

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE
BUDGET HEARING

DEPARTMENT OF GENERAL SERVICES

STATE CAPITOL
HARRISBURG, PENNSYLVANIA
ROOM 140, MAJORITY CAUCUS ROOM

WEDNESDAY, MARCH 9, 2016
4:15 P.M.

BEFORE:

HONORABLE WILLIAM ADOLPH, MAJORITY CHAIRMAN
HONORABLE JOSEPH MARKOSEK, MINORITY CHAIRMAN
HONORABLE KAREN BOBACK
HONORABLE GARY DAY
HONORABLE GEORGE DUNBAR
HONORABLE GARTH EVERETT
HONORABLE KEITH GREINER
HONORABLE SETH GROVE
HONORABLE SUE HELM
HONORABLE WARREN KAMPF
HONORABLE FRED KELLER
HONORABLE TOM KILLION
HONORABLE JIM MARSHALL
HONORABLE KURT MASSER
HONORABLE DAVE MILLARD
HONORABLE DUANE MILNE
HONORABLE MARK MUSTIO
HONORABLE MIKE PEIFER
HONORABLE JEFFREY PYLE
HONORABLE MARGUERITE QUINN
HONORABLE CURT SONNEY
HONORABLE LESLIE ACOSTA
HONORABLE MATTHEW BRADFORD
HONORABLE TIM BRIGGS
HONORABLE DONNA BULLOCK
HONORABLE MARY JO DALEY
HONORABLE MADELEINE DEAN
HONORABLE MARIA DONATUCCI
HONORABLE STEPHEN KINSEY
HONORABLE MICHAEL O'BRIEN

BEFORE (continued):

HONORABLE KEVIN SCHREIBER
HONORABLE PETER SCHWEYER

NON-COMMITTEE MEMBERS:

HONORABLE MATTHEW BAKER
HONORABLE JUDY WARD
HONORABLE CRAIG STAATS
HONORABLE TOM MURT
HONORABLE DAVE ZIMMERMAN
HONORABLE KATHARINE WATSON
HONORABLE CRIS DUSH
HONORABLE SCOTT PETRI
HONORABLE MARK KELLER
HONORABLE MARCIA HAHN
HONORABLE MINDY FEE
HONORABLE MARTY CAUSER
HONORABLE DAN MOUL
HONORABLE BRETT MILLER
HONORABLE KRISTIN PHILLIPS-HILL
HONORABLE DARYL METCALFE
HONORABLE MATT GABLER
HONORABLE RUSS DIAMOND
HONORABLE FLO FABRIZIO
HONORABLE SCOTT CONKLIN
HONORABLE MICHAEL DRISCOLL
HONORABLE LEANNE KRUEGER-BRANEKY
HONORABLE EDDIE PASHINSKI
HONORABLE JARET GIBBONS
HONORABLE MIKE CARROLL
HONORABLE VANESSA LOWERY-BROWN
HONORABLE PAM DeLISSIO

COMMITTEE STAFF PRESENT:

DAVID DONLEY
MAJORITY EXECUTIVE DIRECTOR
RITCHIE LaFAVER
MAJORITY DEPUTY EXECUTIVE DIRECTOR
CURT SCHRODER
MAJORITY CHIEF COUNSEL

MIRIAM FOX
DEMOCRATIC EXECUTIVE DIRECTOR
TARA TREES
DEMOCRATIC CHIEF COUNSEL

Tiffany L. Mast • Mast Reporting
mastreporting@gmail.com
(717) 348-1275

I N D E X

TESTIFIERS

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BEVERLY HUDSON DEPUTY SECRETARY, DEPARTMENT OF GENERAL SERVICES.....	

SUBMITTED WRITTEN TESTIMONY

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P R O C E E D I N G S

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MAJORITY CHAIRMAN ADOLPH: Thank you. And good afternoon, everyone.

I'd like to reconvene the House Appropriations Committee budget hearing for the fiscal year '16-'17. I first want to apologize to the Secretary. We're running a little late, but sometimes that's good for the next testifier, sometimes.

SECRETARY TOPPER: It's worth the wait.

MAJORITY CHAIRMAN ADOLPH: Sometimes.

With us this afternoon is the Secretary of General Services. And we met the Secretary last year, Curt Topper. And he mentioned something, that the only job that he would leave Georgetown for was his current job, and that's my only question for today.

Do you still agree with that statement?

SECRETARY TOPPER: Believe it or not, Chairman, absolutely.

MAJORITY CHAIRMAN ADOLPH: All right. Thank you. Thank you.

And if you would, I will leave the introductions to your Deputy Secretary to you.

SECRETARY TOPPER: Sure. Thanks.

MAJORITY CHAIRMAN ADOLPH: And then, you can

1 continue with your comments.

2 SECRETARY TOPPER: Great. Thank you.

3 Beside me is --

4 MAJORITY CHAIRMAN ADOLPH: If you could grab
5 the mike and bring it up forward. Perfect.

6 Thank you.

7 SECRETARY TOPPER: Great.

8 Beside me is Beverly Hudson, Deputy
9 Secretary for the administration for the Department.

10 In light of the delay, I have submitted
11 opening -- my testimony for the record, and I'd pleased
12 to move directly to your questions.

13 MAJORITY CHAIRMAN ADOLPH: Thank you, Mr.
14 Secretary.

15 Chairman Markosek, for any opening remarks.

16 MINORITY CHAIRMAN MARKOSEK: Thank you.

17 Very briefly, Secretary, welcome.

18 SECRETARY TOPPER: Thank you.

19 MINORITY CHAIRMAN MARKOSEK: Deputy Hudson,
20 welcome.

21 And I know -- I have to apologize. Our
22 children's table is empty over there, but it's been a
23 long day and I think some of them -- I see
24 Representative Daley is back. So they'll be coming
25 back. I think they had to take a little rest, but

1 they'll be back.

2 Good to see you again. I'm told you're one
3 of the agencies that was not blue-lined; is that
4 correct?

5 SECRETARY TOPPER: I believe there were a
6 couple of minor reductions, but for the most part,
7 that's correct.

8 MINORITY CHAIRMAN MARKOSEK: Okay, well
9 that's good to hear.

10 SECRETARY TOPPER: Thank you, Mr. Chairman.

11 MINORITY CHAIRMAN MARKOSEK: And, you know,
12 somebody mentioned earlier that the Governor was going
13 to blue-line the Christmas tree, which I know comes
14 under your purview, but that didn't happen; right?

15 SECRETARY TOPPER: The Christmas tree is
16 safe and sound.

17 MINORITY CHAIRMAN MARKOSEK: Mr. Chairman, I
18 don't really have any other additional questions, but I
19 wanted to welcome him.

20 MINORITY CHAIRMAN MARKOSEK: Okay. Thank
21 you, Chairman.

22 Mr. Secretary, as is the custom for Mr.
23 Markosek and I, we always invite the chairmen of the
24 House standing committee. And with us today is Chairman
25 Daryl Metcalfe, Chairman of the State Government

1 Committee. And the Chairman has some questions.

2 SECRETARY TOPPER: Great.

3 CHAIRMAN METCALFE: Thank you, Chairman
4 Adolph. Good afternoon.

5 SECRETARY TOPPER: Good afternoon.

6 CHAIRMAN METCALFE: The first question is
7 dealing with the budget impasse. And from the question
8 that Chairman Markosek just asked, it would appear that
9 DGS now has an operating budget for the current year?

10 SECRETARY TOPPER: That is correct.

11 CHAIRMAN METCALFE: So we do have a budget?
12 As much as I've seen on the news that we don't have a
13 budget, DGS has a budget.

14 SECRETARY TOPPER: DGS has an appropriation,
15 as a result of the budget.

16 CHAIRMAN METCALFE: The budget that the
17 Governor signed and line-item vetoed certain components
18 of it?

19 SECRETARY TOPPER: That's correct.

20 CHAIRMAN METCALFE: Thank you.

21 In August of 2015, during the impasse, the
22 DGS requested waivers for general government operations,
23 Capitol Police operations and rental and municipal
24 charges.

25 What were those waivers for?

1 SECRETARY TOPPER: So the waivers were
2 associated with 2014 funds. And the purpose of those
3 waivers was primarily to fund the investments we have
4 made in Public Works modernization. With that, we have
5 been able to acquire state-of-the-art software called
6 e-Builder, that we are using to modernize the way that
7 we manage all of the Commonwealth's construction
8 contracts.

9 At any given point in time, we may have up
10 to a billion dollars in an on-going portfolio of
11 construction projects, and we were managing that
12 portfolio of products using 1980 technology and paper.
13 So it was a very necessary investment.

14 CHAIRMAN METCALFE: So the money was lapsed
15 funds from the 2014-'15 budget?

16 SECRETARY TOPPER: I believe that's correct,
17 Mr. Chairman.

18 CHAIRMAN METCALFE: But it wasn't used to
19 sustain operations during the budget impasse? It was
20 used for a new project for new purchases?

21 SECRETARY TOPPER: That is correct.

22 CHAIRMAN METCALFE: We'd heard some
23 information during the budget impasse related to utility
24 costs. How were we meeting our obligations to the
25 utility companies during the budget impasse?

1 How were we paying for those? Or weren't we
2 paying for those? And have we paid for those since the
3 budget was signed?

4 SECRETARY TOPPER: You'll have to forgive
5 me, Mr. Chairman, because I am not completely up to
6 speed on all of the accounting details associated with
7 the way that DGS worked with the Office of the Budget in
8 order to ensure that those urgent needs were met in
9 order to keep the lights on and the doors open.

10 But my understanding is, that we were able
11 to use funding that was primarily available through the
12 augmentation that comes into the Department to fund the
13 procurement operation.

14 Since roughly the middle of January, those
15 funds have been restored and all of the accounting
16 necessary in order to make those funds whole has been
17 completed.

18 CHAIRMAN METCALFE: So during the six-month
19 budget impasse, can you provide us with details as far
20 as where was the money coming from? If the utility
21 bills were being paid?

22 And if they were not being paid, what types
23 of arrangements were made to honor our debts --

24 SECRETARY TOPPER: I'd be pleased.

25 CHAIRMAN METCALFE: -- to those utility

1 companies and what kind of leniency did they extend, as
2 they would extend to other customers in the face of not
3 having bills paid if they weren't paid?

4 SECRETARY TOPPER: I'd be pleased to provide
5 those details.

6 CHAIRMAN METCALFE: Thank you.

7 We talked a little bit last year related to
8 the E-Verify requirements, the law that we had put into
9 effect --

10 SECRETARY TOPPER: Yes.

11 CHAIRMAN METCALFE: -- for contractors of
12 the State, subcontractors, and the use of E-Verify to
13 ensure that -- to try to ensure that the people that are
14 being hired by people that we're paying for State work,
15 with taxpayer dollars, that they're actually employing
16 either citizens or resident aliens or workers that are
17 here legally.

18 So at that time, you'd talked about -- I
19 think we'd had 53 audits done at that time. They'd had
20 about 58-percent compliance. There was a collection of
21 about \$16,700 in civil penalties.

22 Can you tell us what's been done over the
23 course of last year since our last discussion on this?
24 Where are we at? Do you believe that-- is compliance
25 improving? Have we been continuing with the audits?

1 SECRETARY TOPPER: Sure. Mr. Chairman, this
2 year, we've completed 29 audits -- I'm sorry, 62 audits,
3 including 29 State agency construction contracts, 20
4 local government construction contracts, and 13 school
5 district construction contracts. Of those, 34 had no
6 violations, and some 13 had violations, all of which are
7 really paperwork-oriented violations, which I'd like to
8 chat about a bit.

9 Eight are still in progress. And thus far,
10 across all of the audits, approximately 425 employees
11 have been verified to date this fiscal year. Since the
12 last hearing and your question from the last hearing, I
13 have taken the opportunity to dig in and get a little
14 bit better understanding of the E-Verify Program and the
15 manner in which it has been managed by the Department.

16 And if you don't mind, I'd love to share a
17 couple of insights.

18 CHAIRMAN METCALFE: Yeah, I'd appreciate
19 that.

20 SECRETARY TOPPER: So the first is that our
21 rate of progress, which is relatively unchanged within
22 the current year, roughly 60 per year, I'm -- we're
23 presently digging into that in order to get an
24 understanding of whether that's an appropriate level of
25 productivity for the program.

1 We have had one dedicated staff person for
2 the program since -- since its inception. And quite
3 honestly, I'm not yet satisfied that the productivity is
4 where it should be, so we are investigating that.

5 Secondarily though, or perhaps even more
6 importantly, I've come to understand the program in the
7 way that it's been managed, as it's created in statute
8 and as it's been operationalized. I have a couple of
9 concerns.

10 The first is, I can't for the life of me
11 figure out why this program was created within the
12 Department of General Services as opposed to one of the
13 regulatory agencies that is actually equipped to perform
14 this work.

15 About the only thing we have in common with
16 the population for the most part that is subject to
17 these audits is we provide capital funding for a subset,
18 but our inspectors, our staff, do not have the authority
19 to walk onto a school district construction site in
20 order to verify audit results.

21 We do not have the mechanisms or the tools
22 that another agency that has more of a regulatory
23 function might have. So I believe it's a challenge for
24 DGS. My honest opinion is that the program was
25 misplaced, and it really should belong in another

1 agency.

2 That said, looking more closely at the
3 manner in which the audits are performed and the manner
4 in which the statute requires that they be performed, I
5 am of the opinion that there is roughly zero chance that
6 one of these audits will actually discover an
7 undocumented employee at a work site in Pennsylvania.

8 And the reason for that is this. We -- the
9 way the process works, we require that the target of the
10 audit provide for us verification that they have
11 enrolled in the E-Verify System, and then we have them
12 provide for us an independent roster of current
13 employees.

14 Both sources -- both of these bits of
15 information come from the same employer. And frankly,
16 it's not difficult to match one with the other and
17 ensure that as you're doing so, that the -- that the
18 audit is unlikely to find anything.

19 It seems to me that a contractor who is
20 intent on employing undocumented individuals in
21 Pennsylvania would be relatively unlikely to put them
22 officially on the payroll. And for that reason, I think
23 it's very likely that these audits are going to serve
24 their intended purpose.

25 What we do find is that these -- all of

1 these violations that have been found and the fines that
2 have been put in place, all of them are associated with
3 either missed deadlines or missing paperwork. And upon
4 further inspection, we find that ultimately, in terms of
5 the actual employees that are there on the ground at the
6 work site, that the contractor is compliant.

7 CHAIRMAN METCALFE: Of course part of the
8 use of E-Verify is to ensure that the employer is
9 checking their staff a little further than just the I-9
10 requirements to be a deterrent in and of itself from
11 hiring illegals.

12 I think in a lot of companies, it's worked
13 very well. In a lot of areas of the country, it's
14 worked very well. The Federal government has used it
15 for many years. And I'm sure we'll have to dig in a
16 little bit further and see what they're doing, as far as
17 your critique of it.

18 It's different with the Federal government
19 than we're doing with the State, so maybe that's an area
20 for us to look at.

21 SECRETARY TOPPER: I'd be pleased to take it
22 up at another time and to discuss it in the detail. I
23 do think there are some changes statutorily and in terms
24 of the way we've implemented the program that could make
25 it more effective.

1 CHAIRMAN METCALFE: Great. Well, I look
2 forward to working with you on that because I've been
3 working with Representative Dom Costa to advance an
4 E-Verify bill that would be expanding E-Verify to all
5 businesses in Pennsylvania to be a deterrent to illegals
6 being employed here in Pennsylvania and finding
7 employment here to protect our State citizens from the
8 harmful impact of the illegal alien problem.

9 So we certainly want to make sure that the
10 State contractors are hiring legal workers and that
11 they're not hiring illegals as we've had at Slippery
12 Rock University in the past and then end up even having
13 to pay workers' comp to an illegal alien that falls and
14 gets hurt on the job. I know it's a concern to a lot of
15 people across the State.

16 So I appreciate your input on that.

17 SECRETARY TOPPER: Understood.

18 CHAIRMAN METCALFE: The last question I'd
19 have for you would relate to probably something that
20 you'll have to get back to us with additional
21 information. But when it comes to real estate that the
22 Commonwealth owns, I mean, we deal with a lot of
23 transactions piece by piece, but I'd like to hear from
24 your Department how much real estate do we own? And how
25 much out of that, that we own, should we actually sell

1 and not really continue to maintain to continue to keep
2 on the books?

3 SECRETARY TOPPER: Sure.

4 CHAIRMAN METCALFE: Because I know there've
5 been a number of items, a number of properties over the
6 years that we've done piecemeal, but I'd like to have
7 the information so we could share it with the members in
8 a broader fashion as far as what's the real estate
9 holdings of the State of Pennsylvania.

10 SECRETARY TOPPER: Sure. Thank you, Mr.
11 Chairman.

12 We are in the process of getting our arms
13 around all of our real estate holdings, basically all of
14 the space that we occupy. Space optimization has become
15 a major initiative for the Department within the last
16 year. I know there's a great interest in the topic in
17 both the House and the Senate, and we've been working
18 pretty hard to get our arms around it.

19 Because of the way the Commonwealth's
20 historic procedures work, DGS is sort of at the tail-end
21 of the process of when an agency decides to surplus
22 property or when an agency decides that a property is no
23 longer necessary. So we have relatively little
24 visibility into the front-end of the process, which
25 makes it more difficult for us to get our arms around

1 it.

2 That said, as near as we can tell, and I
3 believe these numbers will be more refined here over the
4 coming months, the Commonwealth owns approximately 1100
5 -- I'm sorry, 11,500 individual properties, which
6 account for roughly 4.1 million acres within the
7 Commonwealth of Pennsylvania. In terms of square
8 footage within the buildings that are on those
9 properties, we believe that the number is somewhere in
10 the neighborhood of seven to eight million square feet
11 of owned property.

12 In addition to that, the Commonwealth leases
13 approximately 11.5 million square feet worth of office
14 space, warehouse space, et cetera. Of that 11.5,
15 roughly three million is LCB stores. So that gives you
16 a rough sense of the magnitude. Within the last year,
17 we've really continued to -- done our best to continue
18 to accelerate both a reduction of our footprint, in
19 terms of square feet within the lease portfolio, and
20 also to accelerate our sales of real estate once it's
21 surplus.

22 There's been a real problem with --
23 historically over the last years, maybe decades, where
24 an agency surpluses a property and DGS gets it to prep
25 it for sale, but for a variety of reasons, having to do

1 with both statutory limitations and historic business
2 processes, the length of time between the point at which
3 a property is vacated and the point in time we can
4 actually get it sold can, in some cases, be months or
5 years.

6 And the net of that is that we incur many
7 millions of dollars in carrying costs for vacant
8 properties that are serving -- that are really not
9 adding value. Within the last year, we have sold 21
10 properties with a surplus property value of over \$5
11 million, and we've avoided \$3 million in carrying costs
12 by virtue of those sales.

13 That's more than was sold in the year
14 before, which -- and that too was more than was sold in
15 the year prior. So we're doing our best to accelerate
16 that cycle and to get those properties sold. In terms
17 of square footage reduction within the leased portfolio,
18 we have shrunk our leased portfolio by approximately
19 173,000 square feet, which is hard to get your head
20 around.

21 It's a space roughly 20-percent larger than
22 the State Agricultural Building. So we've made some
23 progress. We are assisting the agencies with
24 contracting into smaller spaces. I think there's a lot
25 more work to do.

1 CHAIRMAN METCALFE: Thank you.

2 Thank you, Chairman Adolph.

3 MAJORITY CHAIRMAN ADOLPH: Thank you,
4 Representative.

5 Representative Schweyer.

6 REPRESENTATIVE SCHWEYER: Thank you,
7 Chairman.

8 And thank you, Mr. Secretary. And I promise
9 I will make no terrible jokes. And I'm not even going
10 to pontificate about budget processes or anything else.
11 And in fact, I just have a very simple request. I had
12 mentioned it briefly in passing, and I just want to -- I
13 would not be representing my city or district if I did
14 not say something publicly.

15 Much to what Chairman Metcalfe was referring
16 to with the real estate holdings that you're trying to
17 divest yourself from, over a decade ago, almost a decade
18 ago, the-then Department of Public Welfare closed the
19 Allentown State Hospital.

20 It is a -- I think it's more than 100 acres
21 of land over on the eastside of Allentown, in a city
22 that is desperately looking for any opportunity to
23 continue to develop. We're landlocked. We don't have,
24 you know, vacant land very often that we can use to
25 develop.

1 And so, all I ask, sir, is that as you move
2 forward, I'm happy to help you in any way I can, to try
3 to put forth a resolution that ensures that this land is
4 developed quickly and developed in a way that is
5 consistent with the needs of the community, needs of
6 that specific area and is done, again, in an appropriate
7 way that meets those -- the marketplace needs.

8 And so if there's anything I can do, I'm
9 offering my assistance because it needs to happen sooner
10 rather than later.

11 SECRETARY TOPPER: Thank you,
12 Representative.

13 REPRESENTATIVE SCHWEYER: Thank you, sir.
14 Thank you, Mr. Chairman.

15 MAJORITY CHAIRMAN ADOLPH: At this time, I
16 would like to acknowledge the presence of some members
17 of the General Assembly, who are not members of the
18 Appropriations Committee, but are here because they are
19 interested in this Department: Representative Gabler
20 and Phillips-Hill and Representative Petri.

21 Thank you for being here.

22 The next question will be by Representative
23 Seth Grove.

24 REPRESENTATIVE GROVE: Thank you, Mr.
25 Chair.

1 Mr. Secretary, good afternoon. Thank you
2 for joining us.

3 SECRETARY TOPPER: Good afternoon.

4 REPRESENTATIVE GROVE: How many individuals
5 in your Department have a purchase card? Do you know
6 off the top of your head?

7 SECRETARY TOPPER: I'm afraid I don't know
8 off the top of my head --

9 REPRESENTATIVE GROVE: All right.

10 SECRETARY TOPPER: -- but I'll be happy
11 to get you the information.

12 REPRESENTATIVE GROVE: According to the
13 Governor's Executive Budget Book, you had loaned the
14 Purchasing Fund about \$92 million.

15 What was the purpose of that loan?

16 SECRETARY TOPPER: Forgive me,
17 Representative, I'll have to get you the details. I
18 really am not familiar with what're you're saying --
19 with what you're talking about.

20 REPRESENTATIVE GROVE: Okay. So within each
21 department, certain employees have what's called a
22 purchase card.

23 SECRETARY TOPPER: Yes.

24 REPRESENTATIVE GROVE: It's a credit card
25 that they use to purchase --

1 SECRETARY TOPPER: I know what that is.

2 REPRESENTATIVE GROVE: Okay.

3 SECRETARY TOPPER: Yeah.

4 REPRESENTATIVE GROVE: So according to your
5 budget book, there was a \$92 million loan. So I would
6 like to know what that was for when you get it, what
7 those purchases were over that time span.

8 SECRETARY TOPPER: Will do.

9 REPRESENTATIVE GROVE: If you could backlog
10 it back to the previous fiscal year and just let us know
11 the differences between that, the two.

12 SECRETARY TOPPER: Sure. Just to be clear,
13 Representative, do you believe that the \$92 million
14 figure is somehow associated with the purchasing card
15 population?

16 REPRESENTATIVE GROVE: Usually, it's the
17 Purchasing Fund. Usually, the Purchasing Fund -- the
18 explanation, in my many, many meetings with Treasury,
19 has been that the -- when an entity takes money out on
20 the purchase card, there is an accounting setup that
21 goes through the Purchasing Fund. And then I believe
22 the comptroller, either of your entity or within the
23 Budget Office, will reconcile that with Treasury to pay
24 it back.

25 So 92 seemed a little higher than average.

1 And obviously, we had a budget impasse and so forth. So
2 if you just could provide some data on what those
3 transactions were.

4 SECRETARY TOPPER: You got it.

5 REPRESENTATIVE GROVE: Yep.

6 SECRETARY TOPPER: For the record, the
7 Purchasing Fund supports more than just the population
8 of procurement cards --

9 REPRESENTATIVE GROVE: Okay.

10 SECRETARY TOPPER: -- within the enterprise.
11 Our Bureau of Publications, our Bureau of
12 Vehicle Management, and I believe portions of our Bureau
13 of Supplies and Surplus all operate out of the
14 Purchasing Fund.

15 And all of them -- and this is important
16 because it's relatively unique within State government,
17 all of those operations are required to, basically to
18 run in the black.

19 So all of those operations bill the other
20 agencies for the services they provide. They get their
21 operating capital from the Purchasing Fund, and we watch
22 it pretty closely to make sure that we restore every
23 dollar to the Purchasing Fund by virtue of those
24 on-going operations.

25 REPRESENTATIVE GROVE: Reconciliation to

1 those other departments. Okay. That's good to hear.

2 And if I'm not mistaken, I think there was
3 -- the General Assembly enacted a law at least for the
4 purchase cards that Treasury didn't have pre-audit;
5 correct?

6 They would do post-audit on the procurement
7 cards at least.

8 SECRETARY TOPPER: Representative, we're a
9 little bit out of my jurisdiction here. I believe it's
10 the Office of the Budget that manages the Procurement
11 Card Program.

12 REPRESENTATIVE GROVE: They do. It was
13 changed before --

14 SECRETARY TOPPER: Right.

15 REPRESENTATIVE GROVE: -- this
16 administration got in. You were in there so. We can
17 move on.

18 The GO-TIME initiatives, I believe the
19 Chairman was hitting on them. Obviously, the Governor's
20 goal is to save \$150 million this fiscal year on that.
21 Why do the projects that are completed for cost savings
22 not show up in the individual budget book?

23 We have a list. You submitted a list. We
24 appreciate that. We always appreciate efficiencies
25 looking for cost savings, but why aren't they connected

1 to any specific line item? And why do they not show up
2 as kind of a subtraction within the Governor's Budget
3 Book to show we saved this amount of money, we have
4 reduced costs.

5 SECRETARY TOPPER: Thank you,
6 Representative.

7 I think that's a great question. And if
8 you'll allow me to -- this might be a bit of a long
9 explanation, but let me try to help there.

10 REPRESENTATIVE GROVE: Yeah.

11 SECRETARY TOPPER: This year, if you look at
12 that \$150 million goal overall, our Department is
13 responsible for roughly two-thirds of it. And the vast
14 majority of it is to come from changes in the way we do
15 procurement and the application of strategic sourcing
16 and reverse auction tools to the way that we work.

17 DGS is -- sort of resides in a relatively
18 unique position within State government in that we buy
19 lots of things and we build buildings and we lease cars
20 and we do any number of things, you know, to support the
21 operations of the government, but we're not really
22 spending our own money when you think about it. We're
23 -- just to say that it's all taxpayer money of course,
24 but we are, mechanically, we are spending on behalf of
25 the agencies that we serve.

1 So thus far this year, we've done -- we've
2 identified roughly \$70 million in annualized savings,
3 and that's through 14 reverse auctions and more than 50
4 projects involving the application of more traditional
5 procurement methods. There have been some delays, but I
6 think we're on track to get to the \$100 million by the
7 end of the year.

8 Why can't we identify every dime within the
9 budget? Well, it's difficult to measure, and it's
10 difficult to measure for a number of reasons. First and
11 foremost, I think it's difficult to measure because the
12 question also presupposes that we have a budget for the
13 current year, which we don't.

14 REPRESENTATIVE GROVE: Let me ask you that.
15 If you go to the Governor's budget.gov, the Governor's
16 budget page, it says, enacted budget '15-'16. That's
17 your secretary, your budget secretary says, enacted
18 budget 2015-2016; correct? Can you look at that?

19 SECRETARY TOPPER: Representative, I'm not
20 sure which page you're referring to --

21 REPRESENTATIVE GROVE: The website, the
22 Governor's website.

23 SECRETARY TOPPER: -- but it seems to me
24 that we can -- I'll tell you what, rather than get into
25 a semantics debate, which neither one of us will win --

1 REPRESENTATIVE GROVE: I'm pretty sure I
2 voted for a budget. You're getting a -- are your GGOs
3 being paid through the Treasury right now?

4 SECRETARY TOPPER: My GGO is being paid
5 through the Treasury; yes.

6 REPRESENTATIVE GROVE: How'd that happen?

7 SECRETARY TOPPER: -- but it is not true for
8 the entire enterprise that we have a budget.

9 REPRESENTATIVE GROVE: Well, that's because
10 the Governor vetoed a boatload of funding to school
11 districts. Now, they have junk bonds. I mean, we
12 passed a budget; actually, we passed two budgets.

13 SECRETARY TOPPER: Quite honestly,
14 Representative, if you'd like me to answer the
15 question --

16 REPRESENTATIVE GROVE: Go ahead.

17 SECRETARY TOPPER: -- I'd be pleased to do
18 that.

19 REPRESENTATIVE GROVE: Yeah, I just wanted
20 to make a point that we have a budget.

21 SECRETARY TOPPER: So back to your question,
22 why can't we identify the savings? Well, it's a complex
23 undertaking.

24 Even if we had a completed budget, those
25 purchases and those savings are amassed via literally

1 thousands of purchase orders and P card transactions
2 across the entire enterprise, across roughly, you know,
3 \$450 to \$500 billion worth of purchase transactions in
4 any given year.

5 The savings are typically derived from lower
6 prices, compared with the prices that were paid the
7 prior year. That's how we calculate that \$70 million.
8 They may also involve lower prices than were anticipated
9 due to market conditions.

10 So, for example, road salt. We conducted a
11 very successful road salt sourcing event this year, and
12 we achieved pricing that was equivalent to costs that
13 were roughly 10, I think just over \$10 million less
14 expensive than what we anticipated within the market.

15 The entire market was up 10 to 15 percent
16 because of the winter that we had previously. So it's
17 common within procurement and sourcing --

18 REPRESENTATIVE GROVE: Let me ask you
19 there -- that \$10 million is in savings. Obviously, you
20 did the purchasing. PENNDOT would reimburse you for
21 that purchase.

22 What line item did PENNDOT use to do that
23 purchase of salt.

24 SECRETARY TOPPER: Sure. So, technically,
25 we would not pay for the purchase ourselves. We put the

1 contract vehicle in place, and then PENNDOT would
2 directly work with the contract, cut a purchase order
3 and then make their purchase.

4 REPRESENTATIVE GROVE: Would that be their
5 maintenance? Do you know what line item that is?

6 SECRETARY TOPPER: We can identify where all
7 of the purchase orders are against where the road salt
8 contracts are within the system, and we'd be happy to
9 give you that information.

10 REPRESENTATIVE GROVE: So you can identify
11 the savings?

12 SECRETARY TOPPER: We can identify where the
13 expenses are.

14 REPRESENTATIVE GROVE: If you can identify
15 the expenses, you can identify the savings, so you can
16 identify the line items it came from.

17 So within your budget book, you can subtract
18 it out, and that \$150 million now doesn't need to be tax
19 increases.

20 SECRETARY TOPPER: It would be nice if it
21 worked that way, but it doesn't.

22 REPRESENTATIVE GROVE: Why doesn't it?

23 SECRETARY TOPPER: Sure.

24 REPRESENTATIVE GROVE: Government that
25 works. Make it work.

1 SECRETARY TOPPER: Sure. So within
2 operating funds, agency budgets aren't fixed at the
3 level of discreet expense categories. That's just not
4 how the Commonwealth's accounting system works.

5 So if you reduce the cost of a purchase
6 order, it doesn't automatically result in stranded funds
7 that can't be used for something else.

8 And because agency operating funds had been
9 under such immense pressure overall over the course of
10 the last four or five years, agencies moved quickly to
11 repurpose those savings in order to make ends meet and
12 in order to maintain their operations.

13 REPRESENTATIVE GROVE: So they are mostly
14 being spent forward? The savings are being spent
15 forward in other areas?

16 SECRETARY TOPPER: They are, because it's
17 being spent out of necessity. Agencies may also -- they
18 may also reprioritize, and they may forego certain
19 purchases. And when they forego those purchases in
20 favor of making another purchase or in favor -- or they
21 may just be out of money because the operating budgets
22 have gotten so slim.

23 So we may project savings that ultimately
24 don't materialize because the transactions, the purchase
25 aren't actually executed.

1 So, you know, basically our job at DGS is to
2 deliver as many low-cost alternatives as we can deliver
3 as quickly as we can deliver them. But at the end of
4 the day, it's the agencies that are responsible for
5 managing their own budgets and managing their own
6 mission, using the tools that we provide for them. But
7 we're not in the accounting business at DGS.

8 REPRESENTATIVE GROVE: Everyone's in the
9 accounting business in government, everyone. Every
10 dollar must be accounted for; correct?

11 SECRETARY TOPPER: Yes, sir. Yes, but there
12 is a reasonable division of labor within our enterprise,
13 just the way there is in any large enterprise.

14 REPRESENTATIVE GROVE: But here's the issue.
15 If the administration is coming out and saying, we're
16 saving \$150 million, and you can't measure and you can't
17 verify it --

18 SECRETARY TOPPER: I can. I can, so I --
19 please.

20 REPRESENTATIVE GROVE: So you can measure
21 and verify it, but those savings, you can't identify in
22 the budget books because they're not measurable.

23 It sounds like we're having a very circular
24 argument.

25 SECRETARY TOPPER: Well, I don't think it's

1 circular at all. You're just insisting that apples are
2 oranges, and they're not.

3 REPRESENTATIVE GROVE: They're not?

4 SECRETARY TOPPER: No.

5 REPRESENTATIVE GROVE: So the savings aren't
6 actually savings because the savings you're talking
7 about are apples, and in reality, they're really
8 oranges?

9 SECRETARY TOPPER: What I'm talking about is
10 the savings -- I would love to invite you down. Come on
11 down, spend a day with us, and we'll walk you through
12 all of the details in all of the models that basically
13 demonstrate the real cost reductions that have been
14 achieved in every one of those contracts and in every
15 one of those reverse auctions.

16 REPRESENTATIVE GROVE: And they're real
17 dollars?

18 SECRETARY TOPPER: They are real dollars.

19 REPRESENTATIVE GROVE: Real dollars that we
20 can account for?

21 SECRETARY TOPPER: They are real dollars
22 that likely have been spent.

23 REPRESENTATIVE GROVE: So, but at one point,
24 they were real dollars --

25 SECRETARY TOPPER: Yes.

1 REPRESENTATIVE GROVE: -- that were saved;
2 correct?

3 SECRETARY TOPPER: Yes, of course.

4 REPRESENTATIVE GROVE: Correct. Now,
5 spending them is not under your purview; correct? That
6 would be the purview of PENNDOT, whatever entity you're
7 saving them for; correct?

8 SECRETARY TOPPER: Yeah. Yes.

9 REPRESENTATIVE GROVE: Okay. Thank you.
10 That actually was the most clarifying explanation of how
11 GO-TIME money has already been spent that I have heard
12 today. So thank you very much.

13 Thank you, Mr. Chairman.

14 MAJORITY CHAIRMAN ADOLPH: Thank you.

15 Representative Madeleine Dean.

16 REPRESENTATIVE DEAN: Thank you, Mr.
17 Chairman.

18 And I have to say, I'm a little baffled by
19 the last round of questions and the adversarial nature.
20 It appears the questioner is angry with you for saving
21 money. I don't get that. So thanks for saving money.

22 Apparently in the GO-TIME initiative, the
23 Governor had hoped for \$150 million, and I think you
24 just said -- I apologize. I came in a little late, so I
25 may have missed some of what you said -- that your

1 Department alone is coming up with about half of that.
2 Regardless of how it is put up in a budget book, it's
3 real savings.

4 So did I get that right, about half of
5 that --

6 SECRETARY TOPPER: Yeah, we are on the hook
7 for two-thirds of it --

8 REPRESENTATIVE DEAN: Two-thirds.

9 SECRETARY TOPPER: -- and we are about 70
10 percent of the way there for our portion.

11 REPRESENTATIVE DEAN: Well, thanks for doing
12 that. I was interested in your COSTARS Program.

13 SECRETARY TOPPER: Yes.

14 REPRESENTATIVE DEAN: It's a procurement
15 program, where I think municipalities get to piggyback
16 onto the State's borrowing -- buying power.

17 Can you tell me about that? It sounds like
18 a great idea. When did it start? What kind of reality
19 is there to the COSTARS Program?

20 SECRETARY TOPPER: Happy to.

21 So the COSTARS Program is another name for
22 Cooperative Contracting, which is a mechanism that
23 exists in Pennsylvania and exists in most State
24 governments, whereby local municipalities, county
25 governments, educational institutions all have the

1 ability to purchase from State contracts directly as
2 opposed to running their own solicitations and going
3 through their own procurements for the same goods and
4 services.

5 Back in 2004, it was rebranded as the
6 COSTARS Program, and the Department began to put more
7 resources behind it in order to grow it because we felt
8 we could deliver much more value for the municipalities
9 that we serve. I am pleased to say that it has grown
10 rather dramatically over the course of the last 10
11 years, to the point where we now have, I believe -- so
12 we now have 8,329 COSTARS members.

13 And the volume through those COSTARS
14 contracts has now grown to exceed a billion dollars.
15 And, you know, savings estimates there are more
16 difficult to quantify because they tend to be
17 multiple-award contracts and we have less direct control
18 over the pricing and the transactions as they occur
19 between the vendor community and those local
20 communities.

21 But we estimate that in terms of just the
22 administrative cost-savings alone for those 8,000
23 entities, we believe the savings are in the millions of
24 dollars.

25 REPRESENTATIVE DEAN: And if I understand

1 it, it creates savings to the local municipalities, who
2 take advantage of it because they're buying better, I
3 assume?

4 SECRETARY TOPPER: Yes.

5 REPRESENTATIVE DEAN: But also then, there
6 are savings realized by the State. And how do we think
7 about those? How do we identify those?

8 SECRETARY TOPPER: Sure. Again, difficult
9 to quantify, but the -- it is certainly true that when
10 our statewide contracts are made available to those
11 local municipalities through the COSTARS Program, they
12 become much more attractive to the supplier community
13 because the likely revenue through the contract is
14 greater.

15 REPRESENTATIVE DEAN: Right.

16 SECRETARY TOPPER: And as a result of that,
17 you know, we tend to do better on the pricing.

18 REPRESENTATIVE DEAN: And if I switch gears
19 just very quickly to the present moment and where we are
20 and maybe where we've been for the last eight months.
21 On the one hand, we ask of you to save us a bunch of
22 money. On the other hand, we fail to pass a
23 comprehensive budget.

24 How did the budget impasse and how does the
25 budget impasse affect your Department?

1 SECRETARY TOPPER: That's a good question.
2 Thank you.

3 I'd like -- I'd really like to take just an
4 opportunity to thank the staff who really did a
5 remarkable job on the front lines through the impasse.
6 At DGS, we are responsible for every landlord
7 relationship that the Commonwealth maintains with every
8 commercial landlord in the State.

9 We're responsible for every vendor
10 relationship or most vendor relationships across the
11 State. And during the period through which those bills
12 weren't getting paid, I'm sure you can probably imagine
13 the volume of the telephone calls and the tenor of those
14 telephone calls. And the staff really did a remarkable
15 job.

16 That was largely the net effect for the
17 Department. It was managing those relationships,
18 maintaining those relationships, keeping them positive,
19 and keeping in mind, that there's -- that over the long
20 haul, we want to maintain those relationships and
21 continue to get preferred pricing as we go forward.

22 REPRESENTATIVE DEAN: To be honest with you,
23 I don't think we can imagine. I know you had to manage
24 some relationships for me in my own district office. I
25 appreciate that you did that.

1 I think you must be served very well by your
2 staff. I apologize that this impasse has affected all
3 of you and all of our communities.

4 Thanks for your work.

5 Thank you, Mr. Chairman.

6 MAJORITY CHAIRMAN ADOLPH: Thank you,
7 Representative.

8 Representative Fred Keller.

9 REPRESENTATIVE F. KELLER: Thank you, Mr.
10 Chairman.

11 And thank you, Mr. Secretary, and
12 Ms. Hudson. I'm trying to read from all the way over
13 here.

14 A couple things I have questions on. The
15 one thing is, in the Governor's proposed 2016-'17
16 budget, the general government operations line item for
17 DGS is decreased by 16 percent, or roughly \$10.6
18 million. And the reason that we found in there, that
19 was given for the decrease, was due to proposed Public
20 Works modernization initiative, which would use bond
21 funds to cover costs of staff who work on capital budget
22 projects.

23 So can you elaborate on that initiative at
24 all? And how many employees would be affected?

25 SECRETARY TOPPER: Thank you. I'd be happy

1 to.

2 It's important to have the context. Over
3 the last six years' worth of budgets, the Public Works
4 deputy, within the Department of General Services,
5 experienced staffing cuts on the order of 30 percent.
6 And that 30-percent reduction in our staffing led to
7 approximately 20-percent less throughput, which is to
8 say 20-percent fewer capital construction projects on an
9 annual basis actually getting built.

10 It resulted in a backlog of more than 60
11 projects, worth a total of \$200 million. That's
12 construction projects that were authorized and released
13 and ready to go that we didn't have the capacity to
14 build because of those staffing cuts.

15 That means something on the order of 2800
16 construction jobs in Pennsylvania that, you know, didn't
17 get created or weren't maintained during that period.

18 It also meant that the agencies and the
19 universities, that rely on DGS Public Works for those
20 buildings, had to wait longer in order to get into those
21 new or remodeled facilities that we're building. And
22 they waited longer in less-efficient facilities that
23 have higher operating costs. And by the time we get to
24 building those projects through escalation, the ultimate
25 costs of those projects are higher. So something had to

1 be done.

2 We were working with systems that are
3 literally three decades old. I have construction
4 inspectors in the field who don't -- who I -- who the
5 Department historically hasn't even issued cell phones
6 in today's technology-driven marketplace. So something
7 had to be done.

8 So the modernization is really a
9 top-to-bottom wholesale change in the way that the
10 Public Works works in DGS. It's new job descriptions.
11 It's a new set of responsibilities. It's enabling the
12 staff in the field to actually project-manage a
13 construction job and make decisions that will enable the
14 project to stay on-time and on budget. It means that
15 literally, instead of using U.S. Mail to send a \$500
16 purchase order from a regional office to Harrisburg so
17 that it can be approved and then having the approved
18 change order go back to the regional office, also via
19 U.S Mail, and then ultimately back out to the
20 construction site, meanwhile work would stop in many
21 instances.

22 That's how we were doing business. It had
23 to change.

24 REPRESENTATIVE F. KELLER: If I could just
25 ask one question. So we don't have computers in these

1 offices and scanners?

2 SECRETARY TOPPER: Not at the level that
3 they are really required in order to really be able to
4 do the job.

5 So what we've done is really a wholesale
6 redesign of the way that we work. I mentioned the
7 e-Builder platform, which was the investment that we
8 used those waiver funds in order to make happen. That's
9 a state-of-the-art workflow system that will enable us
10 to work with the architectural and design community and
11 with our contractors.

12 REPRESENTATIVE F. KELLER: Okay. Can I --
13 can I just sort of -- I think we got off point here a
14 little bit.

15 My understanding of what was in the book is
16 the reason given for the decrease is due to proposed
17 Public Works modernization initiative, which would use
18 bond funds to cover costs of staff who work on capital
19 budget projects.

20 Is that covering payroll, those kinds of
21 items for staff or is it buying them supplies?

22 SECRETARY TOPPER: Both.

23 REPRESENTATIVE F. KELLER: So what we're
24 saying is that we are going to -- let me ask this
25 question. The staff that we're going to have work on

1 these, are they Commonwealth employees?

2 SECRETARY TOPPER: They are.

3 REPRESENTATIVE F. KELLER: Okay. So we're
4 going to borrow money to make payroll for Commonwealth
5 employees and amortize that over the cost of a project?

6 SECRETARY TOPPER: We are.

7 REPRESENTATIVE F. KELLER: We're going to
8 pay their payroll for next year or the year after, over
9 20 years or whatever the --

10 SECRETARY TOPPER: Yes. Representative, I
11 think it's important though to understand that it's
12 quite a common practice within the construction world.

13 REPRESENTATIVE F. KELLER: Is that a -- I
14 worked in private industry. It was not a common
15 practice for me to take my employee's payroll and go to
16 the bank and borrow money and amortize that over 10 or
17 20 or 30 years to pay for -- we did that with the
18 pensions, when we didn't make the pension payments. And
19 we're going to turn around and do the same thing?

20 SECRETARY TOPPER: As I said,
21 Representative, it's a common financial practice. It's
22 employed by large institutions and many other State
23 governments.

24 REPRESENTATIVE F. KELLER: I think this is
25 one I would call a one-time gimmick, quite frankly. I'm

1 going to move on because I got my answer. We're
2 borrowing money to make payroll. That's the bottom line
3 in this.

4 You mentioned about 60 projects, costing
5 \$200 million.

6 SECRETARY TOPPER: Yes.

7 REPRESENTATIVE F. KELLER: You cannot look
8 happy at me, but that's what it says. Okay. I'm going
9 to move on now to the \$200 million in projects. The
10 \$200 million in projects, is that money we already have
11 ready to release? Or is that money that we're going to
12 have to borrow also?

13 Backlog of 60 projects. Do we have that
14 money in the bank to pay? Or is that money we have to
15 borrow?

16 SECRETARY TOPPER: Representative, I believe
17 that it would make sense for you to direct that question
18 at the Office of the Budget.

19 REPRESENTATIVE F. KELLER: Well, you
20 mentioned the projects. I wasn't even aware of those.
21 I made the notes. So the thing is, you're managing
22 projects, and you say you're going to manage 60
23 projects, worth \$200 million.

24 And my question is, you're managing that
25 project. Do we have the money in the bank to pay for

1 that? Or is that money we're going to have to go
2 borrow?

3 Because it concerns me when we're talking
4 about a structural deficit, that we're going to go out
5 and borrow \$200 million; okay.

6 You understand the link that we're trying --
7 everybody is talking about tough budget times and
8 raising taxes on people that go to work every day, and
9 we're just going to borrow money to make payroll and
10 build stuff.

11 I mean, maybe these things are worthy, but I
12 think we should understand when we're making budget
13 decisions, are we borrowing another \$200 million.

14 SECRETARY TOPPER: Representative, we
15 routinely go to the bond market --

16 REPRESENTATIVE F. KELLER: So we would
17 borrow the money for those projects?

18 SECRETARY TOPPER: -- in order to support a
19 portfolio of capital projects.

20 REPRESENTATIVE F. KELLER: The answer is,
21 we're borrowing the money for the projects; yes or no?

22 SECRETARY TOPPER: Yes. And all of them --

23 REPRESENTATIVE F. KELLER: Okay. Thank you.

24 SECRETARY TOPPER: -- and all of them --

25 REPRESENTATIVE F. KELLER: I'm done with

1 that question.

2 SECRETARY TOPPER: -- are authorized by the
3 General Assembly.

4 REPRESENTATIVE F. KELLER: I'm done with
5 that question.

6 SECRETARY TOPPER: -- voted on and passed by
7 the General Assembly.

8 MAJORITY CHAIRMAN ADOLPH: Representative --

9 MINORITY CHAIRMAN MARKOSEK: Representative,
10 let him answer.

11 It's late in the day. We're all tired and
12 he's trying to answer these questions. There's a tone
13 of anger that doesn't have to be here.

14 Just ask your question. Let him answer. If
15 you don't like the answer, fine. Move on.

16 SECRETARY TOPPER: Representative -- thank
17 you, Mr. Chairman.

18 Representative, every one of the projects in
19 that backlog was approved by the General Assembly as
20 part of a capital bill.

21 And I believe that at the time those capital
22 bills were approved by the General Assembly and signed
23 by the Governor, that was authorization to borrow that
24 money so --

25 REPRESENTATIVE F. KELLER: Okay.

1 SECRETARY TOPPER: I'm really not quite sure
2 what the point of your question is.

3 REPRESENTATIVE F. KELLER: Well, the point
4 I'm going to make is, we do a capital budget. But what
5 my understanding is, we do a capital wish list for
6 projects. And I guess I'll look to the Chairman since I
7 got -- we do -- but that doesn't -- then we do a capital
8 budget to fund them.

9 MAJORITY CHAIRMAN ADOLPH: There's an
10 authorization, and there's a capital project list.

11 These are the bonds issued for the ones that
12 have been approved.

13 REPRESENTATIVE F. KELLER: Okay. Thank you.

14 I'm going to move on. And I'm going to go
15 to -- the Department of General Services, of course,
16 handles the buildings and so on for the Commonwealth,
17 manages projects. So we buy fuel for our vehicles. We
18 buy fuel for heating the various Commonwealth buildings.

19 SECRETARY TOPPER: Yes.

20 REPRESENTATIVE F. KELLER: Do we know, over
21 the last year -- and I'm not sure, maybe we buy it under
22 a contract and we haven't realized some savings from the
23 decrease in fuel prices, but we've had a mild winter and
24 we've seen fuel prices decrease greatly.

25 Do we know what savings we've realized? If

1 we buy it on the market, what we've realized already?
2 And if we're buying it under contract, can we see what
3 we'll maybe save next year?

4 SECRETARY TOPPER: Thank you.

5 The first answer to your question is, yes,
6 we do buy fuel under contract. And we actually buy fuel
7 at below-market rates.

8 Basically, we have a contract with Sunoco
9 presently, where, when you take your State -- your
10 fuelling card with your State car to a Sunoco or to any
11 other fueling station, the transaction is managed via
12 this contract.

13 And as part of the service, they back out
14 the taxes, to which we are not -- which we don't need to
15 pay. And we actually -- one of the great initiatives of
16 the procurement team over the last year was to negotiate
17 an additional discount from Sunoco on every gallon of
18 gas the Commonwealth purchased.

19 So, overall, the -- it looks as though our
20 -- so these are the latest years for which I have data:
21 FY '13-'14, our total cost for fuelling was \$22.5
22 million.

23 REPRESENTATIVE F. KELLER: Do we know how
24 many gallons that was? Or we don't --

25 SECRETARY TOPPER: 7,178 -- 7,178,504.

1 REPRESENTATIVE F. KELLER: Okay.

2 SECRETARY TOPPER: In FY '14-'15, our total
3 cost was \$20,000,612, and the consumption was
4 \$7,920,909.

5 REPRESENTATIVE F. KELLER: So we're getting
6 savings through that, through our initiative. I'm glad
7 we're doing that.

8 And do we have figures like that on all our
9 buildings or? If you want to get those to me, that will
10 be fine.

11 Again, I appreciate the fact that we're
12 trying to manage things and get things lower. I just
13 want to make sure -- and what sort of sparked this is,
14 in my own driving, from 2014, and then I looked at 2015,
15 and I saved, in my house with two vehicles, about \$2000.
16 Of course, I drive a lot. My wife doesn't drive as much
17 as I do.

18 SECRETARY TOPPER: Sure.

19 REPRESENTATIVE F. KELLER: And I'm thinking
20 as a Commonwealth, and I realize that's not a cost
21 driver, one of our major cost drivers, but it's a pile
22 of money.

23 SECRETARY TOPPER: There's no question that
24 we've benefitted from lower fuel costs, both by virtue
25 of the market falling and by virtue of efforts of the

1 team that has done a really fantastic job of
2 negotiating.

3 We've saved \$2.1 million this year by going
4 long on contract electricity purchases. So basically,
5 we have locked in a five-cent-per-kilowatt-hour rate for
6 the Commonwealth through 2019, which effectively means
7 our electricity costs are going to be relatively fixed
8 and predictable and lower than market, which is a huge
9 achievement over the course of the last year. There are
10 a number of stories along those lines.

11 I could talk to you all day about those
12 kinds of results, and I'll be happy to get you the
13 details.

14 REPRESENTATIVE F. KELLER: Thank you. I
15 appreciate it.

16 Thank you, Mr. Chairman.

17 MAJORITY CHAIRMAN ADOLPH: Thank you.
18 Representative Kinsey.

19 REPRESENTATIVE KINSEY: Thank you, Mr.
20 Chairman.

21 Good afternoon, Mr. Secretary.

22 SECRETARY TOPPER: Good afternoon.

23 REPRESENTATIVE KINSEY: First, I just want
24 to comment and say that I really appreciate your calm
25 and collectiveness as you answer these very tough

1 questions.

2 You know, just to see you endure, I just
3 want to want say, I truly appreciate that. And I know
4 that it's late and tough questions are continuing.

5 Mr. Secretary, on behalf of my colleague,
6 Representative Donna Bullock, who's not here today,
7 throughout these hearings, her line of questioning
8 centered primarily on minority participation.

9 SECRETARY TOPPER: Yes.

10 REPRESENTATIVE KINSEY: So in her absence, I
11 want to maybe just ask some questions on her behalf.

12 Can you share with us the -- what is the
13 current participation status of small businesses,
14 veteran, minority and women-owned businesses, as it
15 relates to contracts? Maybe you have percentages there.
16 And share if there's been an increase or decrease over
17 the past year or so.

18 SECRETARY TOPPER: Happy to.

19 Thank you, Representative. The question
20 actually points up another key point from my testimony,
21 and I'd just like to echo it very quickly.

22 The Office of Small Business Opportunities
23 within the Department of General Services also has
24 suffered significantly from a staffing standpoint over
25 the course of the last five budgets.

1 As a consequence of those staffing
2 reductions, staff within the Small Business
3 Opportunities Bureau was reduced by 23, 24 percent. And
4 as -- and over the same period, despite a lot of focus
5 from the prior administration on creating opportunities
6 for small business, if we look at the actual data in
7 terms of the number -- in terms of the size of payments
8 made by the Commonwealth to small businesses,
9 veteran-owned businesses, minority-owned businesses,
10 women-owned businesses, the record is not something to
11 be proud of.

12 Between 2010 and 2014, Commonwealth payments
13 to small businesses through our contracts actually fell
14 from roughly 13 percent to just over 9 percent. And
15 within that population, the payments that were made to
16 diverse businesses, so minority-owned businesses,
17 women-owned business and veteran-owned businesses,
18 they -- that percentage fell from just over nine percent
19 to just over five percent, so almost in half.

20 So we have a lot of work to do in order to
21 reverse that trend and in order to make good on a
22 commitment that I think is truly bipartisan. I think we
23 would all like to see the Commonwealth doing more of its
24 business with Pennsylvania's small businesses of all
25 kinds.

1 And it is a key priority for the Governor.
2 It's why the Governor issued the executive order that he
3 did back in September. And I can share with you that
4 it's our number one or number two priority as a
5 department, in order to make that -- in order to make
6 headway there.

7 There are a number of things that we're
8 doing, program changes, programatic changes, that we'll,
9 be rolling out. We're working in an unprecedented way
10 in concert with the Department of Community and Economic
11 Development, with PENNDOT and with the Department of
12 Labor & Industry in order to do something truly
13 comprehensive on this front.

14 Because the truth is we need to support
15 small and small diverse businesses here in Pennsylvania,
16 not just in their efforts to win State contracts but in
17 their efforts to grow and thrive within the much larger
18 Pennsylvania economy.

19 We spend \$4 to \$5 billion a year on goods
20 and services in a \$650 billion economy. So we are truly
21 missing the biggest opportunity, if we're not focused on
22 growing, developing and sustaining small businesses in a
23 much broader way. And that's why DCED is at the table.
24 That's why L&I and PENNDOT are at the table.

25 I'm excited for some of the announcements

1 that will be coming here within the next few months,
2 changes to the manner in which we award contracts,
3 changes in the manner in which we require that prime
4 contractors make good on commitments that they make to
5 subs at the time contracts are awarded. We've
6 historically had a significant compliance problem.

7 I could go on and on, but thank you for the
8 question.

9 REPRESENTATIVE KINSEY: Sure. And, Mr.
10 Secretary, I just want to say thank you for sharing
11 that.

12 You know, I sit on the Minority Business
13 Development Authority, and I'm hoping that we can work
14 with you to do greater outreach to minority-owned
15 businesses as well. So thank you very much for that.

16 SECRETARY TOPPER: I'd love to.

17 REPRESENTATIVE KINSEY: Thank you, Mr.
18 Chairman.

19 MAJORITY CHAIRMAN ADOLPH: Thank you.
20 Representative Keith Greiner.

21 REPRESENTATIVE GREINER: Thank you, Mr.
22 Chairman.

23 Mr. Secretary, glad to have you today. I'm
24 going to make life easy on you. I've got some softball
25 questions for you, just a few.

1 What is DGS doing today to improve the
2 delivery of construction services in the Commonwealth?

3 SECRETARY TOPPER: Well, we're -- as I
4 mentioned, we are modernizing the operation so that --
5 so that we are able to get more projects done on time
6 and on budget. It's a technology change. It's a
7 business process change, and it's a change in personnel
8 and their responsibilities.

9 All in, we are confident that in the end,
10 it's going to bring down the cost of the projects that
11 we build.

12 If I may, the capitalization of the costs is
13 in fact a common practice for large institutions and a
14 common practice for State governments. Just a quick
15 search, we identified some -- so it was a practice that
16 we used at Georgetown University, when I was there, up
17 until about a year ago. And let's not return to the
18 first question you asked, Chairman.

19 It's a process that we used at Georgetown
20 and is used at many other universities. It's not like
21 using a credit card in order to pay payroll. It's
22 nothing at all like that. If it's analogous to
23 anything, it's analogous to financing a portion of your
24 closing costs at the time you get a mortgage and buy a
25 house, which is quite common as well.

1 But it's done in California, Delaware,
2 Florida -- sorry -- Illinois, Louisiana, Massachusetts,
3 Minnesota, Vermont. And you know, bastions of
4 conservatism or bastions of liberalism, actually, like
5 Oklahoma and Texas.

6 And it's quite common, and the benefits are
7 significant because it allows us to flex when our
8 capital portfolio gets bigger. We can grow
9 appropriately in order to perform more work and get more
10 jobs into the economy. And when our capital portfolio
11 shrinks, it gives us the ability to shrink along with
12 it.

13 And that's just a matter of being able to be
14 responsive to the needs of our customers. And I'm
15 convinced that it's the way to go.

16 REPRESENTATIVE GREINER: Okay. So that's
17 the key area that you think is the easiest to deliver?
18 I mean, there are probably other things you're working
19 on also.

20 Like I said, these are -- I'm make it easy
21 for you.

22 SECRETARY TOPPER: I wish they were easy,
23 but some folks are making it look easy. The Bureau of
24 Publications, in six months this year, stood up a
25 state-of-the-art mail-sorting facility that has now

1 corralled all of the outgoing mail volume for all of the
2 offices under the Governor's jurisdiction. They're
3 processing a million and a half pieces of mail per week
4 within that Bureau of -- within that Bureau.

5 And the net savings thus far this year to
6 the agencies -- and this is real money because it was
7 all contracted through Pitney Bowes and other contracts.
8 We've brought it in-house, stood up a state-of-the-art
9 operation, and we've saved over \$700,000 this year.

10 And that operation is the equal of any
11 public sector or rather any private sector, similar
12 facility that you could point to. They prove, without a
13 doubt, that State government is more than capable of
14 performing at an exceptionally high level. And every
15 other operation within DGS is equally capable, but it
16 requires time. It requires effort. It requires
17 investment in order to innovate.

18 And if there's one theme I'd want to
19 underscore for the Committee, it's that the current
20 scarcity in operating funds has made it such that it is
21 very difficult to innovate and very difficult to do the
22 things that we all want to do to put the Commonwealth on
23 a lower cost trajectory over the long run.

24 REPRESENTATIVE GREINER: Let me follow up.
25 Would elimination of the Separations Act, which was

1 passed back in 1913, help improve construction services
2 to the Commonwealth? And wouldn't that allow you to use
3 more modern construction management techniques like
4 construction management of at-risk and true design
5 construction build projects?

6 SECRETARY TOPPER: Without a doubt. We're
7 one of three or four States that still has a Separations
8 Act. The \$25,000 threshold was set in -- you mentioned
9 the year, 19 --

10 REPRESENTATIVE GREINER: -- 13.

11 SECRETARY TOPPER: 13. So the \$25,000 --

12 REPRESENTATIVE GREINER: It's only been a
13 hundred years.

14 SECRETARY TOPPER: Right. So that's, you
15 know, that threshold hasn't been raised or it may have
16 been raised once in the meantime, but it's \$25,000. In
17 modern-day dollars, that threshold would be a million
18 and a half dollars.

19 Think about it, every time we have a
20 construction project that is -- has a value greater than
21 \$25,000, we are required by statute to sign not one but
22 four prime contracts.

23 So we have four times the administrative
24 work. And every time there's a problem, our system
25 virtually guarantees that we're going to have an issue

1 figuring out who's accountable.

2 It's a mess, and I would love nothing better
3 than to see the Commonwealth move in a better direction.
4 I need your help.

5 REPRESENTATIVE GREINER: I appreciate that,
6 because I agree with you.

7 Last question. I know that -- I understand
8 that the Governor has an appointed board of individuals
9 from the construction industry's private sector that
10 creates a short list or selections of design
11 professionals, but four of the five positions are
12 currently vacant.

13 And I'm not sure what's going on there, but
14 I guess my question is, should we be eliminating this
15 board? It's like, all of us here or many of us want to
16 save costs, and I just wanted to inquire of you
17 concerning that item.

18 SECRETARY TOPPER: Thank you,
19 Representative.

20 It's under consideration. I don't believe
21 that the elimination of the board in and of itself would
22 result in dramatic cost savings. They don't -- they're
23 not paid positions. There's some expense reimbursement,
24 but they're, you know, yeah, they're effectively wage
25 positions. So it's a part-time thing.

1 So there's not huge savings to be gained
2 there, but there is huge time savings and huge
3 efficiencies to be gained by changing the way we do
4 that.

5 The Selections Committee and that process,
6 combined with the staffing cuts that the agency went
7 through over that period, are a big part of why we ended
8 up with the backlog that we did.

9 REPRESENTATIVE GREINER: That's all I had.

10 SECRETARY TOPPER: Thank you.

11 REPRESENTATIVE GREINER: So I appreciate you
12 being here. It's been a long, long day.

13 And I appreciate the Chairman giving me the
14 opportunity.

15 MAJORITY CHAIRMAN ADOLPH: Thank you,
16 Representative.

17 Representative Daley.

18 REPRESENTATIVE DALEY: Thanks, Mr. Chairman.

19 And it's good to see you, Secretary Topper.
20 You know, when I see you, I'm reminded of your
21 university background and why so much of what you say
22 about procurement strategies and all of that sounds so
23 familiar to me.

24 So -- our staff provided us with a quote
25 from your submitted testimony to the Senate

1 Appropriations Committee, and it may be in the House --
2 what you submitted to the House also. But it really
3 captures the strategy that you're trying to use at DGS
4 and the mindset behind some of your GO-TIME initiatives.

5 And I really hope that everybody gets a
6 chance to take a look at that because I think it really
7 outlines what you're really trying to do with a huge
8 enterprise and trying to modernize some of our
9 procurement processes, et cetera.

10 So I just -- in just thinking about that, is
11 there anything else that you would like to add to what
12 you've already said about your procurement strategies.

13 SECRETARY TOPPER: Not presently, but thank
14 you for calling attention to it.

15 REPRESENTATIVE DALEY: I think we all
16 probably appreciate that answer, and I was just
17 following in Representative Greiner's motive, tossing
18 you a softball and being able to congratulate you also.

19 SECRETARY TOPPER: Thanks.

20 REPRESENTATIVE DALEY: Thank you.

21 MAJORITY CHAIRMAN ADOLPH: Thank you,
22 Representative.

23 Representative Sue Helm.

24 REPRESENTATIVE HELM: Thank you, Mr.
25 Chairman.

1 And welcome, Secretary Topper.

2 Like last year, you said that the process
3 involved with selling surplus properties is
4 fundamentally broken and slow, unnecessarily resulting
5 in millions of dollars of annual carrying costs. And
6 today you talked about selling 21 properties last year
7 or this year and the \$3 million savings.

8 I just wondered if there's anything else
9 you'd like to talk about as far as how you've saved
10 dollars? But more specifically, I'm sponsor of a bill
11 to sell the State hospital grounds.

12 SECRETARY TOPPER: Yes.

13 REPRESENTATIVE HELM: And could you provide
14 us an update on the relocation of the employees and the
15 status of the former Harrisburg State Hospital property,
16 now known at the DGS Annex?

17 And I know in the bill, I'm pretty sure it
18 says that by February, the employees that were housed
19 there were supposed to be in the Verizon building in
20 Strawberry Square. And I just wondered if this was
21 accomplished and how we were as far as getting the
22 property sold, because I know once we sell, it is going
23 to save \$6 million a year in just the basic upkeep of
24 the grounds.

25 SECRETARY TOPPER: So the migration of the

1 employees from the DGS Annex into downtown, into
2 Strawberry Square, primarily, it continues on schedule.
3 We expect it to be completed in May of this year.

4 REPRESENTATIVE HELM: The move?

5 SECRETARY TOPPER: So I'm not sure -- I'm
6 not certain of the date, but the move will be complete.
7 And so we're happy with that progress.

8 In terms of moving to get the property
9 properly sold, we have engaged with a planning firm,
10 consulting firm out of Lancaster, that is going to
11 assist us with working with the various stakeholders.

12 Since I look the job, I've heard from local
13 historical groups, representatives of local residents,
14 local businesses, there's a lot of interest in that
15 property. And there are some true treasures on the
16 property. So there's work to be done.

17 We are basically working with that
18 consultant. We'll do so through the beginning of the
19 summer. And then by the fall, we plan to come back to
20 the General Assembly, as far as is required by Act 100,
21 so that we can provide for you a comprehensive plan for
22 how we would finally get the property off the books and
23 get it redeveloped.

24 REPRESENTATIVE HELM: You are correct. I
25 know the bill says that DGS has the authority to have it

1 surveyed, appraised and come up with a plan.

2 SECRETARY TOPPER: Right.

3 REPRESENTATIVE HELM: And I know you did
4 hire that consultant, which I'm okay with, but I do have
5 a question, because I just -- when I did that bill, I
6 thought that the planning process could be done
7 in-house. And you just talked about Pitney Bowes and,
8 you know, how you're doing the mail in-house.

9 And I also still own a real estate company,
10 that used to be a little bit better when I was actually
11 working at it, but I know that I have one employee that
12 came here with DGS to be an appraiser; another one, you
13 know, works in the real estate end of it.

14 So I kind of just thought that all of that
15 was handled in-house and then it was, you know --

16 SECRETARY TOPPER: We -- my understanding,
17 Representative, is that we no longer have in-house
18 appraisers. I think all of our appraisals are done
19 using third-party appraisals.

20 We went the contracting route in large part
21 because I personally wanted to see us develop what could
22 be a model for how we would engage the community when we
23 have other properties that we need to sell, like SCI
24 Cresson or like Allentown State Hospital or any number
25 of these other facilities that members of the General

1 Assembly have a real concern about and that members of
2 the local community have a real concern about.

3 And when I mentioned that the real estate
4 sales process was broken, what I was really referring to
5 was the fact that the current statute gives us so few
6 options in terms of how we ultimately market a property
7 and get it sold. We're effectively required to do an
8 appraisal and then sell it to the highest bidder without
9 any formal involvement from local stakeholders. And
10 without the ability to take into consideration what all
11 of those stakeholder concerns are, and potentially, you
12 know, sell the property in another way.

13 And what I hope to get from the consultant,
14 in addition to a plan for Harrisburg, is a model for how
15 we will do this going forward. And at that point, I
16 hope to engage the General Assembly in trying to get
17 some changes made to those and I also hope to bring that
18 process ultimately back in-house so that we're able to
19 do it without permanently using consultants.

20 REPRESENTATIVE HELM: Well, learn from this
21 one. I have no problem with you're hiring because I
22 don't even think they're charging that much. I was
23 surprised at the length of time they're on the job and
24 what the price is.

25 SECRETARY TOPPER: It's quite reasonable.

1 REPRESENTATIVE HELM: But I know how the
2 historical societies -- I know they want properties to
3 stay there. And I also know the gardens are a big
4 thing. Everyone is concerned about losing their
5 gardens, but I know you're going to have them somewhere
6 else.

7 SECRETARY TOPPER: Right.

8 REPRESENTATIVE HELM: All right. Thank you.

9 SECRETARY TOPPER: Thank you.

10 MAJORITY CHAIRMAN ADOLPH: Thank you,
11 Representative.

12 Representative Maria Donatucci.

13 REPRESENTATIVE DONATUCCI: Thank you, Mr.
14 Chairman.

15 And I think it's safe to say good evening,
16 Secretary Topper.

17 SECRETARY TOPPER: Good evening.

18 REPRESENTATIVE DONATUCCI: And I'll be
19 quick. The Indigenous Resources Development Act, or Act
20 147 of 2012, authorized DGS to sell or lease the oil,
21 gas and mineral rights held by the Commonwealth of
22 Pennsylvania and the State System of Higher Education.

23 Recently, have any resource extraction
24 companies expressed an interest in a lease agreement?

25 SECRETARY TOPPER: Not that I'm aware of.

1 It's possible that expressions of interest
2 could have been made to the departments that own
3 the properties. And we have maintained the mechanism
4 with the agencies so that, you know, we can act under
5 the authority that the Act gives us to, you know, make
6 those decisions and to award those rights.

7 But in the year that I've been here, I have
8 yet to see a transaction along those lines.

9 REPRESENTATIVE DONATUCCI: Thank you.

10 And my second question, and I'm sorry if I
11 missed this because I did come in a few minutes late.
12 The rental and municipal charges appropriation is
13 decreasing by \$930,000, or 3.7 percent, in your budget.

14 Can you explain why lease costs are going
15 down?

16 SECRETARY TOPPER: I believe a big part of
17 that, Representative, is the contraction in our
18 footprint. We have been actively working with our
19 agency customers to get them to share space, to get them
20 to consolidate and occupy less space within the
21 facilities that they lease.

22 And the net of it, we have reduced our
23 leasing portfolio by 173,000 square feet within the last
24 year. That's an area roughly, you know, slightly bigger
25 than the State Agriculture Building.

1 So I'm proud of the results so far. I think
2 there's a lot of opportunity remaining to continue to
3 contract back into better optimized owned space and
4 limiting our exposure through that lease portfolio.

5 REPRESENTATIVE DONATUCCI: Thank you.

6 And thank you, Mr. Chairman.

7 MAJORITY CHAIRMAN ADOLPH: Thank you,
8 Representative.

9 Representative Duane Milne.

10 REPRESENTATIVE MILNE: Thank you, Mr.
11 Chairman.

12 And good evening, Mr. Secretary.

13 SECRETARY TOPPER: Good evening.

14 REPRESENTATIVE MILNE: It is officially
15 evening here, but I wanted to raise a few questions in
16 relation to cost controls, and they are centered on
17 State vehicles.

18 Now, I raise this because State vehicles, I
19 think, symbolically have shown the taxpayer, what people
20 think of as inefficiencies or waste or excess, so it's
21 something I think all parts of State government had been
22 conscious about trying to reduce usage and numbers.

23 And, certainly here on the legislative side,
24 prior to your time, I'm very pleased that in the
25 legislature, we've done considerable steps to reduce the

1 number of State vehicles that are under the auspices of
2 the State legislature at large and State legislators in
3 particular, doing away with private vehicles and a
4 number of the Cadillac leases that used to be in place
5 in this building.

6 So in that spirit, I'm certainly pleased
7 that with the prior administration, DGS undertook a
8 number of steps to start to reduce the State vehicle
9 fleet. In some of the materials that I know were
10 submitted for this year's testimonies, there's
11 references of additional steps that could be taken,
12 particularly, telematics technology --

13 SECRETARY TOPPER: Yes.

14 REPRESENTATIVE MILNE: -- as well as some of
15 the efficiencies that could be addressed with a special
16 fund, passenger vehicles.

17 So I'm wondering if maybe you could touch
18 upon those and expand where your thinking is with those
19 two measures.

20 SECRETARY TOPPER: Thank you.

21 Actually, I really need to credit the prior
22 administration, because on this front, they really did
23 dramatically improve the manner in which the
24 Commonwealth manages its vehicles.

25 Since 2011, the --

1 REPRESENTATIVE MILNE: I'll pass that back.

2 SECRETARY TOPPER: Yeah. Since 2011, the
3 State DGS fleet size is down by 26 percent. And at the
4 same time, reimbursements for personal vehicle travel
5 dropped 21 percent. So it's clearly a sign of much more
6 effective management.

7 There's a regime in place now that makes it
8 much more difficult and much less likely that a State
9 employee will misuse a State vehicle. They're
10 accountable for every mile they drive. Everyone has to
11 be reporting. It's really -- it's quite --it's quite
12 good.

13 I think where the incremental improvements
14 lie, are in those special fund vehicles. There are
15 significant passenger vehicle fleets that are managed
16 outside of the DGS system. And I think we have the data
17 that can demonstrate that in terms of a total life cycle
18 cost on those vehicles, it would be substantially less
19 expensive if we were to bring them under the DGS regime.

20 I realize there are issues there, and we
21 need to continue to work with our customers on it, but I
22 think there's a real opportunity there. Telematics is
23 pretty straightforward. It's state of the art. It's
24 being done in large fleets all over the commercial
25 world.

1 Typically, when we install telematics, we
2 not only make the drivers of our vehicles safer, because
3 we're able to know when an air bag deploys or when
4 they're speeding, those kinds of things, but also what
5 tends to happen is the usage of the vehicles also tends
6 to come down. And, therefore, the costs come down.

7 So those would be the two big things that
8 I'm excited about. I think the management regime is
9 really quite good. I think it's as good as any large
10 fleet you're going to find.

11 REPRESENTATIVE MILNE: And I certainly would
12 encourage you to drive on with those initiatives.

13 SECRETARY TOPPER: Thank you.

14 REPRESENTATIVE MILNE: They are something
15 that I think have a potential to be done.

16 Regardless of mode of transportation to
17 arrive at a destination, what about, at large, the issue
18 of State employee travel?

19 Again, this is one of those areas where I
20 believe some travel is certainly necessary for the good
21 functioning of government. However, symbolically, this
22 is an area that can be seen as one of abuse or excess
23 from the perspective of some taxpayers.

24 So what is our policy, sort of stance, at
25 this moment?

1 SECRETARY TOPPER: Presently, I believe that
2 the -- and travel is managed through the Office of
3 Administration, not directly through DGS, but I believe
4 the Governor's travel ban, that was instituted last
5 fall, remains largely in effect.

6 So any out-of-State travel that a State
7 employee, you know, wishes to schedule, you know,
8 actually ultimately must get approved. I think most of
9 them are even going all the way to the Governor's
10 Office.

11 So my understanding is that our travel
12 expenses are way down within the last year as our
13 consumption has come down.

14 REPRESENTATIVE MILNE: Terrific. I would
15 certainly encourage you to keep the good effort up on
16 that front as well.

17 SECRETARY TOPPER: Sure.

18 REPRESENTATIVE MILNE: And then, last
19 question. The city of Harrisburg has been referenced a
20 couple of times this afternoon, into the evening.
21 Obviously, the Capitol Complex here is uniquely
22 situated, being within the boundaries of the city of
23 Harrisburg.

24 So in the budget materials that have been
25 submitted to this Committee, among other items, there is

1 a transfer in the Capitol Fire Protection of roughly a
2 little over \$900 million that will come from DCED into
3 DGS.

4 And I'm just wondering if you could
5 elaborate on what that usage will be for?

6 SECRETARY TOPPER: I believe it's
7 \$5 million, roughly \$5 million.

8 REPRESENTATIVE MILNE: I'm sorry. Yes. I
9 correct myself. Five million; percentage increase, 980
10 percent.

11 SECRETARY TOPPER: Right.

12 So this is basically a net transfer. There
13 is no increase to the expense. We are simply moving the
14 expense out of DCED and combining it with the prior
15 expense that was represented in the DGS budget.

16 And it's basically the amount that we pay to
17 the city of Harrisburg for fire protection. It's
18 analogous to a donation that you might make to your
19 local fire company because, you know, 41 percent of the
20 city here -- let's see. I'm sorry.

21 Approximately \$1.5 billion, or 48 percent of
22 the city's assessed value, is tax exempt; and 41 percent
23 of that is comprised of Commonwealth property. So we
24 feel this is a reasonable amount to reimburse the city
25 for the real fire protection that they provide to us.

1 REPRESENTATIVE MILNE: Certainly.

2 And just out of curiosity, the figure that
3 is arrived at, in this case, the \$5 million, is there a
4 methodology that is calculated to substantiate that or
5 to determine what the value of the fire protection
6 service is?

7 Certainly, with your prior experience at
8 Georgetown University, I mean, Georgetown and the
9 District of Columbia are sort of comfortably situated
10 with this particular matter and there's university
11 calculations that are used to determine the value of the
12 local fire protection.

13 SECRETARY TOPPER: Representative, I will be
14 pleased to provide you with these details. It's a bit
15 difficult to summarize on the fly, but, yes, there's a
16 calculation.

17 Basically, it works out such that we -- I
18 believe we are compensating them for roughly 20 percent
19 of their costs for fire protection services. And it
20 breaks down into police bureau salaries and overhead,
21 fire bureau salaries and overhead, et cetera.

22 I'd be pleased to provide you with the
23 details.

24 REPRESENTATIVE MILNE: Certainly. And I can
25 appreciate that. I, just out of intellectual curiosity,

1 I would be interested in reviewing that. If that could
2 be transmitted to the Chairman of the Committee, that
3 would be most appreciated.

4 Thank you, Mr. Secretary.

5 SECRETARY TOPPER: Thank you.

6 REPRESENTATIVE MILNE: Thank you, Mr.
7 Chairman.

8 MAJORITY CHAIRMAN ADOLPH: Thank you,
9 Representative.

10 Representative Warren Kampf.

11 REPRESENTATIVE KAMPF: Secretary Topper.

12 SECRETARY TOPPER: Yes.

13 REPRESENTATIVE KAMPF: A couple of
14 questions.

15 One, we've noticed that workers' comp rates
16 for a lot of our government entities have gone up. And
17 I think, based on what staff did, your rates for '16-'17
18 are going up substantially.

19 And we've also heard that comp rates out in
20 the private market have actually gone the other way. So
21 I question what's up?

22 Is that the shortest question that was ever
23 asked.

24 MAJORITY CHAIRMAN ADOLPH: It's heading in
25 the right direction.

1 SECRETARY TOPPER: So you're correct. It
2 looks as though at the rate has grown.

3 Again, I'd be pleased to provide you with
4 all of the details. It has gone up. I don't know that
5 I can speak to why. It's not really my field of
6 expertise. I'm not even familiar with how the mechanism
7 is determined, but I will be pleased to look into it.

8 REPRESENTATIVE KAMPF: Thank you very much.

9 All right. That's not it. I have a couple
10 more questions.

11 SECRETARY TOPPER: No problem.

12 REPRESENTATIVE KAMPF: So I understand that
13 the administration, I guess this is something that's
14 catching on around the country, is looking at or issued
15 an RFP on pay for success public private partnerships,
16 essentially, where there is a private funder of
17 government services and there's a third-party evaluator
18 to make sure metrics were hit. I guess there was an RFP
19 that was sent out into the world by the administration.

20 Or is DGS involved in that? What's going on
21 there.

22 SECRETARY TOPPER: Thanks, Representative.

23 I believe that is an effort coming out of
24 the Office of the Budget. And DGS was involved to the
25 extent that we facilitated the procurement and the

1 development of the RFP and published the RFP, but I
2 believe that -- I believe the Office of the Budget would
3 be better suited to answer the question.

4 REPRESENTATIVE KAMPF: Okay. This is going
5 smoothly.

6 So last thing. I really don't have a
7 question, although I will give you an opportunity to
8 comment.

9 You know, I did notice the questioning from
10 my colleague from York about identifying savings. And,
11 you know, one of the things that a number of us in the
12 legislature are looking at, is if there is, say, \$50
13 million or \$100 million in annual savings, and yet we're
14 talking about a structural deficit, why doesn't that
15 bring down the overall number, the target that we are
16 shooting at.

17 So although I appreciate the internal
18 workings of the government that you identified as being
19 complicated, you know, I would like to make it clear to
20 you that that frustration remains for me. For the
21 taxpayer, I don't want to be in the situation, where I
22 have to say to them, we got some savings, but we spent
23 it elsewhere. And I heard you say, well, there's a
24 scarcity of funds, and we had to use that savings and
25 redeploy it.

1 I get that, but then I think to myself, that
2 scarcity of funds, had there not been a blanket veto at
3 the end of June, might not have existed. In fact, I
4 think it would have been quite less acute, if not hard
5 to even identify.

6 And yet again then, in December, \$30-plus
7 billion was reduced to \$23 billion with a line-item
8 veto, thereby creating some more scarcity. So I say to
9 you, just sort of in conclusion of these comments,
10 although I get the complexity of accounting in the
11 government, scarcity to me, which was created by one of
12 the branches of the government, is not a satisfactory
13 answer to what is the ultimate target we're shooting at.
14 Is it 30.3 or 30.5 or 28.7?

15 Those are my comments, Mr. Chairman, but I'm
16 happy to let you respond if the chairman is.

17 SECRETARY TOPPER: Thanks, Representative.

18 I would only say that I share some of your
19 frustration. I understand it. I would only point out,
20 though, that the situation of scarcity for State
21 agencies and for State agency budgets, as I understand
22 it, is not a new phenomenon.

23 The reductions that I've spoken about, that
24 DGS has taken in terms of staffing levels, operating
25 funds, the ability to do our jobs is a story that is

1 similar in many, many other agencies. It's just simply
2 not the case that the Commonwealth hasn't done things in
3 order to try to reduce its costs and in order to bring
4 down those costs.

5 Those things have been going on since 2008
6 in successive administrations and in successive budgets.
7 The cuts have been real, and the scarcity is real. And
8 it dates back long before, long before, certainly, this
9 administration arrived. And I think that if there's any
10 theme in my testimony, it's about the fact that that
11 situation, which is created structurally, is actually
12 standing in the way of the innovation that is necessary
13 in order to put us on a lower-cost trajectory.

14 REPRESENTATIVE KAMPF: I'm going to keep my
15 bargain. I'm not saying anything else.

16 MAJORITY CHAIRMAN ADOLPH: Thank you,
17 Representative.

18 Mr. Secretary, Madam Deputy Secretary, thank
19 you so much for testifying before us today.

20 I apologize again to you for the delay, but
21 as you can see by your own hearing, you know, these
22 things do go on.

23 And for the members' information, we will
24 reconvene tomorrow at 9:30 a.m. with the Budget
25 Secretary.

1 Thank you so much. I'm looking forward to
2 working with you in the future.

3 SECRETARY TOPPER: You too. Thank you.

4

5 (Whereupon, the hearing concluded at 5:49
6 p.m.)

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C E R T I F I C A T E

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.

Tiffany L. Mast, Reporter
Notary Public

Tiffany L. Mast • Mast Reporting
mastreporting@gmail.com
(717) 348-1275