

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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CHARLES ZOGBY, BUDGET SECRETARY

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

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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