming revenue. It's an important part of property tax
5 relief. It's a support in other areas. And I think we
6 need to all be careful as we take these steps to expand
7 opportunities that we do it in a way that's not only, as
8 you suggest, appropriately regulated with safeguards and
9 the like but that we also not cannibalize other areas of
10 our budget that rely on this revenue.

11 REP. DAY: Okay.

12 SECRETARY ZOGBY: I know there's a lot of
13 discussion about this. Again, I'm not an expert in the
14 area.

15 REP. DAY: Sure.

16 SECRETARY ZOGBY: But I think we do need to be
17 careful about how we do it both from a regulatory side but
18 certainly from my perspective as Budget Secretary, that we
19 not do it in a way that jeopardizes other revenue streams
20 that we're now enjoying from gaming activities.

21 REP. DAY: My final question is in this quest for
22 other alternative revenue sources, would you consider an
23 idea that would save local governments \$12 million a year
24 and bring to our State budget 12 or 13 million dollars,
25 would organize public notices and public information, and

1 if I would send you my legislation, would you please give
2 it just review and give me your comments?

3 SECRETARY ZOGBY: I'd be happy to take a look at
4 it.

5 REP. DAY: Thank you very much for your answers
6 today.

7 SECRETARY ZOGBY: You're welcome.

8 REP. DAY: And thank you for being here.

9 SECRETARY ZOGBY: You're welcome.

10 REP. DAY: Thank you, Mr. Chairman.

11 MAJORITY CHAIRMAN ADOLPH: Thank you,
12 Representative.

13 Representative Mike Carroll.

14 REP. CARROLL: Thank you, Mr. Chairman.
15 Mr. Secretary, good morning.

16 SECRETARY ZOGBY: Good morning, Representative.

17 REP. CARROLL: I'd like to spend my minutes
18 talking about PSERS and SERS if we could.

19 SECRETARY ZOGBY: Yes, sir.

20 REP. CARROLL: Do you share my view, Mr.
21 Secretary, that the decisions that we make in this building
22 with respect to PSERS has a direct effect on the 500 school
23 districts of our State?

24 SECRETARY ZOGBY: Yes.

25 REP. CARROLL: Okay. Seems to me that's fairly

1 obvious.

2 SECRETARY ZOGBY: Yes.

3 REP. CARROLL: And I thought I heard embedded in
4 your answer to Representative O'Neill a reference to the
5 past Administration underfunding pensions and that the
6 fiscal shambles that that created was problematic. And so,
7 you know, I look to the \$410 million tapering, you know,
8 maybe offset partially by the tobacco settlement money, the
9 \$400 million in savings. At the end of the day it seems to
10 me that those savings will result in an unfunded liability
11 in the billions of dollars, some say up to \$13 billion.
12 You may say less than that. But I think it's fair to say
13 that there will be some number of billions of dollars that
14 will be added to the unfunded liability of our Pension
15 Funds, which is problematic.

16 Can you share with me why is it good policy for
17 us to underfund our pensions at a moment in time that they
18 really are already in distress?

19 SECRETARY ZOGBY: Well, I think there's a world
20 of difference between, Representative, respectfully, what
21 the Governor is proposing and what the Administration is
22 advancing in the way of Pension reform and what was done in
23 the prior Administration, simply underfunding PSERS by
24 nearly \$4 billion over seven years. I think what you have
25 with the Governor's proposal, there is collar tapering.

1 We're suggesting about \$170 million in General Fund relief
2 this year. We net out the cost of our collar tapering
3 proposal at about \$2.2 billion.

4 Just as the General Assembly did with Act 120 in
5 2010, we're proposing to offset those costs with a reform
6 proposal that should generate, at least our preliminary
7 projections, billions of dollars more. We've been working
8 very closely with members of the House, members of the
9 Senate, on what we're terming a side-by-side hybrid Pension
10 reform proposal, that at least a preliminary costing out of
11 that proposal suggests that it will save about \$7.4 billion
12 over the next 30 years.

13 And the collar tapering, the near term General
14 Fund relief that we're seeking through a reset of the
15 collars, cost about 2.2 billion. So actually at the end of
16 the day we're looking at netting taxpayers out about \$5.2
17 billion in savings over time. In a way that, again, it's
18 not putting less money into the system transitioning to a
19 system that is less risky for Pennsylvania taxpayers. So
20 that we're not, as we are today, almost locked at the hip
21 with the market and stock market returns and the volatility
22 that that creates with not only our General Fund budget
23 but, as I'm sure you know, local school budgets who are
24 really straining under the pressure of Pension costs on
25 local budgets, local district budgets.

1 REP. CARROLL: Okay.

2 SECRETARY ZOGBY: So I think what the Governor is
3 proposing is light years from the simple underfunding that
4 was undertaken in the past.

5 REP. CARROLL: Except the underfunding was solved
6 with Act 120. And that set us on a course where we could
7 actually fund the pensions, both PSERS and SERS, in a
8 responsible way.

9 I'm baffled to understand how, you know, tapering
10 and underfunding Pension employer contributions equates to
11 reform when we're going to some sort of a hybrid program
12 and save billions of dollars. Maybe we should taper more.

13 You know, the fact of the matter is that you,
14 Mr. Secretary, before the Senate Finance Committee last
15 year talked about crushing debt and the problems that it
16 will cause for our credit rating, not just for the
17 Commonwealth but for our 500 school districts.

18 Do you discount now the problems that are on the
19 horizon with respect to the credit ratings for our school
20 districts in our Commonwealth and what cost that will
21 bring?

22 SECRETARY ZOGBY: Well, I would suggest to you,
23 Representative, first of all, we're in discussions with
24 rating agencies all the time. And what they tell us and
25 what they've been telling us for years and what is plain in

1 all of the reviews that they do on the Commonwealth's
2 general obligation debt is that pensions and Pension reform
3 is the single greatest fiscal challenge that we face as a
4 State.

5 So I would say that if you're worried about
6 downgrades -- and you're absolutely right; a downgrade in
7 the State's fiscal rating will have repercussions at a
8 local district level -- then we ought to be engaged in
9 serious Pension reform, moving this system to a less costly
10 platform that puts the taxpayers and our budget at less
11 risk than the current system affords.

12 REP. CARROLL: Okay.

13 SECRETARY ZOGBY: That's what the rating agencies
14 are looking at us to do.

15 REP. CARROLL: Okay.

16 SECRETARY ZOGBY: Real Pension reform that's
17 going to significantly change the risk profile of the
18 Commonwealth. And what they're worried about is how we're
19 going to pay these obligations over time. And if they see
20 a responsible plan, even if it includes near term collar
21 tapering, if they see a move to less risk, a move to paying
22 off our liabilities within the current window, not kicking
23 the can down the road as we talk about, I think they'll
24 look very kindly on that plan. And I think it will be
25 reflected in the ratings that we receive for our debt and

1 the ratings that school districts will receive for theirs.

2 REP. CARROLL: It's stunning to me that we're
3 somehow going to overcome a \$45 billion current liability,
4 increased by something between two and thirteen billion
5 dollars with reform with a hybrid program, while ignoring
6 the liability that exists today. I fail to see how a
7 hybrid program or some sort of 401-style program for new
8 hires affects in any real way the 50-billion-plus
9 liability.

10 SECRETARY ZOGBY: Well, I'd be happy to -- this
11 is probably not the forum for it, Representative. But I
12 would be happy to visit you and walk you through each of
13 the elements of the Governor's plan and demonstrate to you
14 why you're incorrect in that assumption.

15 And I would just say on the unfunded liability,
16 it's interesting to me the House Democratic Appropriations
17 Committee on the Governor's tapering proposal -- that's
18 last year; that's the same as this year -- talked about it
19 adding 3.2 billion in unfunded liability. This year -- I
20 guess 3.2 didn't sell too well last year -- it's up to 13.
21 I'm not quite sure how anyone arrived at that number.

22 But the fact is that we're not just looking to
23 taper the collars, put less money into the system. We're
24 talking about very significant reform that's going to
25 significantly reduce risk to taxpayers, that's going to

1 help school districts manage through what are some very
2 difficult times.

3 I think if you talk to school districts, the one
4 thing they don't want is a stay-the-course approach that's
5 going to force them to pay these hundreds of millions of
6 dollars in increases each and every year. And it's really
7 straining school budgets and putting increased pressure on
8 local property taxpayers who want some help with that.

9 REP. CARROLL: Mr. Secretary, whether it's 1
10 billion or 13 billion dollars as a result of the tapering,
11 I'm for zero billion dollars being added to the liability.
12 And the reality is that here we are in an election year and
13 now we're going to decide that tapering is a solution.

14 And, you know, I have school districts, one back
15 in Lackawanna County that declares that they will be
16 bankrupt in four years mostly because of their inability to
17 meet the Pension liability. I think PSBA has put out a
18 document that they are 496 out of our 500 school districts
19 that can't meet the Pension liability.

20 And I'll finally add, Mr. Secretary, I have
21 listened to the Governor's budget address. And his Pension
22 reform plan was essentially, the General Assembly shall do
23 something and then he will let us know whether he agrees
24 with it or not. So during his budget address this
25 February, the Governor's plan was silent. The Governor's

1 plan was, I'll take a look at Representative Grell's bill
2 and I'll take a look at Representative Tobash's bill and
3 then maybe we'll get to the finish line with some sort of a
4 plan. But I fail to hear or see any plan from the Governor
5 with respect to Pension reform. So I can't wait to hear
6 what it is.

7 SECRETARY ZOGBY: Well, as you know,
8 Representative, the Governor advanced and put forward last
9 year a very ambitious plan that included current reforms
10 for current employee benefits perspective as well as a
11 401k-style plan for future employees.

12 The General Assembly, we were not able to enact
13 that. We've been working very closely. Representative
14 Tobash and Representative Grell have been part of those
15 discussions. I think the Governor viewed it in his budget
16 address that it was premature for him to put out a very
17 detailed plan when we're in very active discussions with
18 the General Assembly on a plan designed and approach to
19 addressing our Pension challenges. And I think the
20 Governor -- instead of seeing that as a negative, I think
21 you should give him credit for working with members of the
22 General Assembly very closely on trying to come up with a
23 plan that's going to address all of these challenges.

24 And we certainly didn't want to sort of leap in
25 front of the bus, as it were, as we're designing this plan

1 in a very fluid environment. So I think when the time
2 comes, you'll see a plan presented. And I think it's going
3 to be in line with the goals and objectives that the
4 Governor has set out. And I think you're going to find as
5 well that the math works in terms of a plan that generates
6 billions more in savings than the near term cost.

7 I would agree with you. If we were simply
8 tapering the collars as the prior Administration did and
9 just putting less money into the system and doing nothing
10 else, that would be wrong. But we're not doing that.
11 We're talking about real reform, significant reforms, that
12 significantly will change the risk profile of the
13 Commonwealth, reduce risk to taxpayers, and generate
14 billions in savings.

15 REP. CARROLL: Well, Mr. Secretary, I voted yes
16 on Act 120. And it seems to me that did occur during the
17 past Administration.

18 And I will close by simply saying with respect to
19 the Governor's Pension plan, instead of getting out in
20 front of the bus, I'd prefer if he drove the bus.

21 SECRETARY ZOGBY: We are driving the bus,
22 Representative. It's the Governor who's led this
23 discussion and put it on the agenda when a lot of people
24 said that it couldn't be done. So the Governor has been
25 out there for well over a year. He put out a very

1 ambitious plan last year, as I noted. And so he has been
2 leading on this issue because he understands its importance
3 not only to the General Fund but the taxpayers and the
4 health of every school district in this Commonwealth.

5 REP. CARROLL: And that is the ultimate problem
6 that we face. We have a problem for the Commonwealth. We
7 have a problem for the 500 school districts. And that
8 problem is a Pension problem. And I fail to see how
9 underfunding the Pension that adds billions of dollars,
10 some number of billions of dollars, to our unfunded
11 liability is helpful.

12 I'll stop there, Mr. Secretary. And thank you.
13 It's something that we absolutely have to address.

14 MAJORITY CHAIRMAN ADOLPH: Thank you.
15 Representative Donna Oberlander.

16 REP. OBERLANDER: Thank you, Mr. Chairman.
17 Good morning, Secretary.

18 SECRETARY ZOGBY: Good morning.

19 REP. OBERLANDER: First I want to commend the
20 Governor on his investments in both domestic violence and
21 rape crisis programs. These are certainly programs that
22 provide an essential service to men and women in their most
23 vulnerable times.

24 SECRETARY ZOGBY: Yes.

25 REP. OBERLANDER: So I just want to say thank you

1 for that.

2 SECRETARY ZOGBY: Thank you, Representative.

3 REP. OBERLANDER: My question is that in the
4 additional funds that are being requested for this year's
5 budget for violence prevention specifically, how can we be
6 sure that they are being distributed to effective programs?
7 Are we measuring the effectiveness of those programs?

8 SECRETARY ZOGBY: I think we work very closely,
9 Representative, with the advocates in both of these areas.

10 REP. OBERLANDER: Okay.

11 SECRETARY ZOGBY: And I know that in talking to
12 them, you know, their No. 1 concern is effective delivery
13 of services for the individuals that need them. And I
14 think the Department of Public Welfare looks closely as
15 well in terms of ensuring those dollars go for their
16 intended uses. So I think the Administration, the
17 Governor, certainly shares your concerns.

18 REP. OBERLANDER: Okay.

19 SECRETARY ZOGBY: But I think, you know, these
20 have been programs that have been around for some time,
21 doing great work, as you know.

22 REP. OBERLANDER: Yes.

23 SECRETARY ZOGBY: And so I think we feel fairly
24 confident that the increased dollars that we're providing
25 here are going to go for the purposes that they are

1 intended and are going to be effectively used.

2 REP. OBERLANDER: Thank you.

3 In 2013-2014, a fairly large amount of that,
4 almost \$5 million, for violence prevention went to Penn
5 State. Why is that? What are they doing? Are they
6 providing grants?

7 SECRETARY ZOGBY: I would have to go back and
8 specifically look, Representative. I apologize. I'm just
9 not familiar with the recipient of these monies. The
10 Department is really on point in terms of driving them out.
11 But I'd certainly be willing to look at that and get back
12 to you with information.

13 REP. OBERLANDER: I would greatly appreciate
14 that.

15 SECRETARY ZOGBY: Sure.

16 REP. OBERLANDER: Because in this year's budget,
17 there's a substantial amount going to Penn State. Again, I
18 would love to have that information. If you could forward
19 it to the Chairman, that would be great.

20 SECRETARY ZOGBY: Sure.

21 REP. OBERLANDER: Thank you very much, Secretary.

22 SECRETARY ZOGBY: You're welcome.

23 REP. OBERLANDER: Thank you, Mr. Chairman.

24 MAJORITY CHAIRMAN ADOLPH: Thank you,
25 Representative.

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Representative Santarsiero.

REP. SANTARSIERO: Thank you, Mr. Chairman.

Good morning, again, Mr. Secretary.

SECRETARY ZOGBY: Good morning.

REP. SANTARSIERO: Welcome.

SECRETARY ZOGBY: Thank you.

REP. SANTARSIERO: Good to see you again.

SECRETARY ZOGBY: Thank you. Good to see you.

REP. SANTARSIERO: I'd like to follow up on your response a moment ago to Representative Carroll.

SECRETARY ZOGBY: Sure.

REP. SANTARSIERO: I just want to confirm, I think what you said, that if the Pension reform that comes out of the Legislature this year only entails tapering of the collars, you would not support that; is that correct?

SECRETARY ZOGBY: I would be greatly concerned if all we did was to put less money into the system and not enact real reforms to pay for that collar tapering.

REP. SANTARSIERO: How greatly concerned? So concerned that you would not support that?

SECRETARY ZOGBY: I would be very concerned. I think that, you know, this Governor has made our payments to the Pension system, statutorily required payments, each and every year. That's been a difficult challenge. And we are concerned about the health of these systems. That's

1 one of the primary reasons that we're engaged in reform.
2 It's not only the pressure that it's putting on our General
3 Fund and local school districts, but it's ultimately the
4 long-term sustainability of these systems.

5 REP. SANTARSIERO: Okay.

6 SECRETARY ZOGBY: And I think that it is
7 something that we need to address. We need to address it
8 in a real way. And the Governor now twice, in his budget
9 addresses last year and this year, has called on the
10 General Assembly to enact reform. So we're going to be
11 pushing and pushing quite hard this spring to do that.

12 REP. SANTARSIERO: Okay.

13 SECRETARY ZOGBY: And we very much hope and look
14 forward to support from members on both sides of the aisle
15 in addressing this very critical issue.

16 REP. SANTARSIERO: So we've gone from concerned
17 to very concerned. Does very concerned mean that the
18 Governor would not support a budget that only has tapering
19 of the collars?

20 SECRETARY ZOGBY: You're asking -- I think the
21 Governor ultimately has to address that issue. You're
22 asking where I would be. And I'm saying that I would be
23 very concerned. I think we need to have reform that pays
24 for any near term deferrals that we would make. And I
25 would very much expect that we would be doing that.

1 REP. SANTARSIERO: But you're his Budget
2 Secretary. So would your advice to him be in that
3 situation, Governor, I don't think we can do this because
4 it's not responsible?

5 SECRETARY ZOGBY: My advice to him would be that
6 we need to enact comprehensive Pension reform. And that if
7 we're going to take some near term deferrals on our
8 contributions that we have to do that hand in glove with
9 meaningful, significant reforms to the Pension system.

10 REP. SANTARSIERO: So that means if it only has
11 the tapering, then that would not be acceptable and you
12 would advise him not to accept that as part of the budget?
13 Okay. Let me move on then to other issues.

14 SECRETARY ZOGBY: Okay.

15 REP. SANTARSIERO: I'm sure I'll have colleagues
16 that will address this in more detail. You know, this
17 issue in your conversation with Representative O'Neill a
18 little while ago has come up every year. And that's the
19 issue of education funding and what this Administration has
20 cut and what it hasn't cut.

21 And all I'll say on that, Mr. Secretary, is
22 listen, you need look no further than the fact that in
23 Pennsylvania, we've lost about 20,000 jobs in public
24 education in the last three years. You need look no
25 further than the fact that in Pennsylvania, school district

1 after school district after school district across the
2 Commonwealth has had to raise property taxes in order to
3 make up for the cut in Basic Education money that they were
4 previously getting under the last Administration. So this
5 notion that somehow this has not been on this
6 Administration is just simply false.

7 And it really has had an impact. You talk about
8 school districts not wanting to stay the course. I think
9 the course they don't want to stay is the course that
10 continues to mean serious cuts in the funding that they get
11 from the State of Pennsylvania. And that's something that
12 we have to turn around. And unfortunately once again,
13 we're faced with a budget today that doesn't do that.

14 On a broader perspective, Mr. Secretary, and
15 Representative -- Chairman Markosek raised this issue
16 before -- we lag behind the national average in job growth.
17 We lag behind the national average in economic growth. We
18 are far behind in both of those statistics when it comes to
19 other states in the northeast. And it just strikes me that
20 there has to be a point at which either you or somebody
21 else in the Administration has to conclude that these
22 policies haven't worked. That \$1.2 billion and nearly I
23 think \$3 billion in corporate tax cuts, if this budget were
24 to go through, have not had the desired impact. And at the
25 same time, cutting education and investment in the future

1 hasn't worked.

2 And, you know, you said a number of us are
3 chafing -- I think was the word you used -- to increase
4 taxes. Well, we're not chafing to increase taxes on
5 Pennsylvanians because this Administration has already
6 managed to do that by pushing the tax burden down to local
7 property taxpayers. We're chafing to make our tax code in
8 Pennsylvania fair. And that means when it comes to these
9 large corporations, many of which are not Pennsylvania
10 companies, they pay their fair share.

11 If you put the capital stock and franchise tax
12 millage rate back to what it was when this Administration
13 took office, that would bring in an extra \$860 million in
14 this year alone.

15 If you actually close the Delaware loophole, not
16 the bill that was passed that really doesn't do that -- it
17 creates just as big a loophole, frankly, and lowered the
18 corporate net income tax -- you could bring in up to
19 another \$150 million. If you finally enacted a severance
20 tax on the national gas drillers, you could bring in an
21 extra \$400 million above what the current fee under Act 13
22 is bringing in. Add those numbers together and that's \$1.4
23 billion alone.

24 And there are other forms of revenue out there.
25 Like Chairman Markosek referenced the tobacco tax. These

1 are things we can do that are not broad-based tax
2 increases. They are not broad-based tax increases. We're
3 not talking about foisting that burden on ordinary
4 Pennsylvanians. We're talking about tax fairness, tax
5 fairness that will enable us to avoid these devastating
6 cuts in education, that will enable us to avoid the cuts
7 in, for example, environmental oversight and, as
8 Representative O'Brien talked about earlier, the Delaware
9 River Commission. These are things that we should be doing
10 from a policy perspective especially when it's clear that
11 the policy, the fiscal policy, of this Administration has
12 failed.

13 And so, Mr. Secretary, if I have a message I want
14 to impart to you and therefore the Governor at this point
15 is, it's time to reconsider. It's time to shift course.
16 It's time to move to a policy that is fair across the board
17 and ultimately enables us to invest in the future.

18 And, Mr. Chairman, what I'll say in my concluding
19 remarks is that to your point earlier, I'd rather be late
20 with Ed than on time with Tom. Thank you.

21 MAJORITY CHAIRMAN ADOLPH: There was not a
22 question in there. So, Charles, the Representative took
23 about eight minutes to get a nice campaign speech out
24 there. I don't think he missed anything that we're not
25 going to hear for the next six months. I'm going to allow

1 you a one-minute response and then we're going to move on.
2 I will allow the members to either ask questions or op-ed
3 here. It's an open forum. I give them a lot of leeway. I
4 just wish the questions would be not as repetitive.

5 So a quick one-minute response and then we're
6 going to move on.

7 SECRETARY ZOGBY: I guess, Mr. Chairman, I'd like
8 to address specifically the comments on the supposed cut in
9 public education. This is what I call the big lie, because
10 the reality is that you look at the budget. We're at
11 \$10.12 billion in direct State support for Basic Education
12 for our local public schools, the highest level in our
13 State's history. You look at the budget. And the facts
14 are that this Governor has put \$1.55 billion in new funds
15 into Basic Education since he took office.

16 As Representative O'Neill commented earlier, it
17 was the prior Administration that took \$500 million out of
18 Basic Education funding, State funds, and spent them
19 elsewhere. It's the last Administration that cut education
20 funding. This Governor has been working overtime to not
21 only backfill the holes that were created in Pension and
22 education funding by the prior Administration but put new
23 funds in the Basic Education. We've put new funds into
24 education programs and, as you noted, \$363 million this
25 year. So folks can repeat sort of the big lie all they

1 want. It doesn't make it true.

2 MAJORITY CHAIRMAN ADOLPH: Okay. Thank you.

3 The Chair has been remiss not to recognize
4 Representative Millard who has been with us.

5 The next question will be by Representative Seth
6 Grove.

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

8 Good to see you this morning, Secretary.

9 SECRETARY ZOGBY: Thank you.

10 REP. GROVE: I have a chart. I went over this
11 with the Secretary of Revenue. I'm going to go over it
12 with you as well.

13 SECRETARY ZOGBY: All right.

14 REP. GROVE: Since the start of the phasedown,
15 really the start of the phasedown, the capital stock and
16 franchise tax from 7.24 happened in 2003. Millage rate
17 went from 7.24 to today's .89. Now, from the 2003-2004
18 budget to today, because of the phasedown, we lost
19 millions. At the same time, corporate net income tax has
20 grown \$894 million and personal income tax grew almost \$4
21 billion.

22 How would you categorize that shift of reducing
23 capital stock franchise tax? How has that impacted
24 Pennsylvanians and the Pennsylvania business climate?

25 SECRETARY ZOGBY: Well, I think it's been a very

1 positive move for Pennsylvania and the Pennsylvania
2 business climate. I think memories are short oftentimes
3 but you reflect back. We had the highest corporate net
4 income tax in the country. We still have the highest, if
5 not the highest. And the capital stock and franchise tax
6 was a tax simply for existing.

7 REP. GROVE: Okay.

8 SECRETARY ZOGBY: You know, you hear a lot of
9 talk in this building about jobs and the need to grow jobs
10 and grow opportunities. And I think we all believe that an
11 individual -- a family that has an income earner that's
12 supporting that family, that's what we want for all
13 Pennsylvanians. And yet we keep throwing more and more
14 taxes, regulations, on businesses.

15 And we know. We've heard from businesses in
16 other states. You know, we'd love to be in Pennsylvania.
17 You've got the highest CNI in the country, maybe in the
18 world, maybe not a place that we want to put a new business
19 or bring jobs to.

20 And so I think it's been recognized by Governors,
21 Democrat and Republican, that eliminating the capital stock
22 and franchise tax, which we're on the path to do, can be
23 and has been one of the most significant steps that we can
24 do to making Pennsylvania a more hospitable environment to
25 do business and grow jobs.

1 And that's really what it's about. People talk
2 about tax cuts for corporations. It's about creating an
3 environment here where companies can create jobs and expand
4 opportunities for Pennsylvania and Pennsylvania families.
5 That's what it's about. It's not about the businesses.
6 It's about the families that you and others and the
7 Governor want to help, giving them opportunities, their
8 children opportunities, so they can stay and grow their
9 families here in the Commonwealth.

10 REP. GROVE: And obviously if you haven't been
11 growing jobs and increasing wages for families in
12 Pennsylvania, our personal income taxes would be on the
13 decline. You know, data here shows between 2011-2012,
14 2012-2013, we had a \$400 million increase in personal
15 income tax, which means people are making more. The
16 economy is growing.

17 That's a significant amount of money, \$400
18 million.

19 SECRETARY ZOGBY: Yes, sir.

20 REP. GROVE: What's happening to that money? We
21 are growing revenues without raising taxes because we're
22 working on the climate of Pennsylvania to create jobs not
23 through taxes, not through spend policies, but by good
24 fiscal management. Where's the money going in our budget?

25 SECRETARY ZOGBY: Well, the money is going -- 40

1 percent is in basic and Higher Education and about 39
2 percent in medical assistance. And that largely supports a
3 very fragile population across the Commonwealth.

4 REP. GROVE: Okay.

5 SECRETARY ZOGBY: It's going into things like
6 rape crisis and domestic violence.

7 REP. GROVE: Okay.

8 SECRETARY ZOGBY: We have a \$241 million Ready to
9 Learn Block Grant in Basic Education.

10 REP. GROVE: Okay.

11 SECRETARY ZOGBY: It's going -- really bottom
12 line, it's going for the things that we all agree are
13 important investments, important supports for the people of
14 Pennsylvania.

15 REP. GROVE: And if we don't start looking at the
16 solvency of Medicaid, which obviously the Administration
17 put forth the Healthy PA waiver, which I believe was meant
18 as a personal test yesterday by the Federal Administration,
19 correct?

20 SECRETARY ZOGBY: Yes, sir.

21 REP. GROVE: You know, without those reforms we
22 have just huge cost increases on the out year of Medicaid.
23 Our Pension, you know, you said how much money flows into
24 our Pension system that's not being re-allocated to the
25 classroom or education or environmental protection or

1 anything else.

2 Can you make a comment on those two, how costly
3 those two moving forward are for our Commonwealth?

4 SECRETARY ZOGBY: Absolutely. You know, medical
5 assistance I believe is about 73, 75 percent, somewhere in
6 that zone, of the DPW budget.

7 REP. GROVE: Okay.

8 SECRETARY ZOGBY: And what the Governor has done,
9 as you alluded to, is instead of simply moving people into
10 a broken Medicaid system, his Healthy PA waiver makes some
11 very significant reforms in terms of how we approach health
12 insurance for about a half million Pennsylvanians.

13 REP. GROVE: Okay.

14 SECRETARY ZOGBY: And it's actually the
15 Governor's reforms through Healthy PA that are generating
16 savings in this budget of 125 million. The Affordable Care
17 Act, aka Obamacare, is actually driving an increase in
18 spending, not only in DPW's budget but the State, as an
19 employer. We're seeing about nearly \$80 million in new
20 costs to bring our healthcare plans into compliance with
21 the ACA.

22 REP. GROVE: Okay.

23 SECRETARY ZOGBY: So it's making the kinds of
24 reforms in Medicaid that the Governor is advancing that's
25 actually going to help us reduce the spending and, again,

1 free up those funds to put elsewhere in the budget.

2 And again, I think you mentioned pensions. We
3 all know the strain that pensions are putting on our State
4 budget, a \$600 million increase without reform this year.
5 It's putting a strain certainly on local school district
6 budgets, forcing cuts, districts to look at cuts in
7 programs or higher property taxes.

8 REP. GROVE: Okay.

9 SECRETARY ZOGBY: And it's really only through
10 Pension reform that we're going to be able to not only
11 stabilize this program for the State and local school
12 districts but really put it on a less risky platform going
13 forward so that there's less risk exposure for taxpayers,
14 for our budget and local school district budgets.

15 REP. GROVE: Great comments. There's one aspect
16 of the budget I am worried about. And that's the Office of
17 Inspector General. I'm very worried about reduction in
18 positions for welfare fraud inspectors. It's about, I
19 believe, a 2.8 percent reduction. I believe that's
20 something that's critical to maintaining the integrity of
21 our system and weeding out fraud and overpayments and such.
22 So I want to work with the Administration, obviously the
23 Legislature, moving forward to correct that.

24 SECRETARY ZOGBY: Sure.

25 REP. GROVE: I appreciate the new grants for the

1 Child of Advocacy Centers. They do a great job. They are
2 the forefront of investigating and bringing child
3 perpetrators to justice. So I want to applaud the
4 Administration taking leadership on that.

5 SECRETARY ZOGBY: Thank you.

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

7 THE COURT: Thank you, Representative.

8 Chairman Markosek for a brief comment.

9 MINORITY CHAIRMAN MARKOSEK: Thank you, Chairman
10 Adolph.

11 Mr. Secretary, I know you and I know each other.
12 I know you're a good guy.

13 SECRETARY ZOGBY: Thank you, Mr. Chairman.

14 MINORITY CHAIRMAN MARKOSEK: And the issues are
15 running -- are very important and the passions are running
16 high.

17 SECRETARY ZOGBY: Yes.

18 MINORITY CHAIRMAN MARKOSEK: But I just wanted to
19 make sure -- and I don't think you meant it this way. But
20 none of our members, certainly on our side and I don't
21 think the other side either, lie or are liars. So I think
22 we need to make sure that -- I think that might have been a
23 figure of speech on your end. I don't want to speak for
24 you. But, you know, to the extent that people hear that,
25 we are not liars. We have our set of numbers. You may

1 have yours. We can disagree.

2 Thank you, Mr. Chairman, for allowing me to throw
3 that out. Thank you.

4 MAJORITY CHAIRMAN ADOLPH: Thank you, Chairman
5 Markosek.

6 Representative Bradford.

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

8 Thank you, Secretary.

9 SECRETARY ZOGBY: Thank you, Representative.

10 REP. BRADFORD: Based on the admonishment of the
11 two Chairmen, I'm going to try to keep it to the numbers
12 and see where that takes us.

13 SECRETARY ZOGBY: Sure.

14 REP. BRADFORD: The issue of education funding --
15 and I've heard both sides. We've had this conversation
16 several times. I want to reestablish kind of where I think
17 you are and where I think we believe the case is.

18 SECRETARY ZOGBY: Okay.

19 REP. BRADFORD: In 2011 you were asked, has there
20 been education -- I want to read it you directly actually.
21 Do you think there's been cuts in education beyond stimulus
22 funding? At that time you said, yes, there has.

23 Is that still an accurate assessment of where
24 we're at?

25 SECRETARY ZOGBY: Yes. And I think what I was

1 referring to back then, Representative, is the fact that,
2 again, the cuts that were made in the prior Administration,
3 the taking of \$500 million in State funds out of the Basic
4 Education funding line item, that we were moving other
5 education funds into that line item to ensure that those
6 supports were there for local school districts.

7 And so I think what we're --

8 REP. BRADFORD: Okay. But do you --

9 SECRETARY ZOGBY: -- talking about there is,
10 again, a focus on education priorities.

11 REP. BRADFORD: Time is limited.

12 SECRETARY ZOGBY: Yes, sir.

13 REP. BRADFORD: Let me ask you this.

14 SECRETARY ZOGBY: Yes, sir.

15 REP. BRADFORD: So you're saying the prior
16 Administration cut education funding, the Corbett
17 Administration did not? Is that what you're saying?

18 SECRETARY ZOGBY: I think, again, if you look at
19 the records, since the Governor took office, another \$1.55
20 billion in education funding since he took office and,
21 again, at record levels at 10.12 billion in direct State
22 support.

23 REP. BRADFORD: I'm going to stick just with the
24 numbers and the quotes.

25 SECRETARY ZOGBY: As am I.

1 REP. BRADFORD: Let me throw two of them out to
2 you.

3 SECRETARY ZOGBY: Okay.

4 REP. BRADFORD: The late Pete DeCoursey had asked
5 the last time we had this dialogue -- he wrote an article.

6 SECRETARY ZOGBY: Yes.

7 REP. BRADFORD: And he asked for the Governor's
8 quote. He responded, we reduced education, if you take a
9 look at it as a whole, but it wasn't 800 million. And if
10 you listen to my words, I was talking about the Basic
11 Education funding formula. He said -- he also referred to
12 the Basic Education subsidy -- people outside say we cut
13 the formula. We have not. In fact, we have increased the
14 formula, speaking of the Basic Education formula, but the
15 reductions in overall State funding for public K-12
16 education, Corbett said, motivated him to a Block Grant
17 program for State education funding.

18 He said that means that all of the State funding
19 will go to school districts and will be able to be used,
20 the money, in the ways that they see necessary,
21 particularly the savings in one area and needs in another.
22 And in the old system, they wouldn't be able to move money
23 around. We're giving them the flexibility because we are
24 reducing State education spending overall. In that
25 respect, in these other areas, we have reduced State

1 funding to schools, he said.

2 Now, based on that, I'm going to ask you several
3 major drivers of funds to our school district.

4 SECRETARY ZOGBY: Okay.

5 REP. BRADFORD: Tell me what funding level
6 they're at this year, if you would, Secretary.

7 SECRETARY ZOGBY: Okay.

8 REP. BRADFORD: Dual enrollment programs.

9 SECRETARY ZOGBY: That is not in the budget.

10 REP. BRADFORD: School Improvement Grants.

11 SECRETARY ZOGBY: Likewise, not in the budget.

12 REP. BRADFORD: Education assistance programs.

13 SECRETARY ZOGBY: That is not in the budget.

14 REP. BRADFORD: Science: It's Elementary.

15 SECRETARY ZOGBY: That's also not in the budget.

16 REP. BRADFORD: Reimbursement for charter
17 schools.

18 SECRETARY ZOGBY: Not in the budget.

19 REP. BRADFORD: Okay. Accountability Block
20 Grant.

21 SECRETARY ZOGBY: That is \$100 million this year,
22 coupled with the \$241 million in the Ready To Learn Block
23 Grant.

24 REP. BRADFORD: What was the Accountability Block
25 Grant pre-stimulus?

1 SECRETARY ZOGBY: I'd have to go back and look at
2 that, Representative.

3 REP. BRADFORD: If I told you --

4 SECRETARY ZOGBY: You may know that off the top
5 of your head, but I don't.

6 REP. BRADFORD: I'm not the Budget Secretary. If
7 you -- I think it was somewhere in the neighborhood of \$260
8 million.

9 Secretary, I know there's a tendency to count
10 Pension funding. And Pension funding in Pennsylvania, as
11 we know, has become compounded with past debt because of
12 doing things like what I believe this Governor is proposing
13 this year, which is reamortizing debt. No longer is the
14 Pension payment about the cost of today's teachers. It's
15 compounded by the cost of not making Pension payments for
16 yesterday's teachers.

17 We shortchange today's kids when we don't make
18 today's Pension payments. When we don't count Pension
19 payments, the numbers show us pretty clearly, if you count
20 all school funding line items, including the ones that you
21 just conceded are zeroed out, education funding is lower
22 today, even with the Governor's proposals, than it was in
23 the final year of the Rendell -- or in the first year
24 pre-stimulus.

25 SECRETARY ZOGBY: Representative --

1 REP. BRADFORD: Is that a fair assessment?

2 SECRETARY ZOGBY: Well, I don't think it's fair
3 to not count Pension payments. How is it that a
4 significant cost of labor in an industry that is highly
5 labor intensive, with teachers and principals and other
6 support staff, how you don't count the benefit cost of
7 those individuals is just mystifying to me and certainly
8 inconsistent with what we do in every other area of
9 government and what's done in every other area of business.

10 So it seems that only in education somehow the
11 full labor cost of delivering the services, that that one
12 aspect shouldn't be counted.

13 REP. BRADFORD: Secretary, apples to apples in
14 terms of educational instruction money, we're spending less
15 now than we did pre-stimulus. You've conceded that the
16 Pension costs are dramatically escalating and we need
17 reform. And you'd be shocked to know, Secretary, many on
18 our side agree with you.

19 SECRETARY ZOGBY: Right.

20 REP. BRADFORD: But let me ask you this: dollars
21 for kids, they are lower now than they were pre-stimulus,
22 aren't they?

23 SECRETARY ZOGBY: Representative, the --

24 REP. BRADFORD: The only way you get to your
25 number is by counting Pension.

1 SECRETARY ZOGBY: I don't believe that's the
2 case, Representative. I think we're putting more money
3 into our public schools in support of public schools than
4 we ever have. And the facts are that the Governor has put
5 \$1.55 billion of additional funds into Basic Education
6 since he took office.

7 REP. BRADFORD: Because you're counting Pension
8 contributions. But that's okay. You mentioned public
9 schools. And I want to give you another quote of the
10 Governor regarding public schools.

11 We're reducing the funding of education because
12 we do not have the money. It is that simple, the Governor
13 said. That was him talking about Higher Ed. Did the
14 Governor cut Higher Education in Pennsylvania?

15 SECRETARY ZOGBY: We did reduce Higher Education
16 funding in past budgets.

17 REP. BRADFORD: Governor Corbett's budget?

18 SECRETARY ZOGBY: Governor Corbett's budget.
19 We've had to reduce support for Higher Education in prior
20 years. We've level funded the last several years.

21 REP. BRADFORD: You're putting --

22 SECRETARY ZOGBY: We are putting more money into
23 Higher Education Assistance Grants through PHEAA. We've
24 been able to provide support there. We have an additional
25 \$25 million in grants for middle-income families in this

1 budget. We have put more support in for Higher Ed. We did
2 have a budget though that did trim Higher Education
3 funding.

4 REP. BRADFORD: And you said flat funding since.
5 So there was a cut. There was never a restoration. So
6 that cut has been compounded in subsequent budgets.

7 SECRETARY ZOGBY: Well, again, Representative, as
8 I suggested earlier, I think the Governor has been trying
9 to make State Government live within its means. And we'd
10 all --

11 REP. BRADFORD: Secretary --

12 SECRETARY ZOGBY: -- like to put more money into
13 many things. And we've been able to do --

14 REP. BRADFORD: Secretary --

15 SECRETARY ZOGBY: -- that. Unfortunately, we
16 have not had the resources to, again, make up for some of
17 the holes that were dug in the prior Administration,
18 meaning all the --

19 REP. BRADFORD: Secretary --

20 SECRETARY ZOGBY: -- backfill.

21 REP. BRADFORD: Secretary, the Governor has been
22 in office for four years. And I realize it is convenient
23 to blame the prior Administration. And we can go through
24 that.

25 But the numbers show one simple fact. The quotes

1 even -- it's been conceded before. The Governor said in
2 last year's budget address, it was an urban legend. Every
3 article that's been written on it. Every school teacher,
4 every parent, every member of a PTA, every school board
5 member would tell you that the Governor has made these
6 cuts.

7 And then for every year -- and especially an
8 election year to have to compound this by going through
9 this fallacy, this fiction. And again, I'm not in any way
10 decrying anyone's character. I'm saying the numbers just
11 don't bear out the result that you're getting to. The
12 reality is we've got 20,000 fewer teachers. Property taxes
13 have gone up.

14 The Administration has sat here and defended
15 larger class sizes as just the cost of doing business in
16 this new economy. This economy is not working for
17 Pennsylvania. The policies have failed.

18 And, Secretary, I know you say the revenues
19 aren't there. The Governor conceded as much when he said
20 that's why he was cutting Higher Ed. But when you have
21 other members who go down a list of corporate tax breaks
22 that this Administration has enacted, it's hard to
23 reconcile how we have money for tax breaks that haven't
24 produced the jobs that were promised but we don't have
25 money for kids in our classrooms today.

1 And it seems that it's just bad public policy to
2 double-down on the same failed policies that have brought
3 us stagnant job growth, not the kind of robust job growth
4 we're getting, frankly, in our neighbor states. But we're
5 not only not getting the job growth, we're not investing in
6 our future.

7 Secretary, I'll leave it with that. I just
8 disagree very strongly, not only with the numbers -- and I
9 think the record is very clear at this point. I think,
10 frankly, that's the Governor's legacy at this point. It's
11 devastating cuts to education at the Higher Education and
12 K-12 level. I think we've got to stop belaboring the point
13 and move forward for Pennsylvania.

14 Thank you so much, Secretary.

15 MAJORITY CHAIRMAN ADOLPH: Mr. Secretary, I don't
16 think you have to answer that statement. I think it's been
17 asked and I think you've responded to it two or three times
18 today.

19 SECRETARY ZOGBY: At least. Thank you,
20 Mr. Chairman.

21 MAJORITY CHAIRMAN ADOLPH: Represent Gordon
22 Denlinger.

23 REP. DENLINGER: Thank you, Mr. Chairman.
24 Good morning, Secretary.

25 SECRETARY ZOGBY: Good morning.

1 REP. DENLINGER: Good to have you with us.

2 SECRETARY ZOGBY: Thank you.

3 REP. DENLINGER: I'd like to go back after an
4 issue that Representative Grove brought up a few minutes
5 ago.

6 SECRETARY ZOGBY: Sure.

7 REP. DENLINGER: And that is, of course, the
8 Medicaid expansion issue. And last year I authored and
9 invited colleagues to join me in sending a message of
10 support to the Governor along the lines of the concerns
11 about the impact in the out years fiscally to
12 Pennsylvania's budget future. And, of course, over 40
13 members joined with me in sending that strong message to
14 the Governor.

15 I do applaud the Governor. I think he is
16 thinking outside of the box on the issue with the Healthy
17 PA Initiative. It seems innovative. And obviously we're
18 waiting for some answers on that with regard to Federal
19 Government.

20 SECRETARY ZOGBY: Yes, sir.

21 REP. DENLINGER: But I'm wondering -- and I
22 recognize there's some savings and some cost here in the
23 current period, some savings next budget year. But the
24 concern has always been the out years and what this is
25 going to do to us 10 and 15 years out. Because obviously

1 there's a decrease in Federal funding over the years,
2 getting down to, I think, 90 percent in 2020, different
3 estimates on cost.

4 SECRETARY ZOGBY: Okay.

5 REP. DENLINGER: And we are having a theoretical
6 discussion here, obviously, about well into the future
7 without knowing what economic realities will be, revenues
8 to State and so forth. But there is somewhat of a deep
9 underlying concern about what we're doing to our structure,
10 budgetary structure, in the State on this issue.

11 Obviously, we all get the moral equation of
12 trying to help more Pennsylvanians to be covered and lead
13 healthier lives. It's not a discussion about that.

14 SECRETARY ZOGBY: Sure.

15 REP. DENLINGER: But the question is, can we pay
16 the freight on down the road and what's it going to do to
17 our tax balance structure budgetarily?

18 SECRETARY ZOGBY: I think you point to a very
19 important issue, Representative.

20 REP. DENLINGER: Thank you.

21 SECRETARY ZOGBY: You know, as I noted before,
22 DPW, about 39 percent of our budget, medical assistance
23 within DPW is 75 percent or so of the entire DPW budget.

24 REP. DENLINGER: Okay.

25 SECRETARY ZOGBY: You know, we've had promises

1 from the Federal Government in terms of the share of the
2 burden, if you will, that they'll pay. I think Special
3 Education is a prime example where when the IDEA Law,
4 Individuals Disabilities was enacted, the Federal
5 Government committed to paying 40 percent. And today
6 they're picking up 17 percent.

7 And we all know what that's meant in terms of the
8 General Fund budget, local school district budgets having
9 to step in and fill that breach. And so, you know, 90
10 percent into the future and you wonder, you know, how the
11 Federal Government is going to be able to do that when
12 we're just straining under trillion-dollar deficits and
13 budgets in Washington that aren't balanced and haven't been
14 balanced in, it seems, decades.

15 So it is a concern. And I think one of the
16 things that the Governor has put forward is that, you know,
17 if the Federal Government doesn't keep its commitment here
18 -- and I don't know; you know, none of us can see 10, 15
19 years down the road, right?

20 REP. DENLINGER: Right.

21 SECRETARY ZOGBY: -- that we have an escape
22 hatch, if you will, that simply isn't going to, like we've
23 seen in the past with other programs, transfer the burden
24 to Pennsylvania taxpayers. And really it's a key part of
25 the Governor's Healthy PA reforms that we not only provide

1 needed coverage to Pennsylvanians but that we do it in a
2 way that is sustainable over the long term for Pennsylvania
3 taxpayers who are going to be asked to support.

4 REP. DENLINGER: Very good. Well, I do continue
5 to express that concern, that in the range of policy
6 options at the Federal level when it's a decision between
7 cutting Social Security, you know, cutting those basic
8 subsidies to our citizens, versus sending a letter to
9 Pennsylvania, oh, by the way, we're going to cut from 90
10 percent down to 85, 80, 75, who knows, it becomes a very
11 easy decision, less politically unpalatable to just let
12 Pennsylvania know, hey, we're going to short fund you.
13 And, oh, by the way, PA, good luck making up the
14 difference.

15 SECRETARY ZOGBY: And a case in point,
16 Representative, this year in the budget, we're having to
17 deal with a change in what's known as the FMAP, our Federal
18 match for Medical Assistance. And, you know, in a national
19 relative scale, Pennsylvania was deemed wealthier than its
20 sister states.

21 REP. DENLINGER: Okay.

22 SECRETARY ZOGBY: And the budget impact was a
23 loss of \$340 million in Federal support that we've had to
24 plug because we've lost those funds. So imagine that
25 happening on a scale of billions. It would certainly be a

1 cause for serious concern.

2 REP. DENLINGER: Very good. Thank you.

3 SECRETARY ZOGBY: You're welcome.

4 REP. DENLINGER: Thank you, Mr. Chairman.

5 MAJORITY CHAIRMAN ADOLPH: Thank you,
6 Representative.

7 I'd like to announce Representative Mike Tobash,
8 who has joined us.

9 And the next question will be by Representative
10 Dean.

11 REP. DEAN: Thank you, Mr. Chairman.

12 Good morning, Mr. Secretary.

13 SECRETARY ZOGBY: Good morning.

14 REP. DEAN: Good to see you again.

15 SECRETARY ZOGBY: Thank you.

16 REP. DEAN: How are you?

17 SECRETARY ZOGBY: Good.

18 REP. DEAN: Last year we had a robust
19 conversation, just like we're having today, about your
20 budget, about our Governor's proposed budget and how
21 budgets reveal priorities.

22 SECRETARY ZOGBY: Yes.

23 REP. DEAN: And so that's really the framework
24 that I'd like to talk about, really that book of numbers
25 and the things that we've all seen cross our desk. And the

1 speech that we heard in February really is a framework of
2 priorities. So those are some of the things that I want to
3 think about and challenge.

4 SECRETARY ZOGBY: Okay.

5 REP. DEAN: To start, for clarification sake,
6 you're opening statement, one of your opening statements,
7 was that you're proud that we are not asking more of
8 Pennsylvania families. We're not asking for more dollars
9 from Pennsylvania families.

10 But isn't it true we actually are? Because when
11 we underfund education, we are asking and forcing school
12 districts to increase the tax burden on the property tax
13 owners. So right there we are increasing the burden and
14 asking more from their pocketbooks. Isn't that so?

15 SECRETARY ZOGBY: I would disagree with that,
16 Representative. I think, you know, again, we put
17 substantial new funds into Basic Education in the
18 Commonwealth. The Governor is tackling I think what many
19 school districts believe is the No. 1 challenge that they
20 face in their budgets with Pension reform.

21 I think, you know, one of the frustrating things
22 to me is the fact that, you know, we don't control local
23 school budgets. I can remember the first year trying to
24 close that \$4.2 billion deficit. And the fact that, you
25 know, even as we were increasing supports in areas, local

1 school districts were handing out three-, four-year
2 contracts with 5, 6 percent raises. If I give you 3
3 percent and you go out and spend it at 6 percent, am I
4 underfunding you?

5 We're providing supports. But it's recognizing
6 that, again, for better or for worse, we've created sort of
7 a blended-finance system here in Pennsylvania, State
8 support coupled with local support. And yet we only
9 control our budgets. We don't control local school
10 district budgets.

11 So they have to make -- local school boards,
12 directors, superintendents, they have to make choices, as
13 the Governor does. I think from the Governor's standpoint,
14 again, his commitment was to not raise taxes on
15 Pennsylvania families, to make Harrisburg's State budget
16 live within its means and to bring spending inline with
17 revenues.

18 And I think the Governor is very proud of the
19 fact that we've had four budgets that have been able to do
20 that and that we've done it on time as well.

21 REP. DEAN: But let's be clear. State support
22 for our local schools is on a downward decline.

23 SECRETARY ZOGBY: That's just not true,
24 Representative.

25 REP. DEAN: Well, it is. If you take a look at

1 the trends over the last 20, 30 years. I'm not blaming
2 just this Governor. But this Governor owns these four
3 years and the next year to come. The State support for
4 Basic Education is flat funded this year by the Governor.

5 We are at a point of about 36 percent State
6 support versus the local support. If you take a look at
7 Higher Ed, the PASSHE system gets only 27 percent support.
8 And if you take a look at the State related, they get 13
9 percent support. This trend is downward.

10 My second point on not asking more of
11 Pennsylvania families simply isn't true. When you take a
12 look at the transportation package that -- I'm very proud
13 of. I'm so proud that in a bipartisan way, we passed real
14 investment, serious investment, in our infrastructure. But
15 that will add to the burden for Pennsylvania taxpayers.
16 That's just one clarification.

17 Another clarification -- something I didn't
18 understand. How could you say that the Affordable Care Act
19 does not offer Pennsylvania any savings? If you take a
20 look at your own waiver application, we are taking
21 advantage of Section 1902 under the Affordable Care Act in
22 order to get coverage for the MAUD recipients and also the
23 general assistance recipients.

24 So that \$125 million that your budget assumes,
25 115 million of it is specifically because of the law; isn't

1 that correct?

2 SECRETARY ZOGBY: Well, again, I think if you
3 look at Healthy PA, the Affordable Care Act, at least by my
4 budget numbers, this year is going to cost us nearly \$219
5 million. And it's through the benefit reforms, the other
6 reforms, that are in the Governor's Healthy PA waiver that
7 we're actually able to generate \$125 million in savings.

8 You know, nobody else talks about the added
9 administrative burden that we have. The fact that we're
10 going to have another 700-plus individuals in the
11 Department of Public Welfare to implement the Affordable
12 Care Act. No one counts, for instance, the \$79 million
13 more that we're going to spend as a Commonwealth to bring
14 our own healthcare plans inline with the Affordable Care
15 Act.

16 The bottom line is that the Affordable Care Act
17 itself is costing us more money. It's only through the
18 Governor's Healthy PA -- the reforms in the Healthy PA
19 waiver that we're actually generating savings to offset
20 those costs.

21 REP. DEAN: And I think people who have been a
22 part of these hearings know that I'm very disappointed that
23 the Governor did not opt-in to Medicaid expansion.

24 But just to throw more numbers at you -- and then
25 I want to go away from the numbers and talk about the human

1 cost.

2 SECRETARY ZOGBY: Okay.

3 REP. DEAN: But we're actually enjoying \$413
4 million saved from 2010 to June of 2013 under the
5 Affordable Care Act, rebates in the area of \$339 million.
6 So we can do this. There's costs, there's savings, there's
7 costs, there's savings.

8 I'd really like to talk about the 500,000
9 Pennsylvanians who remain in the cold this very cold winter
10 because the Governor has said, wait. Wait while I
11 negotiate. Wait for your turn to go to the doctor. Wait
12 for you to become healthier, to be part of a healthier
13 workforce. And let's wait on the economic development that
14 would surround that.

15 In your conversations and in your planning for
16 the budget, was there ever a consideration that why don't
17 we opt-in now, capture those Federal dollars to the tune of
18 \$7 million a day that we're forfeiting, and pursue our
19 waiver application at the same time so people aren't
20 waiting in the cold, hardworking, poor people who cannot
21 afford coverage?

22 I'll give you an example of a single person that
23 I think is very typical. I really hate that when we talk
24 about Medicaid expansion, we drain the humanity out of it.
25 We're talking about people who are cobbling together work.

1 One woman I met, very typical of the population that we're
2 talking about that are remaining in the cold right now,
3 she's a home health care worker. She cobbles together
4 work. She's about my age. She suffers from diabetes. She
5 can't manage her diabetes because she can't afford to go to
6 the doctor. She can't afford the testing strips, and she
7 can't afford the medication.

8 She has been told to wait. And the Governor
9 says, you've got to do a proof of work, 12 proofs of work
10 per month. This woman is working as best she can. And
11 guess what? She'd be healthier if we could get her
12 coverage now. And then she'd be more productive and
13 working more.

14 So why is it that the Governor has asked that
15 woman and 499,000 like her to wait another year?

16 SECRETARY ZOGBY: Well, look, I think the
17 Governor -- no one should mistake his approach here for a
18 lack of caring for these individuals. The Governor cares
19 very deeply and is very supportive of ensuring that
20 Pennsylvanians have access to quality, affordable health
21 care.

22 He also has a responsibility as Governor, though,
23 to make sure that it's done in a way that's sustainable,
24 not only just for today but for the long term and
25 sustainable not only for those individuals but for

1 Pennsylvania taxpayers who are going to be asked to foot
2 the bill here.

3 So the Governor has gone through a very
4 deliberative process. We're looking at implementation at
5 the beginning of 2015 and doing it in a way that's going to
6 ensure the efficacy of this program, it's long-term
7 sustainability, in bringing to the program needed reforms,
8 benefit reforms, things like work-search requirements, that
9 the Governor believes should be part and parcel of any
10 approach.

11 The President himself called Medicaid a broken
12 system. And so to me, I just have to scratch my head as to
13 why we'd want to put a half million new people into what is
14 undeniably a broken system and one, frankly, that is
15 unsustainable if just simply left unchecked without
16 reforms. So I think that's the priority for the Governor.

17 And again, giving these individuals needed
18 coverage but in a way that is going to be there for the
19 long term, again assuming that the Federal Government meets
20 its obligations and responsibilities in helping fund this
21 program.

22 REP. DEAN: Respectfully I think the woman I'm
23 talking about, Patricia, isn't caring about the
24 sustainability. She's a human being that would like to go
25 to the doctor now. So that I do not understand,

1 sustainability. We have three years -- well, we did have
2 the opportunity -- of 100 percent Federal dollars, three
3 years. We're going to be down to two if the Governor can
4 get this thing passed.

5 SECRETARY ZOGBY: Representative, I think it's
6 fair to say that the rollout of the ACA has probably been
7 the biggest disaster in modern times.

8 REP. DEAN: The computer rollout was a disaster.

9 SECRETARY ZOGBY: Government programs.

10 REP. DEAN: You're right.

11 SECRETARY ZOGBY: We're seeing a loss of jobs.
12 We're seeing more incentives for folks not to work. And as
13 we're seeing from our budget, hundreds of millions of
14 dollars in new costs that we're going to have to bear as a
15 Commonwealth, as taxpayers. So I think the Governor's
16 approach of doing this deliberately, doing it in a way
17 that's long sustainable for taxpayers, that's what we need
18 to focus on.

19 REP. DEAN: One further question.

20 MAJORITY CHAIRMAN ADOLPH: Excuse me,
21 Mr. Secretary.

22 We're well over ten minutes, Representative. And
23 I'm trying to keep to schedule.

24 REP. DEAN: Will there be a Round 2?

25 MAJORITY CHAIRMAN ADOLPH: We'll see if we can

1 get everybody done. Your cooperation would be fine.

2 We will now move to Representative Jim
3 Christiana.

4 REP. CHRISTIANA: Thank you, Mr. Chairman.
5 Good morning, Secretary.

6 SECRETARY ZOGBY: Good morning.

7 REP. CHRISTIANA: Thank you for being here.

8 SECRETARY ZOGBY: You're welcome.

9 REP. CHRISTIANA: First of all, Mr. Secretary, I
10 have a request. If you could please arrange over the next
11 couple of weeks a legislative field trip to the West
12 Virginia/Pennsylvania border, I think it would be very
13 helpful for some members who have never stepped foot on a
14 well pad to see the competitive environment that is
15 associated in that region. I think the same members that
16 have some reckless economic policies as it relates to
17 energy independence and the natural gas industry in
18 Pennsylvania is pretty frightening.

19 What they must not understand is that we are in
20 competition with our border states, in Ohio and West
21 Virginia. We're also in competition with other countries
22 and other states within the United States.

23 SECRETARY ZOGBY: Yes.

24 REP. CHRISTIANA: What they must not understand
25 is that the rigs that are in Greene County and Washington

1 County and Beaver County that are near the West Virginia
2 border are here for a reason, Mr. Secretary.

3 SECRETARY ZOGBY: Yes.

4 REP. CHRISTIANA: It's because we have a
5 competitive advantage. The same severance tax they keep
6 talking about, West Virginia has that. And that's why
7 those rigs that are on the border are on the Pennsylvania
8 side of the border. There's an economic reason they are
9 here.

10 SECRETARY ZOGBY: Yes.

11 REP. CHRISTIANA: This notion that just slapping
12 a severance tax on top of this industry will create a new
13 \$400 million is -- and I wouldn't use the L word --
14 reckless in Mickey Mouse arithmetic. It's not real. We
15 may be fibbing to our constituents if we tell them that a
16 severance tax means \$400 million on top of the impact fee.
17 It's not real.

18 As you know, Mr. Secretary, there are
19 ramifications for tax policy here in Harrisburg that
20 clearly, when they're talking mathematics like that and
21 economics like that, they must not understand.

22 The production levels will not stay the same in
23 Pennsylvania. The numbers they want to use to make up that
24 Mickey Mouse math will not stay the same if we put a
25 severance tax in place. Production won't stay the same.

1 We've lost rigs to Ohio because Ohio has a more
2 competitive severance tax. And with that reckless policy,
3 we'll be definitely seeing lower production levels in the
4 years to come. And I think the impact fee has made
5 significant investments.

6 We read about it today in the Tribune Review, a
7 school district with 100,000 extra dollars to invest in
8 their kids because this industry was here. We continue to
9 hear about the impact fee dollars that are going to those
10 being affected by drilling.

11 And the same people that are for a severance tax
12 -- let's be clear of what their motives have been. They've
13 been pretty loud. The motives for a severance tax is to
14 punish that industry, to force that industry to leave.
15 There are those out there in certain groups throughout the
16 State that want those companies to leave Pennsylvania. So
17 they want to tax them to extinction.

18 The same people that are saying every single day,
19 hearing after hearing, that we need a severance tax are the
20 ones that want to take the impact fee dollars that are
21 going to the areas affected by drilling, send the money to
22 Harrisburg so that it can end up in areas that aren't
23 affected by drilling.

24 We've seen that game under the last
25 Administration. And I'm thankful that this Administration

1 hasn't played the tax-and-spend game, the haves and the
2 have-nots. Let's send all the money to Harrisburg and
3 let's see who has the most political muscle at budget time
4 to get it. The impact fee is working.

5 And, Mr. Secretary, if we could, because I know
6 you have a passion for education, talk about this graph
7 right here.

8 SECRETARY ZOGBY: Okay.

9 REP. CHRISTIANA: The idea that we've talked
10 about quite a bit, that in 2008-2009, Governor Rendell's
11 budget had \$9.6 billion in education, Basic Education. The
12 next year it went down to 9.2. The next year it went down
13 to 8.9. Over that time, \$1.1 billion syphoned out of the
14 Basic Education, backfilled by Federal stimulus dollars,
15 and redirected to other parts of the budget. And now we're
16 hearing that this Governor was the one that cut a billion
17 dollars. That \$1.1 billion is factually cut from State
18 funding.

19 Can you comment as to where we were then even
20 when he left, given the Federal stimulus money that they
21 expected us to fill the year after he left office? Where
22 was education spending in 2011? Include the Federal
23 stimulus, please, in your numbers. And tell us where we
24 are in this proposed budget.

25 SECRETARY ZOGBY: We're at \$10.12 billion in

1 total funding, direct State support for Basic Education in
2 this budget, a historic high.

3 REP. CHRISTIANA: Mr. Secretary, we'd all like to
4 spend more money on education, whether it's pre-K through
5 12 or Higher Education.

6 SECRETARY ZOGBY: Absolutely.

7 REP. CHRISTIANA: But the fact is, this idea that
8 we can just keep telling people that Harrisburg can levy
9 more and more taxes and job creators and that the
10 unemployment rate isn't low enough -- we're never going to
11 be happy.

12 Beaver County, we're set to see a lot of changes
13 in the next five to ten years. We're still not happy.
14 We're working every single day to get better. I think
15 that's Harrisburg's job. I think that's your job. I think
16 we're all committed to doing a better job.

17 SECRETARY ZOGBY: Yes.

18 REP. CHRISTIANA: But more people are working
19 today in the private sector. Taxes have come down. And we
20 continue to grow. And I thank you for that commitment.

21 SECRETARY ZOGBY: Thank you.

22 REP. CHRISTIANA: Thank you, Mr. Secretary.

23 SECRETARY ZOGBY: Thank you, Representative.

24 REP. CHRISTIANA: Thank you, Mr. Chairman.

25 MAJORITY CHAIRMAN ADOLPH: Thank you,

1 Representative.

2 Representative Scott Conklin.

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

4 I want to thank you, Mr. Secretary.

5 SECRETARY ZOGBY: Thank you.

6 REP. CONKLIN: I can't tell you how enjoyable it
7 is to sit in these hearings because we get to see
8 individual views of how the same color looks. And I want
9 to thank the Chairman. Because when you made a statement
10 earlier, it really did upset me. And I know it wasn't
11 intended as lies.

12 SECRETARY ZOGBY: No.

13 REP. CONKLIN: But I just want to bring up some
14 facts that are interesting to show how we do see things
15 differently.

16 SECRETARY ZOGBY: Sure.

17 REP. CONKLIN: And I'll get to my question.

18 SECRETARY ZOGBY: Okay.

19 REP. CONKLIN: As you say, there's more education
20 funding. My colleagues look at the picture differently.
21 They say there's less. The Governor, you know, very
22 clearly stated in 2010 there would be no additional taxes,
23 no additional fees. We passed a bill with additional
24 registration fees but that's not considered a tax increase.
25 Now it's considered a fee increase. I look at it

1 differently.

2 SECRETARY ZOGBY: Yes.

3 REP. CONKLIN: He looks at it differently.

4 SECRETARY ZOGBY: Yes.

5 REP. CONKLIN: When we looked at the budget last
6 year, some say it's on time. I know I came back 15 days
7 later to finish up the Fiscal Note. I see it late. You
8 see it on time.

9 SECRETARY ZOGBY: Yes.

10 REP. CONKLIN: And you know what? At the end of
11 the day, believe it or not, that's just strictly politics.
12 That's what we get through, what we do on a day-to-day
13 basis.

14 But when all that's quantified, I mean, I know
15 the statement was made the -- you know, when you look at
16 the Delaware River Basin, what's very important to some of
17 my colleagues, you say other states aren't doing it but
18 then other states are accepting national health care.

19 Again, it's our perspective. It's our political
20 perspective. At this time of year, I understand that's
21 what many people have to do to get through the day.

22 But sitting on Appropriations I do have some
23 concern.

24 SECRETARY ZOGBY: Okay.

25 REP. CONKLIN: We talk a lot about how we're

1 doing the budget. And I'm looking -- first off, I see
2 fraud and abuse in DPW. You may not have. But can you
3 give us a list of how many people have been prosecuted and
4 convicted for fraud and abuse in DPW?

5 SECRETARY ZOGBY: Sure.

6 REP. CONKLIN: Secondly, we're looking at the
7 budget -- and I'll be honest with you. I do have a concern
8 that this budget is going to have a shortfall when I look
9 at some of the revenue sources.

10 For instance -- I'm just going to use one off the
11 top of my head -- the tavern games has a large amount of
12 money put in for tavern games. But today we only have six
13 taverns, I believe, signed up for it, which will give a
14 shortfall.

15 When we look at Keno, one of my questions is --
16 it's a curiosity question as much as I'm wondering.

17 SECRETARY ZOGBY: Okay.

18 REP. CONKLIN: This one you may be able to answer
19 today for me. Is Keno going to be done by the legislative
20 body through legislation or is the Governor just basically
21 going to use the tools he has to be able to put Keno
22 through without a legislative vote?

23 Basically, Mr. Secretary, my questions are, are
24 you concerned about the shortfall? Again, we can debate
25 the numbers. I'm just using tavern games as one off the

1 top. I'm a little concerned they're not going to come in
2 where they're at.

3 And the second question is basically a question
4 for myself, an informational question, curiosity on Keno.

5 SECRETARY ZOGBY: Okay.

6 REP. CONKLIN: Is it going to be legislative
7 action or will the Governor use the tools, which I believe
8 he has, to do without using legislation?

9 SECRETARY ZOGBY: The first part of your
10 question, Representative, you know, I would say that I
11 always worry about revenues and certainly any shortfall.
12 And we watch those very closely. I think we're, you know,
13 seeing in the last month, for instance, the weather that
14 we've had has intervened. And I think it's causing some
15 pressure in sales tax.

16 I think on the other side, you know, we continue
17 to see health in the personal income tax. And so I think
18 that's a bright spot and suggests to us that, you know,
19 some of the news that we're reading about, a spring, if you
20 will, a new spring in the economy, I think that gives us
21 some optimism.

22 I always worry about revenues. Now, on the small
23 games of chance, I think it's about 100 million that we
24 have between the two fiscal years. And certainly some of
25 the startup problems that we're seeing and the slow uptake

1 in terms of small games of chance is a concern.

2 REP. CONKLIN: Okay.

3 SECRETARY ZOGBY: But I would remind members
4 that, you know, we're looking at a budget that has until
5 June of 2015 to generate those revenues. So perhaps it's a
6 little premature to sort of be in crisis mode over concern
7 about those.

8 REP. CONKLIN: Okay.

9 SECRETARY ZOGBY: But certainly it's something
10 that we need to pay attention to. I know a number of
11 members are concerned about it. And certainly we would
12 look to work with the General Assembly if there's steps
13 that need to be taken to ensure, better ensure, that we're
14 going to be on track to make those revenues.

15 I always worry about those things.

16 REP. CONKLIN: Okay.

17 SECRETARY ZOGBY: And I think members should too
18 because I think, as you know well, being on the
19 Appropriations Committee, a lot of what we do in budgets is
20 based on assumptions. And our budgets are only as good as
21 the assumptions baked into them.

22 REP. CONKLIN: Sure.

23 SECRETARY ZOGBY: I always feel like we try to
24 make fairly conservative, cautious estimates, never overly
25 optimistic.

1 REP. CONKLIN: Okay.

2 SECRETARY ZOGBY: And I think that's the way
3 Pennsylvanians budget in their own household budgets. They
4 don't wait for some amount of money to fall from the sky to
5 pay the mortgage or the cable bill or whatever it might be,
6 their health insurance.

7 REP. CONKLIN: Sure.

8 SECRETARY ZOGBY: We're always looking at those.
9 And I'm sorry, the second question?

10 REP. CONKLIN: The biggest one is Keno is
11 definitely prevalent in the budget. Is the Keno going to
12 be legislative? Is there going to be legislative action?

13 SECRETARY ZOGBY: My recollection on that,
14 Representative, is, I believe, that, not just this
15 Administration, prior Administrations have believed that
16 they've had the authority to do that.

17 REP. CONKLIN: Which I agree with you.

18 SECRETARY ZOGBY: But having said that, I'm not
19 entirely certain that the Governor has made a decision as
20 to exactly how we will proceed on that. And I'm not aware
21 of any recommendation from the Department on that.

22 But suffice it to say, we do have an expectation
23 of bringing Keno online. And we certainly have revenues in
24 our budget that are predicated on that. And I expect we'll
25 have some clarity in terms of how we'll move forward in the

1 near term.

2 REP. CONKLIN: And that's my concern. If we go
3 legislatively, you may end up not getting it passed this
4 year and you have it in the budget.

5 SECRETARY ZOGBY: Sure.

6 REP. CONKLIN: That's why I was wondering --

7 SECRETARY ZOGBY: Sure.

8 REP. CONKLIN: -- if you were just going to use
9 our authority to do it.

10 Thank you.

11 SECRETARY ZOGBY: Thank you. I'll share your
12 comments on that.

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

14 MAJORITY CHAIRMAN ADOLPH: Thank you,
15 Representative.

16 Representative Glen Grell.

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

18 Hello, Secretary.

19 SECRETARY ZOGBY: Hello, Representative.

20 REP. GRELL: I want to pick up on the discussion
21 about our Pension obligations and how we're going to meet
22 those obligations.

23 SECRETARY ZOGBY: Sure.

24 REP. GRELL: Picking up on the discussions
25 started by the gentleman from Luzerne and Monroe Counties.

1 And I know that he shares my interest in doing
2 comprehensive Pension reform. We've had many discussions
3 about it, as have we.

4 SECRETARY ZOGBY: Yes.

5 REP. GRELL: We've talked many times recently
6 about what we should be doing and how we can work together
7 on that, particularly in the area of a new plan design
8 going forward for future employees of our State and school
9 districts.

10 I have a couple lines of questioning.

11 SECRETARY ZOGBY: Sure.

12 REP. GRELL: First, I do want to impress the
13 importance of not losing ground on the progress that we
14 have been making in making our annual required
15 contributions, the employer contributions, to the funds.

16 SECRETARY ZOGBY: Yes.

17 REP. GRELL: Also known as the Arc.

18 SECRETARY ZOGBY: Yes, sir.

19 REP. GRELL: We have and I have held the
20 Governor's feet to the fire in previous budgets to make
21 sure that those annual required contributions have been
22 made. And I've given credit to the Governor for doing that
23 in each of his first three budgets.

24 SECRETARY ZOGBY: Right.

25 REP. GRELL: As a result of that, we have gone

1 from a situation where in 2010-2011 we were paying only 27
2 percent of the Arc. In 2013-2014, we were paying 58
3 percent of the Arc. And if we stay on schedule for what is
4 projected, what was approved by the PSERS's Board at least,
5 for 2014-2015, we would be up to paying 71 percent of the
6 Arc.

7 And you and the Governor and we, for that matter,
8 should get some credit for stepping up and making those
9 hard decisions and allocating those resources to the
10 Pension obligation. And for the life of me, I don't
11 understand why school employee pensions would not be
12 included in the calculation of what we're spending on
13 educational costs. Certainly it's instructional cost when
14 the lion's share of instructional cost is salary and
15 benefits.

16 So I can certainly answer Representative
17 Santarsiero's question that if all we do is lose ground and
18 taper the collars, count me out. I think the only way we
19 can justify any kind of collar relief is if we do
20 comprehensive Pension reform legislation that has long-term
21 savings.

22 SECRETARY ZOGBY: Yes, sir.

23 REP. GRELL: I do want to ask you one other
24 aspect of the funding for PSERS. And that has to do with
25 the proposal to transfer \$225 million of cash and

1 securities from the Tobacco Settlement Fund and the health
2 venture investment account to PSERS in lieu of a portion of
3 the otherwise applicable appropriation for the Arc.

4 First question, how much of that, if you know --
5 and if you don't, you can certainly follow up -- is cash
6 versus securities or is it all an investment portfolio of
7 securities?

8 SECRETARY ZOGBY: I believe it's \$225 million
9 total. And I believe it's about \$75 million in cash and
10 the balance is in investments.

11 REP. GRELL: Okay. And I do want to ask a little
12 bit more about those investments.

13 SECRETARY ZOGBY: Sure.

14 REP. GRELL: But secondly, have you or has your
15 office discussed the elements of that portfolio with the
16 investment folks at PSERS to see whether those investments
17 that would be transferred are compatible with the
18 diversification and the investment portfolio standards that
19 PSERS maintains?

20 SECRETARY ZOGBY: I know that I reached out to
21 PSERS prior to the Governor's budget address to make them
22 aware of our proposed transfer. I believe there's been
23 some follow-up discussions, but I'd want to go back and
24 check on that. My impression is that many of those
25 investments are not inconsistent with the types of

1 investments. And you and I both sit on the PSERS Board.
2 Certainly, you have more tenure there than I.

3 REP. GRELL: Not much.

4 SECRETARY ZOGBY: But I don't believe those
5 investments are inconsistent with the types of investments
6 that the system has made in its portfolio.

7 REP. GRELL: Okay. And I'm also concerned about
8 what the value of those assets is in terms of a
9 return-on-investment basis. As you know, the assumed rate
10 of return for the PSERS portfolio is 7 and a half percent.
11 The information that I have is that the portfolio of assets
12 that is proposed to be transferred has a return that's in
13 the 3 to 4 percent range. I don't know if you have any
14 better information than I on that.

15 SECRETARY ZOGBY: I do not, Representative.

16 REP. GRELL: Okay. And I'm also concerned -- and
17 you can answer this if you know. I believe some of the
18 assets that are proposed to be transferred are ongoing
19 investments that may still have capital calls that would be
20 due upon the Pension Fund, which is concerning to me if,
21 for example, the Pension Fund would have to use its other
22 resources to make additional investments into the funds
23 that are being transferred.

24 Can you give us any more information on that?

25 SECRETARY ZOGBY: I think there are. And I'd

1 have to go back to check the details. I believe there are
2 some open capital calls. But I'm also mindful to note,
3 again, that \$75 million in cash that we have that we're
4 transferring as part of those, along with those
5 investments, would also be there to meet those capital
6 calls were they to be made in the future.

7 REP. GRELL: Okay. That's a fair answer at least
8 in part.

9 But you and I have had this discussion about the
10 very significant liquidity issues that both of our Pension
11 Funds face. And by that, to those listening, I mean that
12 our Pension Funds actually receive less each year through
13 employee and employer contributions than they have to pay
14 out in benefits to retired members.

15 And by transferring assets to PSERS instead of
16 cash, I do have a concern that that certainly doesn't help
17 and may exacerbate that situation.

18 So I think we'll look forward over the next
19 couple months to make sure that that transfer of securities
20 especially would not be detrimental to the fund and
21 certainly the liquidity status.

22 SECRETARY ZOGBY: And if I could just point out,
23 Representative, that in the budget, you know, we're looking
24 to put over a billion dollars into the system. Certainly
25 the securities, the cash from the Tobacco Settlement

1 Investment Board that you referenced is part of that, but
2 even with that, we'll still be putting hundreds of millions
3 of dollars into the system as the State's contribution
4 along with other contributions that will be made.

5 REP. GRELL: Okay.

6 SECRETARY ZOGBY: And I think just globally the
7 liquidity of the funds is certainly a concern and is --
8 particularly as we proceed through reform. We want to make
9 sure that we're not doing anything that would significantly
10 degrade what is already a concern in terms of liquidity.

11 REP. GRELL: Okay.

12 SECRETARY ZOGBY: But just to be mindful that in
13 addition to those securities, that's not the only
14 contribution that we'll be making. There will also be cash
15 that we'll be contributing in significant sums as well.

16 REP. GRELL: Well, I understand that. But, you
17 know, the fact that the Commonwealth and the school
18 districts are paying hundreds of millions into the system
19 doesn't quite offset the billions that get paid out each
20 year through the annuity checks that have to go out to our
21 retirees.

22 SECRETARY ZOGBY: Sure.

23 REP. GRELL: So lots of moving parts in Pension
24 reform. And I know you're aware of them.

25 SECRETARY ZOGBY: Yes.

1 REP. GRELL: We do have to be mindful of the
2 liquidity situation.

3 SECRETARY ZOGBY: Yes, sir.

4 REP. GRELL: If I may, Mr. Chairman, one other
5 line of questioning?

6 MAJORITY CHAIRMAN ADOLPH: Yes.

7 REP. GRELL: Thank you.

8 And it has again to do with pensions, as you
9 might expect.

10 SECRETARY ZOGBY: Yes.

11 REP. GRELL: The line item for the Public
12 Employee Retirement Commission, PERC, as it's called, we're
13 all well aware that PERC is responsible for providing
14 actuarial analysis on any legislation that comes through
15 the General Assembly dealing with pensions.

16 SECRETARY ZOGBY: Yes, sir.

17 REP. GRELL: And in recent years, there's been an
18 awful lot of it, at least in the development stage, which
19 is when a lot of that analysis is so important to us as
20 policymakers.

21 SECRETARY ZOGBY: Yes.

22 REP. GRELL: My information is that PERC's budget
23 right now is very strained for the remainder of the current
24 year -- I don't know if you can comment on that or not --
25 as to how much money they have left in their budget to do

1 their job for the rest of the current year.

2 But I am concerned, especially if there's going
3 to be a major effort during this calendar year toward
4 Pension reform legislation, that they do have the resources
5 that they need. And seeing that their line is flat funded
6 does give me some basis for concern.

7 Would you like to comment on that?

8 SECRETARY ZOGBY: I think, Representative, we
9 have worked -- you know, we understand the importance of
10 PERC to the process. And particularly if we are going to
11 do a Pension reform, which the Governor very much hopes
12 that we will, collectively, we understand the importance of
13 PERC's role in that process.

14 I believe last year we did help them supplement
15 some funds. And I would say that to the extent that
16 additional resources are necessary, both this year and the
17 coming fiscal year, for them to carry out their mission, I
18 think we certainly have some time between now and enactment
19 to adjust and accommodate them.

20 I think we certainly would be sensitive that we
21 do that because they do play a critical role and we want to
22 make sure that they are able to fulfill it adequately.

23 REP. GRELL: Yes. That is something that I would
24 like to continue the discussion about as we move into the
25 next phase of the budget process.

1 SECRETARY ZOGBY: Sure.

2 REP. GRELL: I will throw out, though, one idea
3 that I've been mulling.

4 MAJORITY CHAIRMAN ADOLPH: Representative.

5 REP. GRELL: Yes.

6 MAJORITY CHAIRMAN ADOLPH: For the sake of
7 fairness --

8 REP. GRELL: Have I exhausted my ten minutes,
9 Mr. Chairman?

10 MAJORITY CHAIRMAN ADOLPH: It was so interesting,
11 believe it or not.

12 REP. GRELL: Can I just leave with one teaser?

13 MAJORITY CHAIRMAN ADOLPH: Yes.

14 REP. GRELL: The question is, would you consider
15 talking to us about the possibility of transferring at
16 least some of the duties of PERC into the Independent
17 Fiscal Office? It's an independent watchdog on fiscal
18 matters that might yield some savings.

19 MAJORITY CHAIRMAN ADOLPH: Thank you,
20 Representative.

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

22 MAJORITY CHAIRMAN ADOLPH: Representative Dave
23 Millard.

24 REP. MILLARD: Thank you, Mr. Chairman.

25 Good morning, Mr. Secretary.

1 SECRETARY ZOGBY: Good morning, Representative.

2 REP. MILLARD: I'd like to talk to you about two
3 topics today.

4 SECRETARY ZOGBY: Okay.

5 REP. MILLARD: The first of which is agriculture.

6 SECRETARY ZOGBY: All right.

7 REP. MILLARD: The elimination of the agriculture
8 research funding of \$787,000 this year, you know, we had a
9 couple of years ago where we had the colony collapse
10 disorder. As recently as a year or so ago, we had an issue
11 with bats in Pennsylvania. There seems to be an issue
12 possibly looming concerning bumblebees.

13 And I know that ag research delves into a lot of
14 these items as well as the infestation of the ornamental
15 conifer industry in Pennsylvania.

16 And I'm wondering, as this research goes on in
17 the Ag Department, a lot of it is a two- or three- or
18 four-step process where they complete one set of studies
19 and then once that's completed and evaluated, they go into
20 the next set, which a lot of times takes us into an ensuing
21 fiscal year.

22 SECRETARY ZOGBY: Okay.

23 REP. MILLARD: With the elimination of these
24 dollars, does this equate to an immediate stop of research
25 in certain areas? Does it equate to no further research in

1 further years? Are there dollars that, in fact, would be
2 left over that would at least provide some continuity?

3 SECRETARY ZOGBY: Representative, it's a great
4 question. I am not aware of any research that will be
5 halted because of that line item in the agriculture budget.

6 REP. MILLARD: Okay.

7 SECRETARY ZOGBY: I would remind you and other
8 members that the Governor did have in his budget a
9 million-and-a-half-dollar increase to the Agricultural
10 College Land Scrip Fund -- that's primely ag research
11 money -- that goes to Penn State. And they've certainly
12 been a leader in this area. But we position that as sort
13 of a challenge grant.

14 REP. MILLARD: Okay.

15 SECRETARY ZOGBY: It's 1.5 million in State funds
16 that we would hope and expect would be matched with a
17 similar amount in private sector funds, \$3 million in new
18 monies for agricultural research.

19 REP. MILLARD: Okay.

20 SECRETARY ZOGBY: We understand. The Governor
21 certainly understands the vital nature of ag research to
22 our agricultural economy. He's very supportive.

23 REP. MILLARD: I see.

24 SECRETARY ZOGBY: While there is that line item
25 elimination in the Agricultural Department's budget, we

1 think this new challenge grant money, \$3 million, more than
2 makes up. And, in fact, it would provide substantially
3 more new funds for ag research.

4 REP. MILLARD: Thank you.

5 SECRETARY ZOGBY: Sure.

6 REP. MILLARD: The second item that I'd like to
7 discuss, which seemingly has been discussed at great length
8 today, is education funding.

9 SECRETARY ZOGBY: Yes.

10 REP. MILLARD: We know that right now
11 historically in Pennsylvania more dollars have been put
12 into K-12 education than ever before. And as we continue
13 to make that investment in education in our Commonwealth,
14 another area is addressing those in our society that have
15 the greatest desire to have a higher education but may not
16 have the dollars to be able to do so.

17 SECRETARY ZOGBY: Yes.

18 REP. MILLARD: So I'd like for you, if you could,
19 to explain it to us in a little more detail than has been
20 discussed already today. One of the largest increases for
21 Higher Education is the \$25 million appropriation for Ready
22 to Succeed Scholarships.

23 SECRETARY ZOGBY: Yes. I think the thought
24 there, Representative, is that -- and the Chairman, I
25 think, knows this quite well, as I'm sure you do,

1 oftentimes many of our middle class families are priced out
2 of support for Higher Education.

3 I think we do a good job in terms of low-,
4 middle-, lower-middle income families in terms of providing
5 them support. But a strata of families who certainly don't
6 fancy themselves as rich, wealthy, they're often priced
7 out. And so I think the Governor's initiative, the Ready
8 to Succeed Scholarship, is aimed at those middle-class
9 families who, again, are kind of on that bubble.

10 REP. MILLARD: Okay.

11 SECRETARY ZOGBY: And the thought here is that
12 with both an income- and a merit-based scholarship that
13 we're able to reward additional funds.

14 REP. MILLARD: Okay.

15 SECRETARY ZOGBY: We know the expenses of Higher
16 Education. But with this scholarship program, we are able
17 to put more funds, make more funds, available to those
18 families that are, again, kind of typically priced out when
19 it comes to State support for their child's postsecondary
20 education.

21 REP. MILLARD: Well, I certainly want to applaud
22 the Administration.

23 SECRETARY ZOGBY: Thank you.

24 REP. MILLARD: And applaud the Governor
25 especially for making that investment in education and

1 recognizing the fact that if we can provide a wholesome,
2 well-rounded education for all of our students in the
3 Commonwealth, that it certainly will improve the quality of
4 life here in the Commonwealth.

5 SECRETARY ZOGBY: Sure.

6 REP. MILLARD: And it means so many good things
7 for us in the future.

8 SECRETARY ZOGBY: Right.

9 REP. MILLARD: So I thank you for your responses.

10 SECRETARY ZOGBY: Sure.

11 REP. MILLARD: I certainly appreciate you being
12 here with us today.

13 SECRETARY ZOGBY: Thank you.

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

15 MAJORITY CHAIRMAN ADOLPH: Thank you,
16 Representative.

17 The next question will be by Representative Mark
18 Mustio.

19 REP. MUSTIO: Thank you, Mr. Chairman.

20 Welcome, Mr. Secretary.

21 SECRETARY ZOGBY: Thank you.

22 REP. MUSTIO: The decisions that we make here in
23 Harrisburg obviously impact our communities.

24 SECRETARY ZOGBY: Sure.

25 REP. MUSTIO: And many of those decisions we make

1 are not made without input from our constituents.

2 SECRETARY ZOGBY: Yes, sir.

3 REP. MUSTIO: And if you'll bear with me a
4 second, I would like to share with you a comment of a local
5 school business manager as he's weighing in following some
6 of the budget hearings.

7 SECRETARY ZOGBY: Sure.

8 REP. MUSTIO: Mark, it troubles me greatly that
9 the Governor is proposing to reduce the collar on employer
10 Pension contribution increases from a maximum 4.5 percent
11 increase to a maximum of 2.25 percent increase. This is
12 nothing more than kicking the can further down the road
13 again.

14 We need real solutions that can start digging us
15 out of this terrible Pension hole. This problem will keep
16 getting more and more difficult to solve as we pass through
17 time with the can cluttering further down the road in front
18 of us. I don't know what all the answers are. I'll leave
19 that to those that are much smarter than I.

20 But for now, leave the collar at 4.5 percent and
21 don't pump \$241 million into the Ready To Learn Block
22 Grant. That's just pumping new money into the same black
23 hole that hasn't produced the results it should have in the
24 past.

25 Okay. I'm done venting. Hope all is well.

1 Mr. Secretary, it does get to the point of, what
2 happens down the road? And before many of us got here in
3 the late 1900s and 2000s, we, those that were here at the
4 time putting budgets through, waived State and local
5 Pension contributions and were told not to escrow that
6 money, that they didn't have to escrow it.

7 Well, many saw that as a pot of gold when it came
8 time to negotiate contracts.

9 SECRETARY ZOGBY: Sure.

10 REP. MUSTIO: And that has further compounded our
11 problem. We can't just ignore that fact. Sure, we have a
12 huge Pension problem. But there are decisions that were
13 made back then that impact us now. And the decisions that
14 we're making or not making today are going to impact us ten
15 years from now.

16 The decisions that we talked about earlier in
17 another budget hearing regarding impact fees, let me just
18 share with you the positive impact that -- by having the
19 Marcellus Shale gas in Southwestern Pennsylvania, the
20 positive impact it has had on one of my school districts
21 that has not had one drill, one well pad in that district.

22 SECRETARY ZOGBY: Okay.

23 REP. MUSTIO: But many of the companies located
24 there.

25 SECRETARY ZOGBY: Okay.

1 REP. MUSTIO: Mark, the growth of wage tax
2 collections for our school district has been quite robust
3 over the last two years. I'm sure that the energy industry
4 has helped but there are other considerations as well. I
5 think the implementation of Act 32, countywide tax
6 collection -- again, something that this body did -- is one
7 huge factor as well as the expansion of other area
8 employers because of the economic climate in our region.

9 Our audited wage tax collections for 2011-2012
10 were almost \$4 million. For 2013-2014, it's going to be
11 almost \$5 million. And that's the school district's share.
12 So that's \$1 million additional because of the policies in
13 my opinion that many of us made here in Harrisburg.

14 So there's a lot of positive things that have
15 happened. But we want to make sure, as he said in his
16 first e-mail, that we don't make decisions or fail to make
17 decisions that are going to impact us in the long term.
18 And I will say that I think Representative Dean was correct
19 in that we made the right decision on the transportation
20 vote. I will agree with her on that. I was proud to vote
21 yes on that.

22 But I do disagree with her comments regarding
23 Medicaid expansion, because I think we have a history with
24 the Federal Government in areas where they have kind of
25 suckered us in. And I think the Medicaid expansion vote is

1 a sucker's bet.

2 We fell for that with the Feds, I think,
3 regarding Special Education funding. And, you know, they
4 kind of dropped the ball there.

5 And what I don't want to see happen is the graph
6 that Representative Christiana held up earlier, that same
7 thing happen with Medicaid expansion. And we show funding
8 increases for three years, that 100 percent funding from
9 the Feds, and then that money is gone. And then what
10 economic climate are we in?

11 So I think we need to make really mature,
12 conscientious, long-term decisions instead of what feels
13 good in the short term.

14 So I don't know if there's a question in there,
15 Mr. Chairman.

16 MAJORITY CHAIRMAN ADOLPH: I don't think so.

17 REP. MUSTIO: But at this point, I don't know if
18 there are any more questions to ask other than some
19 observations and some comments from constituents that are
20 seeing it impacted on their bottom lines in their budgets,
21 both publicly and also in private sector companies, the
22 decisions that we make and how important they are.

23 Thank you.

24 MAJORITY CHAIRMAN ADOLPH: Thank you,
25 Representative. And we certainly do appreciate you sharing

1 that e-mail with us.

2 REP. MUSTIO: Sure.

3 MAJORITY CHAIRMAN ADOLPH: Representative Tom
4 Killion.

5 REP. KILLION: Thank you, Mr. Chairman.

6 Hello, Mr. Secretary.

7 SECRETARY ZOGBY: Hello.

8 REP. KILLION: I also want to talk a little bit
9 about transportation.

10 SECRETARY ZOGBY: Okay.

11 REP. KILLION: But first I want to congratulate
12 the Administration, from the Secretary to Governor Corbett
13 on --

14 SECRETARY ZOGBY: Thank you.

15 REP. KILLION: -- for putting a bill through the
16 House and the Senate in a bipartisan fashion was beyond
17 needed. And it's going to result in thousands of jobs
18 being created throughout the Commonwealth.

19 I had the privilege for five years of sitting on
20 the SEPTA Board. And SEPTA was facing dire consequences
21 had we not got that bill done. And as a result of that
22 legislation, we're going to see in the Southeast with SEPTA
23 massive, massive capital projects undertaken creating jobs,
24 improving our infrastructure. And a lot of people don't
25 even realize that.

1 In Philadelphia, almost 80 percent of the people
2 arrive there every day via public transportation. And when
3 they get there, they work. And when they work, they pay
4 taxes. That money comes here. So it was vital that we
5 passed that bill. And I want to congratulate the
6 Administration on that.

7 SECRETARY ZOGBY: Thank you.

8 REP. KILLION: I'm just wondering if you could
9 give us a couple comments on how -- I know it won't be this
10 year, per se, maybe. But what do you see as the impact of
11 revenues that could be generated due to the passage of that
12 legislation -- it may not help us this year, maybe a little
13 bit -- in the next few years as we go ahead?

14 SECRETARY ZOGBY: We are seeing some additional
15 revenues due to that bill. And, Representative, I would
16 remind everyone that because of the enactment of that
17 legislation, and a very important piece, as you know, we're
18 going to be putting over \$360 million in new investments
19 into roads and bridges this year and close to \$900 million
20 in new investments across an array of areas in our
21 transportation infrastructure, including Mass Transit.
22 That's a \$7.4 billion investment over the next five years.

23 And we all know, I think, as you really touched
24 on, this is really the arteries, the life blood, of our
25 economy. It depends on companies getting goods to markets.

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REP. KILLION: Sure.

SECRETARY ZOGBY: I've heard in agriculture and a host of areas companies that because of aging infrastructure, they can't have a truck travel over a bridge or they can't get goods to market, take advantage of a new contract, which we know means more investments in their companies, more jobs that are created in communities.

REP. KILLION: Sure.

SECRETARY ZOGBY: It is a core function of government. And it's important that we make these investments and that we're able to do that. And an offshoot of that is we are going to see -- and I'll get the specific numbers.

REP. KILLION: Thank you.

SECRETARY ZOGBY: I don't have them at hand.

REP. KILLION: Sure.

SECRETARY ZOGBY: -- some modest increase in our revenues. Because you build a bridge, you lay asphalt, all those things lead to sales tax revenue. You hire people. That's personal income tax. That's going to remit more funds to the State to the General Fund.

REP. KILLION: Thank you.

SECRETARY ZOGBY: Sure.

REP. KILLION: And on that, SEPTA arteries, people don't realize all the people going in on the train.

1 They were going over every day bridges that were hundreds
2 of years old. They were over 100 years old.

3 SECRETARY ZOGBY: Right.

4 REP. KILLION: We went out and stood under some
5 and looked up. I ride those trains. I'm like, holy -- I
6 get a little nervous looking up. So it's great that we're
7 going to fix that.

8 SECRETARY ZOGBY: Sure.

9 REP. KILLION: And then also the Committee had
10 taken a trip out to Adams County and was surprised to learn
11 the impact of Mass Transit in Adams County. They have a
12 very small transit system.

13 SECRETARY ZOGBY: Right.

14 REP. KILLION: But they talked about the
15 importance of public transportation out there to get the
16 workers to the fields for the massive amounts of apples --
17 which I had no idea we were getting so many apples out of
18 Adams County. So it's not just Pittsburgh and Philadelphia
19 that are benefiting.

20 SECRETARY ZOGBY: Right.

21 REP. KILLION: Even with Mass Transit, it is
22 Statewide.

23 SECRETARY ZOGBY: Sure.

24 REP. KILLION: And on revenues, I read an
25 interesting article. The problem around here is the

1 revenue has been flat. I mean, we're bringing the same
2 amount of money in, although costs have been escalating, as
3 we were several years ago. And that's because of the
4 economy.

5 But I read a very interesting article just
6 recently where they talk about the recent rising of stock
7 prices, the recent kick-up in real estate prices, and that
8 this is somehow going to give consumers more stability in
9 their homes and with their own budgets and that this could
10 possibly be a leading indicator for us finally coming out
11 of this recession.

12 These economists estimated that the way it looks,
13 it is possible that the last six months of this year could
14 be the most robust we have been in over several decades,
15 which we all would hope. That would solve a lot of
16 problems as more revenue comes in.

17 Could you comment on how you think Pennsylvania
18 proposes such a thing should happen, given what we've done
19 as a Legislature with the Governor's leadership in making
20 Pennsylvania more business friendly?

21 SECRETARY ZOGBY: Well, I think, Representative,
22 many of us are very hopeful that this isn't a false spring
23 and that the economy does begin to ramp up in a serious
24 way. We'll have to see.

25 I think Pennsylvania is well positioned. You

1 look at what's happening around our State in terms of new
2 job creation. I know down in the Southeast we just had a
3 Brazilian company, for instance, and now they're going to
4 be bringing goods through the Philadelphia Ports and new
5 investments there.

6 REP. KILLION: Okay.

7 SECRETARY ZOGBY: We have out in the West the
8 potential for the Shell Cracker that will not only mean a
9 multi-billion dollar investment but industries that will
10 offshoot of that, you know, tens of thousands of jobs
11 potentially.

12 REP. KILLION: Okay.

13 SECRETARY ZOGBY: So I think what we've done is
14 by keeping our spending inline with revenues, by continuing
15 to make advances in terms of improving the job climate here
16 in Pennsylvania, I think when the economy does turn
17 around -- and we certainly hope that it will start to pick
18 up -- I think Pennsylvania is going to be, we believe, very
19 well positioned to take advantage of that.

20 REP. KILLION: Okay.

21 SECRETARY ZOGBY: It's undeniable that we have a
22 world-class workforce here. We have a very hardworking
23 workforce.

24 REP. KILLION: Sure.

25 SECRETARY ZOGBY: We have the transportation

1 infrastructure. We're making those investments. And we're
2 making progress on a tax regulatory climate that is job
3 friendly.

4 REP. KILLION: Okay.

5 SECRETARY ZOGBY: So I think we're seeing that
6 certainly in the work that the Governor does with the
7 Governor's Action Team. We're seeing more and more people
8 look at Pennsylvania as a destination for new job creation.

9 REP. KILLION: Okay.

10 SECRETARY ZOGBY: Again, time will certainly
11 tell. But the 140,000 jobs that we've seen created in the
12 private sector, even under these difficult conditions,
13 that, you know, hopefully is a harbinger of even more and
14 better things to come again once the economy kicks into a
15 higher gear.

16 REP. KILLION: Thank you.

17 SECRETARY ZOGBY: You're welcome.

18 REP. KILLION: Thank you, Mr. Chairman.

19 MAJORITY CHAIRMAN ADOLPH: Thank you,
20 Representative.

21 Representative Karen Boback.

22 REP. BOBACK: Thank you, Mr. Chairman.

23 Hello, Mr. Secretary.

24 SECRETARY ZOGBY: Representative.

25 REP. BOBACK: My concern is with the unclaimed

1 property idea that we have now going forward in this
2 budget. The Governor's proposal is to reduce the holding
3 period for unclaimed property from five years to three
4 years. And according to his proposal, it's estimated to
5 generate \$150 million in 2014-2015.

6 Can you provide some examples of the specific
7 property for which the holding periods would be shortened?

8 SECRETARY ZOGBY: Sure. I think we're looking at
9 things like travelers checks, for instance, where I think
10 right now there is a 15-year dormancy period.

11 REP. BOBACK: All right.

12 SECRETARY ZOGBY: Things like -- let's see here
13 of some other examples. Safety deposit boxes, certificates
14 of deposits, dividends, life insurance maturity.

15 REP. BOBACK: Okay.

16 SECRETARY ZOGBY: Things of that nature will be
17 impacted by a shorter holding period.

18 REP. BOBACK: Thank you for that.

19 SECRETARY ZOGBY: Sure.

20 REP. BOBACK: And how do others states treat
21 these types of property that you're talking about? Of
22 course, the concern is, like, neighboring states, people
23 move out of Pennsylvania, how would they be informed? How
24 do other states handle this? Is it three years as opposed
25 to five?

1 SECRETARY ZOGBY: Sure. I think at least the
2 sample that I have of sort of neighboring states, New
3 Jersey, for instance, I'm looking here and across a number
4 of those asset classes that I just referenced, they're
5 already at three years.

6 REP. BOBACK: Okay.

7 SECRETARY ZOGBY: Similarly, Maryland is at three
8 years in a number of categories. Delaware and Ohio, five
9 years, three years, in various categories.

10 So I think by moving from the five to the three
11 years, at least from our neighboring states' perspective,
12 we're pretty consistent, if not inline, with what they
13 currently do as a matter of current law in those states.

14 REP. BOBACK: And if I may express a concern.

15 SECRETARY ZOGBY: Absolutely.

16 REP. BOBACK: When the State Treasurer testified
17 in front of us, he thought the estimated \$150 million for
18 the proposal was too high. Do you consult with the
19 Treasurer on developing this proposal or estimating the
20 change? How do the two departments work? And why would he
21 think that \$150 million was too high?

22 SECRETARY ZOGBY: Well, certainly I think in
23 developing the proposal, we looked at past experience. I
24 think it was back in the earlier part of the last decade,
25 the period went from seven to five years. And looking at

1 the revenue that was generated as part of that. I forget
2 exactly what the number is there. Looking at what some of
3 the other states have done in these areas and what they
4 realized.

5 So again, I think as we talked about maybe in an
6 earlier question, this is an assumption, but we feel
7 consistent with sort of past experience that the \$150
8 million is a reasonable number.

9 REP. BOBACK: And are there buffers in the
10 budget? And this is a general question now.

11 SECRETARY ZOGBY: Okay.

12 REP. BOBACK: I know, as you mentioned, we all
13 agree estimates are put into the budget with the hope that
14 we would reach or go beyond those estimates.

15 SECRETARY ZOGBY: Right.

16 REP. BOBACK: But if there are certain areas
17 where we don't reach that, are there buffers so that we can
18 still fulfill all of the obligations of the budget?

19 SECRETARY ZOGBY: I believe there is.

20 REP. BOBACK: Okay.

21 SECRETARY ZOGBY: And I think, Representative,
22 again, we understand that this is an iterative process.
23 We're going to be working with the General Assembly over
24 the next many months. The Chairmen, the Committee, the
25 leaders, together with the Governor, enact a budget.

1 So, you know, we'll have better insight, too.
2 We'll know better by the end of the fiscal year what our
3 revenues are going to be.

4 REP. BOBACK: All right.

5 SECRETARY ZOGBY: And hopefully we're going to be
6 on estimate. And the picture for the coming year will be
7 clear as well. So all of these things will be coming into
8 focus. And certainly we have been through this in past
9 years. If the estimates change, if the outlook changes,
10 we'll be prepared to also change to meet those, whether
11 they're good or bad. Obviously, we hope for more upside
12 than downside. But we're prepared in either case.

13 REP. BOBACK: Thank you very much, Mr. Secretary.

14 SECRETARY ZOGBY: Sure.

15 REP. BOBACK: Thank you, Mr. Chairman.

16 MAJORITY CHAIRMAN ADOLPH: Thank you,
17 Representative.

18 Representative Deb Kula.

19 REP. KULA: Thank you, Mr. Chairman. And as
20 always, I will be brief.

21 I think mine is not so much a question as maybe
22 just a very brief statement. I've sat through these entire
23 days of budget hearings and today's hearing. And people
24 listening at home probably feel that all of this is
25 somewhat spoken in a difficult language. We've talked

1 about cans being kicked down the road. We've talked about
2 collars.

3 But basically what they care about is that behind
4 all of this there are people. There are people that want
5 jobs. There are people that want to continue to provide an
6 education for our students. There are students that are
7 hoping to receive that education.

8 You mentioned meeting with the General Assembly.
9 I'm hoping that that means that as this budget process goes
10 on, that all of the General Assembly is part of that budget
11 process. There have been ideas exchanged here today. And
12 I think everyone will agree that each side has good ideas
13 that maybe can solve a lot of the problems that we're going
14 through.

15 The teachers that are back home, all I hear is,
16 what's going to happen to my Pension? All they want to
17 know is, are they protected with what they are anticipating
18 in their Pension now? It's not that they want reform.
19 They don't even understand exactly what that reform is
20 going to mean.

21 I just hope that everyone here can, in a
22 bipartisan manner, educate our children, provide that Basic
23 Education. As we heard some of our people from Higher
24 Education saying that in visiting other parts of the world,
25 that those students are becoming so far advanced from ours,

1 how do we correct that problem?

2 And it's not by the blame game. It's not by
3 whose fault it was. It's, what do we do to correct the
4 wrongs that have been done and move on so that this
5 Commonwealth continues to be the Commonwealth we want it to
6 be?

7 You can respond if you'd like. I just felt it
8 necessary on my last House budget hearing to make those
9 remarks. Thank you.

10 SECRETARY ZOGBY: Well, thank you,
11 Representative. And I would just say that, you know,
12 notwithstanding maybe some junctures when there's maybe
13 cantankerous exchanges, I don't think I've ever come here
14 and doubted the commitment of any individual on this
15 Committee or in this Chamber to the Commonwealth of
16 Pennsylvania and doing right by both their constituents and
17 in the broader public.

18 REP. KULA: Yes.

19 SECRETARY ZOGBY: I think we're all committed to
20 the same thing, growing a stronger Commonwealth, even
21 though we might come at it somewhat differently and have
22 different viewpoints. But certainly my door has always
23 been open. I've worked with many members here and
24 throughout the building. I think that continues to remain
25 the same today.

1 REP. KULA: Good.

2 SECRETARY ZOGBY: And certainly where we can
3 share ideas and build them into the work that we're trying
4 to do, we're certainly always open to that. I know that I
5 am, at least. And I believe the Governor is as well.

6 REP. KULA: Well, as we move on, I certainly hope
7 so. And I thank you for your comments and being here
8 today.

9 SECRETARY ZOGBY: Thank you, Representative.

10 REP. KULA: Thank you, Mr. Chairman.

11 MAJORITY CHAIRMAN ADOLPH: Thank you,
12 Representative.

13 There have been several Representatives on both
14 the Republican side and the Democratic side that would like
15 to have a second round. I'll take full credit for making
16 this decision. There will be no second round today.

17 Those legislators that would like to ask the
18 Secretary a follow-up question or have a final word that
19 they'd like to send to the Secretary, please submit it to
20 either Chair and we'll get it to the Secretary for his
21 response.

22 Mr. Secretary, I want to thank you for being here
23 today. Thank you for the service to the Commonwealth.

24 SECRETARY ZOGBY: Thank you.

25 MAJORITY CHAIRMAN ADOLPH: There's not much more

1 that I can say that hasn't been said today. I've always
2 called the Governor's budget a blueprint.

3 SECRETARY ZOGBY: Yes, sir.

4 MAJORITY CHAIRMAN ADOLPH: We work from there.

5 SECRETARY ZOGBY: Yes, sir.

6 MAJORITY CHAIRMAN ADOLPH: There's a lot of
7 things that we'd like to see in the budget. I hope they
8 stay in there. There's a lot of revenue involved here. I
9 hope they come out as projected. We're going to work with
10 you to put together another on-time budget.

11 SECRETARY ZOGBY: Thank you.

12 MAJORITY CHAIRMAN ADOLPH: For the member's
13 information, we will reconvene at 1 o'clock, at which time
14 we're going to have House of Representative members'
15 testimony. And then shortly thereafter, we'll have the
16 Secretary of the State. And then the Insurance
17 Commissioner will be the last of the day. I want to thank
18 you. I'll see you in about 55 minutes. Thank you.

19 And, Mr. Secretary, thank you.

20 SECRETARY ZOGBY: Thank you, Mr. Chairman.

21 (The hearing concluded at 12:05 p.m.)
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I hereby certify that the proceedings and
evidence are contained fully and accurately in the notes
taken by me on the within proceedings and that this is a
correct transcript of the same.

Jean M. Davis
Notary Public