

COMMONWEALTH OF PENNSYLVANIA  
HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE  
BUDGET HEARING

DEPARTMENT OF REVENUE

STATE CAPITOL  
HARRISBURG, PENNSYLVANIA  
ROOM 140, MAJORITY CAUCUS ROOM

TUESDAY, FEBRUARY 20, 2018  
1:00 P.M.

BEFORE:

HONORABLE STANLEY SAYLOR, MAJORITY CHAIRMAN  
HONORABLE JOSEPH MARKOSEK, MINORITY CHAIRMAN  
HONORABLE KAREN BOBACK  
HONORABLE JIM CHRISTIANA  
HONORABLE SHERYL DELOZIER  
HONORABLE GEORGE DUNBAR  
HONORABLE KEITH GREINER  
HONORABLE SETH GROVE  
HONORABLE DOYLE HEFFLEY  
HONORABLE SUE HELM  
HONORABLE LEE JAMES  
HONORABLE WARREN KAMPF  
HONORABLE FRED KELLER  
HONORABLE JASON ORTITAY  
HONORABLE MIKE PEIFER  
HONORABLE MARGUERITE QUINN  
HONORABLE BRAD ROAE  
HONORABLE JAMIE SANTORA  
HONORABLE CURT SONNEY  
HONORABLE KEVIN BOYLE  
HONORABLE TIM BRIGGS  
HONORABLE DONNA BULLOCK  
HONORABLE MARY JO DALEY  
HONORABLE MARIA DONATUCCI  
HONORABLE MARTY FLYNN

*Pennsylvania House of Representatives  
Commonwealth of Pennsylvania*

BEFORE:           *(Continued)*

HONORABLE PATTY KIM  
HONORABLE STEPHEN KINSEY  
HONORABLE LEANNE KRUEGER-BRANEKY  
HONORABLE MIKE O'BRIEN  
HONORABLE PETER SCHWEYER

NON-COMMITTEE MEMBERS

HONORABLE FRANK RYAN  
HONORABLE CRIS DUSH  
HONORABLE KURT MASSER  
HONORABLE ELI EVANKOVICH  
HONORABLE JAKE WHEATLEY  
HONORABLE STEVEN SAMUELSON

COMMITTEE STAFF PRESENT:

DAVID DONLEY  
    REPUBLICAN EXECUTIVE DIRECTOR  
RITCHIE LAFAVER  
    REPUBLICAN DEPUTY EXECUTIVE DIRECTOR

MIRIAM FOX  
    DEMOCRATIC EXECUTIVE DIRECTOR  
TARA TREES  
    DEMOCRATIC CHIEF COUNSEL

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I N D E X

TESTIFIERS

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<u>NAME</u>	<u>PAGE</u>
C. DANIEL HASSELL SECRETARY, DEPARTMENT OF REVENUE.....	7
AMY GILL DEPUTY SECRETARY FOR TAX POLICY.....	14
CHRISTIN HEIDINGSFELDER DEPUTY SECRETARY FOR ADMINISTRATION.....	
DREW SVITKO EXECUTIVE DIRECTOR OF PA LOTTERY.....	10

SUBMITTED WRITTEN TESTIMONY

\* \* \*

(See submitted written testimony and handouts online.)

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

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1  
2  
3 MAJORITY CHAIRMAN SAYLOR: We have  
4 Representative Kurt Masser here, who is the  
5 Republican Caucus Administrator. I wanted to  
6 recognize him as being here, as well, before we  
7 start.

8 We had this morning every member  
9 introduce themselves. We're not going to do that  
10 again. But anyway, Secretary Hassell, I want to  
11 welcome you to our hearings today. I'm going to ask  
12 before we get any further along, if you and anybody  
13 else that's going to present testimony, if you would  
14 rise and raise your right hand.

15 Do you swear and affirm that the  
16 testimony that you're about to give is true to the  
17 best of your knowledge, information and belief; if  
18 so, say I do.

19 SECRETARY HASSELL: I do.

20 DEPUTY SECRETARY HEIDINGSFELDER: I do.

21 DEPUTY SECRETARY GILL: I do.

22 EXECUTIVE DIRECTOR SVITKO: I do.

23 MAJORITY CHAIRMAN SAYLOR: Thank you very  
24 much.

25 Chairman Markosek, any opening comments?

1                   MINORITY CHAIRMAN MARKOSEK: Thank you,  
2 Chairman.

3                   Just really an introduction to say  
4 welcome. We're very much looking forward to what  
5 you have to say. Obviously, the revenue of the  
6 Commonwealth is pretty important at budget time,  
7 particularly.

8                   So we're anxious to hear steps that  
9 you're taking to make your office more efficient and  
10 to make sure that the taxpayers are getting the best  
11 service that they can for the tax money that they do  
12 pay. Also, I'm looking forward to hearing what the  
13 lottery -- some of the new programs that the  
14 lottery, perhaps, has for us and is planning to do.

15                   Lottery is very, very important. I've  
16 said it all along that we cannot afford to have our  
17 lottery system not provide the revenue that we're  
18 used to having from that because we have a number of  
19 dedicated programs that depend on lottery funds and  
20 I don't see the legislature ever cutting those  
21 programs if we don't have the funds because they,  
22 for the most part, are senior citizen-oriented  
23 funds.

24                   So it's very, very important that the  
25 lottery remain healthy and continue to be healthy

1 and to grow. So I'm especially interested to hear  
2 what we're doing in that area.

3 So with that, Chairman, thank you.

4 MAJORITY CHAIRMAN SAYLOR: Very good.

5 Again, I welcome the Secretary. And of  
6 course, Drew, it's great to see you here because I'm  
7 looking forward to you keeping to raise a lot of  
8 money in the lottery to help pay for Joe's  
9 retirement and mine at some point, for our senior  
10 benefits. But seriously, I'm excited about seeing  
11 the new lottery pop up and the creativity that's  
12 coming about.

13 It's amazing that an old guy like me, the  
14 kind of things you can do with computers today. So  
15 I'm excited and I think members, and I think the  
16 public, will be excited when you start unveiling the  
17 games. So with that, we're going to start off with  
18 Representative Kampf for the start of questioning.

19 Representative Kampf.

20 REPRESENTATIVE KAMPF: Sorry,  
21 Mr. Secretary, over here. Chester and Montgomery  
22 Counties.

23 SECRETARY HASSELL: Good afternoon.

24 REPRESENTATIVE KAMPF: Good afternoon.

25 So my questions for you involves an announcement

1 that the Governor's Office made about some sort of  
2 \$200 million arrangement with Municipal Real Estate  
3 Funding, LLC. This was, I guess, as a result of an  
4 RFP that was issued, which somehow, in some way,  
5 related to the Farm Show.

6 My first question to you is, did you have  
7 any discussions with the Governor's Office of the  
8 budget about this agreement that we now have, before  
9 it was made?

10 SECRETARY HASSELL: The answer to that is  
11 no. That's not something I'm closely familiar with.  
12 It's not something that affects our Department, but  
13 I am aware that it's a part of the funding in the  
14 budget this year.

15 REPRESENTATIVE KAMPF: Okay. I take it,  
16 then, the same answer for, did you have any  
17 discussions with the Department of General Services  
18 or the Farm Show Administration or the Department of  
19 Ag about this agreement before it was made?

20 SECRETARY HASSELL: No.

21 REPRESENTATIVE KAMPF: Do you know  
22 whether it's just a loan or a lease-leaseback?

23 SECRETARY HASSELL: I understood it to be  
24 a lease-leaseback arrangement.

25 REPRESENTATIVE KAMPF: Okay. So I

1 reviewed it, this document, the financial agreement.  
2 I didn't see any details in it about leasing,  
3 typical leasing arrangements with the Farm Show.

4 Does the entity that gave us the money or  
5 agreed to give us \$200 million, do they get any  
6 rights with respect to our Farm Show?

7 SECRETARY HASSELL: As I said, I'm not  
8 familiar with the details of this arrangement.

9 REPRESENTATIVE KAMPF: Do you know  
10 whether the Farm Show itself played any role in the  
11 negotiations of these terms?

12 SECRETARY HASSELL: I do not.

13 REPRESENTATIVE KAMPF: Were you told of  
14 any legal authority that the Governor was relying on  
15 in entering into this agreement?

16 SECRETARY HASSELL: I am not familiar  
17 enough with it, sir, to answer that question.

18 REPRESENTATIVE KAMPF: There was an  
19 indication in the bills that were passed surrounding  
20 the closing of the budget this fall. Actually, I  
21 think a clear statement that \$300 million would be  
22 transferred from special funds -- we got some  
23 information that \$175 million of this \$200 million  
24 that I was just speaking of was transferred to the  
25 General Fund.



1                   Out of what special fund did that come?

2                   SECRETARY HASSELL: I'm sorry. I don't  
3 know the answer to that.

4                   REPRESENTATIVE KAMPF: Is there a special  
5 fund that you're aware of related to the  
6 lease-leaseback of the Farm Show?

7                   SECRETARY HASSELL: I do not.

8                   REPRESENTATIVE KAMPF: Okay. Thank you,  
9 Mr. Secretary. Thank you very much.

10                  MAJORITY CHAIRMAN SAYLOR: Representative  
11 Daley.

12                  REPRESENTATIVE DALEY: Thanks,  
13 Mr. Chairman.

14                  I had a couple of questions that are  
15 related to the lottery. My first -- I hope this is  
16 a quick answer, but I'm going to ask both of them at  
17 the same time.

18                  So the first question is, how do, with  
19 the iLottery and that type of game, how do you  
20 screen or know that kids, young kids, are not using  
21 or playing these games? Because I don't think any  
22 of us want to see the kids supporting programs, even  
23 if they're for seniors and their grandparents, but  
24 that's not a good thing.

25                  And then the second thing is, if you

1 could just talk about the profit margin because back  
2 in 2014, we lowered the statutory profit requirement  
3 to 25 percent. I just want to see, how does that  
4 profit margin mandate compare to other State  
5 lotteries and how does the profit margin impact the  
6 lottery's ability to maximize revenues for senior  
7 programs?

8 SECRETARY HASSELL: And I'm going to turn  
9 to Drew Switko, the Executive Director of the  
10 lottery, for those answers.

11 EXECUTIVE DIRECTOR SVITKO: Thank you.

12 On iLottery, age control, so obviously,  
13 we're not experts in Internet business, but we are  
14 fastly educating ourselves. But we partner with  
15 experts. And so we will be employing industry best  
16 solutions for age control.

17 One of those solutions is really common  
18 to all Internet business, and it's a thing called  
19 KYC, Know Your Customer. And it's a mechanism.  
20 It's a series of identification pieces that all  
21 Internet businesses use to make sure that the person  
22 making the purchase is the person who they say they  
23 are.

24 REPRESENTATIVE DALEY: Like those robot  
25 CAPTCHA-type of things?

1 EXECUTIVE DIRECTOR SVITKO: That's one  
2 example, yep.

3 REPRESENTATIVE DALEY: Okay.

4 EXECUTIVE DIRECTOR SVITKO: As well as  
5 personal identification. It might be a driver's  
6 license number or the last four digits of the  
7 Social Security number. Those kinds of things all  
8 pieced together lead to a verification.

9 REPRESENTATIVE DALEY: Okay.

10 EXECUTIVE DIRECTOR SVITKO: Now, that  
11 said, we won't be in a position to control what  
12 happens to an account. So in the home, it is still  
13 other people's -- adults' responsibilities to  
14 protect those accounts, just like they would protect  
15 any online banking accounts or other, you know,  
16 Amazon accounts, those kinds of things.

17 It still requires somebody to make sure  
18 that it doesn't fall in the hands of people who  
19 shouldn't be using it.

20 REPRESENTATIVE DALEY: Thank you.

21 EXECUTIVE DIRECTOR SVITKO: And as far as  
22 profit margin goes -- glad you asked -- I mean,  
23 profit margin is a concern because there's  
24 legislation -- it's a concern for us because there's  
25 legislation that requires us to generate 25 percent

1 profit right now.

2 We're well over that. We're, I think at  
3 this time, over -- just over 27 percent. We'll  
4 probably finish the fiscal year in the mid-to-low 26  
5 percent. But some of that, a lot of it, is out of  
6 our control. And sometimes the luck of the draw  
7 will pull that down.

8 As I've said before when we've talked  
9 about it, that's going to be something we continue  
10 to come back to because that margin requirement  
11 forces us to manage to a percentage and not  
12 necessarily to do what is best for generating more  
13 money for older Pennsylvanians.

14 So while we are north of 26 percent now,  
15 as sales grow and we launch new products like our  
16 monitor games solution, that's going to require us  
17 to take another look at that. Profit margin, that  
18 profit margin mandate will act as an artificial  
19 barrier to additional profit growth for the lottery,  
20 just because we have to manage to a percentage  
21 instead of managing to, you know, just generate more  
22 dollars.

23 REPRESENTATIVE DALEY: How do other  
24 States manage their profit margins?

25 EXECUTIVE DIRECTOR SVITKO: So we're one

1 of only a handful of States that have a margin  
2 requirement. None of the other top five, top 10  
3 lotteries have it. It's not something that -- it's  
4 not an industry best practice.

5 REPRESENTATIVE DALEY: Okay. Thank you.

6 EXECUTIVE DIRECTOR SVITKO: Thank you.

7 MAJORITY CHAIRMAN SAYLOR:

8 Representative Roae.

9 REPRESENTATIVE ROAE: Thank you,  
10 Mr. Chairman.

11 Thank you, folks, for being here to  
12 testify. My question is, as far as your employee  
13 complement, I have some confusing numbers here. I  
14 want to make sure I'm looking at the right thing.  
15 Is your current complement 1,730 or is it 1,746?  
16 Because we've got information that indicates both.

17 SECRETARY HASSELL: Currently, we're at  
18 1,334.

19 REPRESENTATIVE ROAE: Now, what's your  
20 current authorized complement?

21 SECRETARY HASSELL: This is -- I'm  
22 referring to the General Fund total.

23 REPRESENTATIVE ROAE: Okay. For all of  
24 the funds.

25 SECRETARY HASSELL: For all the funds,

1       yes, 1730 in total.

2                       REPRESENTATIVE ROAE:   Now, of that, the  
3       Governor is basically saying he wants to keep it the  
4       same at 1,746, but that's actually an increase,  
5       right?

6                       If you're at 30 now -- if the Governor is  
7       saying he wants to keep the complement the same at  
8       1,746, that's actually an increase of 16 positions,  
9       right?

10                      DEPUTY SECRETARY GILL:   There were some  
11       positions added in the current fiscal year for  
12       lottery, for the expansion of lottery.   So those  
13       were added probably after the data that you're  
14       looking at in the current year.   So then next year  
15       it would be stable.

16                      REPRESENTATIVE ROAE:   Okay.   And then for  
17       all of the funds, the total right now, the numbers  
18       I'm looking at here -- actually, the Governor's  
19       numbers -- if there's 1,634 filled positions and  
20       you're authorized for 1,730 positions.

21                      And then the new authorization level for  
22       the new budget year would be 1,746.   That's 112  
23       positions more than you had on New Year's Eve, on  
24       December 31st, 2017.

25                      So how come you need 112 more people, you

1 know, today than you -- well, not today, but  
2 effective July 1st -- when the new fiscal year  
3 starts?

4 How come you need 112 more people than  
5 you did on New Year's Eve?

6 SECRETARY HASSELL: Sir, the complement  
7 level is such that we're always going to have people  
8 coming and going. Just in any group of 1700 people,  
9 there are people who are retiring or moving on in  
10 one way or another, and it takes a little bit of  
11 time to fill positions.

12 And that means that the complement is  
13 never going to be 100 percent filled, no matter  
14 what. We need to have that room to recruit and  
15 attract qualified people into those positions, so  
16 that we're not constantly falling behind.

17 As Christen already indicated, we have  
18 asked for some additional positions for the lottery  
19 because of the new programs that are being rolled  
20 out currently. They need additional staff in order  
21 to recruit retailers and service those retailers  
22 with the new games.

23 So I think those things together make up  
24 the complement that we're asking for.

25 REPRESENTATIVE ROAE: Okay. So you know,

1 in this era of where a lot of employers, you know,  
2 they try to do, you know, more with less, a lot of  
3 companies, you know, tax-paying companies that fund  
4 Pennsylvania's government, they don't necessarily  
5 fill every single position they want.

6 But do you think by the end of the year  
7 you really need the 1,746 positions, even though at  
8 the end of the year, you only had 1,634?

9 Are you comfortable telling taxpayers  
10 they need to pay for 112 more positions than they  
11 did last year?

12 SECRETARY HASSELL: The complement over  
13 the last several years has been in decline. The  
14 Department has been shrinking over a period of  
15 years. And it's the rollout of new technology that  
16 allows us to do that and continue to get the work  
17 done without having all of those positions.

18 As I said, you have to have some room in  
19 the complement in order to recruit and retain people  
20 as positions become vacant and we're able to fill  
21 them. So we have to have some room within our  
22 complement window to operate.

23 REPRESENTATIVE ROAE: Okay. Well, 112  
24 people, that seems like a lot of wiggle room, but  
25 thank you.



1 MAJORITY CHAIRMAN SAYLOR: Representative  
2 Kinsey.

3 REPRESENTATIVE KINSEY: Thank you,  
4 Mr. Chairman. Good afternoon.

5 SECRETARY HASSELL: Good afternoon.

6 REPRESENTATIVE KINSEY: I want to focus  
7 on working families for a second. The Governor  
8 proposed -- in fact, his proposal to address the  
9 structural balance protects working families and the  
10 middle class by avoiding broad-based tax increases,  
11 such as personal income tax, as well as sales tax.

12 Can you describe the types of entities  
13 that could possibly be impacted by the Governor's  
14 revenue proposal?

15 SECRETARY HASSELL: Sure.

16 REPRESENTATIVE KINSEY: And then I want  
17 to jump to a second question, and that is -- well,  
18 can you just sort of give some information in  
19 regards to -- some insight into how the new personal  
20 income tax withholding requirements affect  
21 businesses and their reporting requirements and what  
22 your Department is doing to reach out to those  
23 businesses, as well?

24 So I want to talk about taxes from a  
25 personal perspective and then also from a business

1 perspective.

2 SECRETARY HASSELL: Okay. So let me  
3 start with the severance tax proposal. As you know,  
4 the Governor has proposed a severance tax on  
5 numerous occasions. He continues to believe that  
6 this is the right way to raise revenue for the  
7 Commonwealth because it's a very large industry and  
8 Pennsylvania is now the second State in the nation  
9 for production of natural gas.

10 The proposal would have a  
11 cents-per-thousand-cubic-foot-structure that would  
12 rise as the market price rises. It starts at 2.4  
13 cents per thousand cubic feet for prices that are  
14 under \$3.00 per MCF.

15 It would be a structure that's similar to  
16 what is in place now for the impact fee. It would  
17 be administered in roughly the same way, through the  
18 Public Utility Commission. A second piece of the  
19 Governor's proposal is a reform of the corporate net  
20 income tax. And this is something that he has also  
21 asked for on several occasions.

22 The proposal is designed to make the  
23 system fairer and better. Currently, Pennsylvania  
24 is at the bottom of lots of companies' lists for  
25 expansion because of the 9.99 percent rate. And the

1 Governor's plan, as he has proposed in the past, is  
2 to bring that rate down so that it's less of an  
3 obstacle to business expansion, and at the same time  
4 broaden the base with combined reporting to preserve  
5 revenues.

6 So to your question about the -- I think  
7 you were referring to the 1099 withholding proposal;  
8 is that right?

9 The proposal was designed to affect  
10 non-residents of Pennsylvania, primarily. For  
11 people who have sources of income within  
12 Pennsylvania, but who may not live in Pennsylvania,  
13 the Pennsylvania entity is required to withhold  
14 income tax on the money that's paid for non-business  
15 income.

16 Typically, what we would think of is a  
17 1099-misc income, non-employee compensation, and  
18 also lease payments for businesses where there is a  
19 non-resident owner.

20 REPRESENTATIVE KINSEY: Okay. Great.

21 And I think the other part of my question  
22 is, what kind of outreach is your Department doing  
23 to inform businesses of these requirements?

24 And do you have the -- I guess, earlier  
25 someone talked about your staffing ratio. So the

1 outreach is part of my question, but also the  
2 capacity to do outreach.

3 SECRETARY HASSELL: The Department has  
4 been releasing materials, technical guidance and  
5 been doing outreach through the professional  
6 associations, the PACPA --

7 REPRESENTATIVE KINSEY: Okay.

8 SECRETARY HASSELL: -- and other tax  
9 preparers to let them know what the law requires.  
10 We are working with them to answer a lot of  
11 questions and to help them help their clients to get  
12 into compliance.

13 For the withholding piece of this, the  
14 feedback that we have gotten is that the withholding  
15 requirements that were effective January 1st came at  
16 them very late in the process because the budget  
17 wasn't passed until the end of October. And lots of  
18 people were saying to us that they needed more time  
19 to implement those changes.

20 And so the Department made an  
21 announcement that we would withhold on implementing  
22 any enforcement of the withholding requirements  
23 until at least July 1st. So we are working with  
24 people, helping them to make the changes they need  
25 and to go forward from there.

1                   REPRESENTATIVE KINSEY: Great. Thank  
2 you, Mr. Secretary.

3                   Thank you, Mr. Chairman.

4                   MAJORITY CHAIRMAN SAYLOR: Representative  
5 Boback.

6                   REPRESENTATIVE BOBACK: Secretary  
7 Hassell, I'm up here.

8                   My questions are specific to the Federal  
9 Tax Cuts and Jobs Act. I think there's a little  
10 redundancy. And if there is, just clarify, if you  
11 would, please.

12                   SECRETARY HASSELL: Certainly. Well,  
13 I've seen and read the reports that many other  
14 States will be realizing increases in personal  
15 income tax revenue due to the State income tax base  
16 being linked to the expanded Federal tax base.

17                   REPRESENTATIVE BOBACK: So just for  
18 clarification purposes, is the Pennsylvania personal  
19 income tax base in any way linked to the Federal  
20 personal income tax base?

21                   SECRETARY HASSELL: Thank you for that  
22 question. The answer is that, for the most part,  
23 the Pennsylvania personal income tax is not  
24 connected to the Federal system. So there isn't --  
25 there are not many places where there is a direct

1 linkage to the Federal changes. There are a few  
2 exceptions to that.

3 For example, in the Federal bill, they  
4 made changes to expand the use of 529 plans to  
5 private schools and some things like that. Our law  
6 does refer directly to those 529 provisions and so  
7 that expanded usage of 529 plans will flow through  
8 and affect personal income taxpayers in  
9 Pennsylvania, as well.

10 But again, that should be a relatively  
11 modest impact.

12 REPRESENTATIVE BOBACK: Thank you for  
13 that. I do have a follow-up, if you will.

14 We heard from the IFO earlier this  
15 morning that incorporated into their estimates are  
16 increased revenues resulting from the Federal Act.

17 Do you have any idea how much additional  
18 revenue you could estimate from the Federal Tax Act?

19 In other words, what kind of amount and  
20 breakdown of the total tax revenue would we receive  
21 here in Pennsylvania by each tax type?

22 And if you don't have that answer, you  
23 could get it back to us, if you would.

24 SECRETARY HASSELL: For purposes of this  
25 fiscal year, we have not made changes due to the

1 Federal Act. What we've learned by looking at the  
2 bill here is that the primary impact is in the  
3 corporate tax and there are aspects of the Federal  
4 bill that should increase our base. And there are  
5 other aspects that will reduce our base.

6 There are both positives and negatives.  
7 One potential negative from the Federal bill is that  
8 the corporate taxpayers may have made changes in  
9 their system to delay recognition of income and  
10 accelerate expenses in tax year 2017, which would  
11 reduce the amount of income that they're reporting  
12 last year.

13 And that would be a major negative. We  
14 don't know the extent to which that's happened. We  
15 probably won't know until those returns are filed  
16 this year, so that will balance out some of the  
17 other positives.

18 So at the moment, we're treating it as  
19 having no impact, but it's something we need to  
20 watch clearly to see what changes companies are  
21 making and what they're reporting.

22 REPRESENTATIVE BOBACK: So we'll see you  
23 again next year at this time and then we'll find  
24 out, right?

25 Thank you, Secretary Hassell.

1 SECRETARY HASSELL: Yes.

2 REPRESENTATIVE BOBACK: Thank you,  
3 Mr. Chairman.

4 MAJORITY CHAIRMAN SAYLOR: Representative  
5 Bullock.

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

8 SECRETARY HASSELL: Good afternoon.

9 REPRESENTATIVE BULLOCK: Good afternoon,  
10 Secretary.

11 I'm going to ask two or three sort of  
12 short-answer questions and then follow up with a  
13 longer question, so I'll ask those questions first.  
14 First, what is the percentage of taxes or revenues  
15 generated from Philadelphia, specifically, if you  
16 can give me that; and then, if you know, from a  
17 larger sort of southeast region?

18 And the other question I have is, each  
19 year I ask about diversity in our hiring and by our  
20 State with the belief that our work force should  
21 reflect our Commonwealth. So if you can, share any  
22 updates and changes in your work force and any  
23 efforts to diversify that work force.

24 I'll let you answer those and then I'll  
25 ask my follow-up question.



1                   SECRETARY HASSELL: Let me speak  
2 generally to the first question. There are some  
3 revenue sources where we can tell where the money is  
4 paid from, and we publish on our website some tables  
5 showing where sales tax is paid from, where personal  
6 income tax is paid from, you know, for those kinds  
7 of things. There are other revenue sources in which  
8 we don't know and there's no way to know, for  
9 instance, corporate tax. We don't know where  
10 companies are operating.

11                   They may be filing a return from their  
12 accountant's office in Chicago. We have no way to  
13 know what they're doing in Pennsylvania. So I'd be  
14 happy to provide the information we have available  
15 at the county level.

16                   REPRESENTATIVE BULLOCK: I appreciate  
17 that.

18                   SECRETARY HASSELL: And for the other  
19 issue, I will be happy to get you the information  
20 you're asking for.

21                   REPRESENTATIVE BULLOCK: Great. So my  
22 other question is in regards to cyber security. In  
23 recent years, we've seen a number of public, very  
24 public incidents in which cyber security breaches  
25 occurred, and as we move towards a system, we're

1 encouraging folks to pay their taxes online, do a  
2 lot of reporting online and now, actually,  
3 participate in the iLottery online.

4 What steps are you taking to protect  
5 Pennsylvania working families in their  
6 confidentiality and their privacy?

7 SECRETARY HASSELL: That's a great  
8 question. The confidentiality of taxpayer data is  
9 very important to us, and it's something we put a  
10 lot of effort into. So our IT people have spent a  
11 lot of time hardening our systems to encrypt the  
12 data that's stored in our systems, to encrypt data  
13 that's being transferred from one place to another,  
14 getting our mobile devices locked down so that they  
15 can't be accessed and protecting all of the  
16 Department's websites to make sure that bad actors  
17 are not able to hack into our systems.

18 Clearly, it would be a very, very bad  
19 thing for the Department's systems to be hacked.  
20 And it's something that we put a lot of effort into  
21 protecting against. But beyond that, we're also  
22 working with the tax prep industry in general. It's  
23 just as important for accountants, tax preparers,  
24 individuals even, to be aware of what they need to  
25 do to protect their own computers.

1           So we've had some publicity news  
2 conference-type events in putting out guidance for  
3 individuals, saying how important it is for you as a  
4 taxpayer to protect your own identity, to protect  
5 your own computer from being hacked, for things as  
6 simple as making sure that your antivirus software  
7 is up to date, that you have a firewall, that you  
8 don't click on links that come to you in e-mails  
9 from people that you don't know, all those kind of  
10 basic things that we've heard about.

11           It's critically important that everyone  
12 in the system, since we're all linked together now,  
13 that everyone in the system take those same  
14 precautions in order to protect our data.

15           REPRESENTATIVE BULLOCK: Thank you,  
16 Mr. Secretary. I have no further questions.

17           MAJORITY CHAIRMAN SAYLOR: Representative  
18 Quinn.

19           REPRESENTATIVE QUINN: Thank you.

20           Over here, Mr. Secretary. Thank you for  
21 coming.

22           I commend the previous speaker for her  
23 line of questioning. And with that being said, I'm  
24 going to continue on it. You're absolutely right,  
25 there are bad actors out there and they're out to

1 get our data. I'm delighted to hear that you're  
2 well ahead in terms of encryption and things like  
3 that.

4 Can you speak to how many hits or  
5 attempted hacks your, for lack of a better word,  
6 cyber filters have been able to detect?

7 SECRETARY HASSELL: I don't know the  
8 exact number, but having talked to our IT people, I  
9 believe that government websites in general, ours  
10 included, are subject to many, many thousands of  
11 hacking attempts every day.

12 REPRESENTATIVE QUINN: Every day?

13 SECRETARY HASSELL: Yes.

14 REPRESENTATIVE QUINN: It's the type of  
15 stuff I lay up in bed and can't sleep over, worried  
16 about things like this.

17 Could you please speak to the protocols  
18 you've put in place, if you have, to a follow-up?

19 For example, you've detected a breach, is  
20 there written policy to say in X many days, we will  
21 notify the constituents?

22 And if that happens, is there something  
23 in place already to say, and we will be offering  
24 continued monitoring of their credit reports for a  
25 year?

1                   What have we done to parity what's  
2 happening in the public -- in the private sector?

3                   SECRETARY HASSELL: Sure. Well, first  
4 and foremost, we will follow the statute. There has  
5 been legislation on this and we will follow the law  
6 that requires notification.

7                   I can tell you about the one event that  
8 we had several years ago that taught us a valuable  
9 lesson about data breaches. And that is we had an  
10 event where we had a team of auditors in the field.  
11 Their car was broken into and their laptops were  
12 stolen from the car.

13                   REPRESENTATIVE QUINN: Oh, yeah.

14                   SECRETARY HASSELL: And we were unable to  
15 confirm that all of the rules had been followed in  
16 terms of locking down their laptops. So in an  
17 abundance of caution, we treated that as a breach  
18 and there was information on hundreds of people in  
19 the auditor's laptop.

20                   So we went through a process of gathering  
21 that data, literally from backups of the laptop  
22 since we didn't have it at hand. We had a team of  
23 people working on that, long hours, in order to  
24 assemble all of the data, and then put out a press  
25 release.

1           We sent out notices to all of the  
2 affected individuals, and we paid for credit  
3 monitoring services for a year for all of those  
4 people.

5           REPRESENTATIVE QUINN: Okay. That's good  
6 to hear.

7           SECRETARY HASSELL: Yes.

8           REPRESENTATIVE QUINN: You can  
9 understand, then, when I look at the second line of  
10 your budget with regard to budget and process  
11 modernization, why I have a concern that in the last  
12 couple of years there's been a 28 percent reduction  
13 in funds for that, and this proposed budget has a  
14 6 percent, so 22 and then -- well, roughly 6, not  
15 exact math, but you've got the picture.

16           It seems to me, with the increased  
17 demands and, you know, even the instance that you  
18 just spelled out about the hours and hours of man  
19 hours to do that, I feel, out of so many of these  
20 pages, that's something, if anything, that we ought  
21 to be beefing up and not reducing.

22           Do you feel you have adequate dollars for  
23 the cyber security demands that are on your agency?

24           SECRETARY HASSELL: I do. And let me  
25 explain more about that line item. That is money

1 that will pay for the next phase of our  
2 modernization of our systems. We are -- we have  
3 been pursuing an RFP for the last 12 months to  
4 procure a new system that will include personal  
5 income tax.

6 REPRESENTATIVE QUINN: Right.

7 SECRETARY HASSELL: And we are just about  
8 done with that procurement. It's now in the final  
9 stages of the signature process.

10 REPRESENTATIVE QUINN: May I interrupt?

11 SECRETARY HASSELL: Yes.

12 REPRESENTATIVE QUINN: Just because I  
13 have a feeling one of my colleagues might get into  
14 that.

15 SECRETARY HASSELL: Yes.

16 REPRESENTATIVE QUINN: So if that is for  
17 the modernization, and I understand there's been  
18 well over \$500 million spent towards that, in many  
19 years combined, where would I look to see what is a  
20 line item or a collection of line items with regard  
21 to cyber security?

22 SECRETARY HASSELL: I don't think that  
23 there is a separate line item in our budget for  
24 that, but let me just, just to complete the  
25 thought -- the new system that we're purchasing for

1 personal income tax, I think, will provide much  
2 better security than the homegrown 30-year-old  
3 system that we're operating now. So I think that  
4 will be a major step forward in terms of securing  
5 taxpayer data.

6 REPRESENTATIVE QUINN: Question, you are  
7 still on or at least a portion of what happens in  
8 Revenue on the homegrown, the COBOL System in 30  
9 years?

10 SECRETARY HASSELL: Yes.

11 REPRESENTATIVE QUINN: Are you able to  
12 tell me if there's 50 percent of migration to a  
13 newer system or is it still 100 percent based on  
14 COBOL?

15 Secretary HASSELL: The major business  
16 tax systems have been converted over the last few  
17 years. The ones that are still outstanding are --  
18 the big one being personal income tax, but also  
19 property tax rent rebate, the inheritance tax,  
20 realty transfer tax, some of the smaller pieces, as  
21 well, and motor fuels. Those are all things that  
22 will be converted under this new contract that I  
23 just mentioned.

24 REPRESENTATIVE QUINN: How many years do  
25 you anticipate that to take?



1                   SECRETARY HASSELL:  It's a four-year  
2 contract, I believe.

3                   REPRESENTATIVE QUINN:  That has already  
4 commenced?

5                   SECRETARY HASSELL:  As I mentioned, it's  
6 still to be approved by the Attorney General, but I  
7 think that's the last step in the process, then  
8 we'll be ready to go.

9                   REPRESENTATIVE QUINN:  Thank you very  
10 much.

11                   MAJORITY CHAIRMAN SAYLOR:  Okay.  Very  
12 good.

13                   Representative Donatucci.

14                   REPRESENTATIVE DONATUCCI:  Thank you,  
15 Mr. Chairman.  And thank you for being here today.

16                   Medical marijuana is being implemented in  
17 Pennsylvania through six dispensaries.  There are  
18 3,000 residents and there is also uncertainty in the  
19 Federal government surrounding the program because  
20 the U.S. Attorney in the west said that he would  
21 prosecute.  And when he was pressed, would you  
22 prosecute for medical marijuana, he hasn't given an  
23 answer.

24                   In the Middle District, it was said that  
25 they would honor the medical marijuana.  We're still

1 waiting for an answer in the east. Because of all  
2 of this uncertainty, is it affecting the  
3 Department's ability to plan for a tax collection in  
4 that market?

5 SECRETARY HASSELL: No, it has not  
6 affected anything that we're doing at this point.  
7 To my knowledge, the process continues to roll out  
8 with the growers being licensed and the dispensaries  
9 being licensed. And our role in it is to be ready  
10 to collect the tax once they begin operation, which  
11 I believe should be soon. And we are ready.

12 I have heard those same kinds of news  
13 reports, but I don't know more about that than you  
14 do.

15 REPRESENTATIVE DONATUCCI: Okay. Thank  
16 you.

17 And also, if I may, the Gaming Act lifted  
18 the ban on keno. So what are your plans in  
19 implementing keno in Pennsylvania?

20 Where will it be?

21 SECRETARY HASSELL: Yes. Maybe Drew can  
22 speak more about this. As a general matter, the  
23 lottery has been recruiting retailers who will sign  
24 up for both keno and the virtual sports games that  
25 will be on monitors in bars and taverns and things

1 like that and setting some aggressive goals for  
2 recruiting those retailers and getting all of them  
3 ready to sell those products by the first of May.

4 Do you want to add anything to that?

5 EXECUTIVE DIRECTOR SVITKO: Yeah, that's  
6 right. So May 1 is our goal to launch keno. We  
7 will meet that goal. We have hundreds of new  
8 retailers recruited already to sell those new games.

9 Again, as the Secretary mentioned, we're  
10 focusing on bars and taverns, social clubs, places  
11 where adults hang out and may benefit from some  
12 additional entertainment. But we have a goal of  
13 recruiting, bringing 3500 new retailers into our  
14 retailer mix.

15 We have 9200 retailers right now. And  
16 over the next couple of years, we'll have an  
17 additional 3,000-3,500.

18 REPRESENTATIVE DONATUCCI: Thank you.

19 Thank you, Mr. Chairman.

20 MAJORITY CHAIRMAN SAYLOR: Representative  
21 Peifer.

22 REPRESENTATIVE PEIFER: Thank you,  
23 Chairman.

24 Thank you, Secretary, for being here  
25 today.

1           We were talking about IT a little bit.  
2           And I know back in 2008, when I was first elected,  
3           we had many ideas that we wanted to run through  
4           Revenue, but because the system was so old and  
5           because we hadn't upgraded your system in such a  
6           long time -- it was an old COBOL system. I know  
7           Secretary Meuser was here and talked about some of  
8           the concerns and a major upgrade has happened in  
9           those 10 years, but at one point, I don't even think  
10          we could add a special line or a check-off box for  
11          charity because the system wouldn't allow it.

12                 So I guess my question is this, back in  
13          2008, we were able to pass Act 32, which  
14          consolidated the local tax collectors from, I think,  
15          a number of over 500 collectors to a number of 69  
16          across the State. And that debate was on the floor.  
17          I know it was an interesting discussion. We felt  
18          there were insufficiencies with people sending money  
19          different places, employers' money kind of lost  
20          throughout the Commonwealth. And that's really been  
21          successful.

22                 I think we did get a report from the  
23          Legislative Bureau on Finance that, you know, \$173  
24          million through this Act was collected, an increase  
25          in earned income tax collections. So there were

1 definitely efficiencies there.

2 One of the amendments that day, when we  
3 passed Act 32, was the ability for all of the  
4 revenue from the local earned income tax to come to  
5 Revenue here in Harrisburg, just like our State  
6 revenues do. At that time, one of the reasons why  
7 that amendment failed, and I think it was a very  
8 close vote, it probably failed by single digits, was  
9 because Revenue said, look, you know, we don't have  
10 the system, the technology, to be able to collect  
11 this.

12 Earlier this month, 10 years later, we  
13 did pass a resolution in the Finance Committee  
14 asking Revenue, the IFO and DCED to look at this  
15 concept of the collection of the local earned income  
16 tax at the State level. I guess my question is,  
17 with your upgrades of your IT departments, do you  
18 feel that you could be capable of collecting these  
19 revenues and distributing them back to our schools  
20 and municipal governments?

21 SECRETARY HASSELL: The short answer to  
22 your question is, we have learned about the  
23 resolution that you spoke of, and we're happy to  
24 participate in a study to see what the pros and cons  
25 of taking that step would be and what the cost would

1 be. And I'm happy to participate in that study.

2 But beyond that, as we roll out our  
3 modernization with a new off-the-shelf income tax  
4 system, the company that does this, which is  
5 Fast Enterprises, is used for income tax collection  
6 in many jurisdictions across the country. And there  
7 are other places where States use that software for  
8 local income tax collection. So it has been done  
9 with this system that we are acquiring. It probably  
10 is the time to look at this again and see how this  
11 would work and, you know, what the Revenue  
12 Department could do in response to that request.

13 REPRESENTATIVE PEIFER: Okay. Thank you,  
14 Mr. Chairman.

15 MAJORITY CHAIRMAN SAYLOR: Representative  
16 Daley.

17 REPRESENTATIVE DALEY: Thanks,  
18 Mr. Chairman.

19 Hello again. I wanted to go back to  
20 doing more with less. So over the past several  
21 years, I think, the complement for your Department  
22 has gone down by about 250 staff members. And that  
23 would be from 2015-'16. So I just wanted to -- I  
24 went and looked at those numbers.

25 So the question that I had about your

1 answer to earlier questions on the numbers, are you  
2 saying that if somebody leaves the Department or is  
3 planning to leave the Department, possibly retire,  
4 whatever, and you're going to replace them, there  
5 might be overlap of a person in the position for a  
6 period of time just for training purposes?

7 Does the Department actually have that  
8 luxury that you can pass information along that way  
9 to new employees?

10 Is that -- I was just curious about that.

11 SECRETARY HASSELL: So let me expand upon  
12 the point that I made earlier. It's that the  
13 process to fill a position, once a person leaves,  
14 takes a certain amount of time.

15 REPRESENTATIVE DALEY: Right.

16 SECRETARY HASSELL: If we were in a  
17 position where every time someone retired or quit  
18 that the position immediately disappeared, then the  
19 Department would begin to shrink its staff very  
20 rapidly over a period of time. We have to have some  
21 room within the complement in which to recruit  
22 people into those same jobs in order to just stay  
23 where we are and not continue to lose staff.

24 But you were exactly right, that the  
25 Department has downsized over -- you mentioned

1 250 -- over a period of years, especially as things  
2 have been modernized and technology was put into  
3 place. There are a lot of manual labor-type jobs  
4 that have been eliminated. That has allowed us to  
5 continue to get the job done, even with a smaller  
6 complement.

7 REPRESENTATIVE DALEY: Can you evaluate  
8 your own Department on the level of customer service  
9 that you are able to provide with the lower number  
10 of people?

11 SECRETARY HASSELL: I have to say that I  
12 would like to be doing much better with customer  
13 service than we are today. It is a fact that the  
14 number of people that we have available in our call  
15 center is down significantly. I don't recall the  
16 numbers, but it means that people are aware that --  
17 there are frequently busy signals when you call the  
18 Department.

19 That's something we're looking at and  
20 laying some plans in order to deal with that issue  
21 because providing customer service is part of tax  
22 administration. And it's something I would like to  
23 do better with.

24 REPRESENTATIVE DALEY: Okay. Thank you.  
25 And then one last piece. With the different new tax



1 types that were implemented recently, do you have  
2 sufficient resources to enact those and to get them  
3 going smoothly, and also with potential new tax  
4 revenues that could possibly be passed this year?

5 SECRETARY HASSELL: We do. I think that  
6 we're okay where we are today. We are always  
7 looking for innovative ideas and ways to do things  
8 better in order to be more efficient in what we do.  
9 And as some of these things have been passed in  
10 legislation, some of the IT projects that we have  
11 had, we have had to put on hold temporarily in order  
12 to make resources available to put in place some of  
13 the new changes, but nevertheless, I think that the  
14 work is getting done and we have the resources that  
15 we need.

16 REPRESENTATIVE DALEY: So your budget for  
17 this year reflects an adequate funding to get the  
18 job done if any of these new taxes are implemented?

19 SECRETARY HASSELL: Yes.

20 REPRESENTATIVE DALEY: Or to continue  
21 with implementing the ones that you had from last  
22 year?

23 SECRETARY HASSELL: Yes.

24 REPRESENTATIVE DALEY: Okay. Thank you.

25 MAJORITY CHAIRMAN SAYLOR: Representative

1       Christiana.

2                       REPRESENTATIVE CHRISTIANA:  Thank you,  
3       Mr. Chairman.

4                       Good afternoon, Secretary.

5                       Mr. Secretary, over here -- to your  
6       right.

7                       SECRETARY HASSELL:  Sorry.

8                       REPRESENTATIVE CHRISTIANA:  Thank you.

9                       SECRETARY HASSELL:  I apologize.

10                      REPRESENTATIVE CHRISTIANA:  No, no, no.  
11       It's okay.

12                      In his budget address, the Governor  
13       stated that this budget could be funded, quote,  
14       without any tax increases on Pennsylvania families,  
15       but as you mentioned, just three short paragraphs  
16       after that, the Governor proposes another severance  
17       tax.

18                      The Governor even admits in that section  
19       that the severance tax will be paid by the people,  
20       the consumers of that natural gas.  Would you agree  
21       with the Governor that a severance tax is ultimately  
22       paid by the consumer of natural gas?

23                      SECRETARY HASSELL:  The way I understand  
24       it is that natural resources that are mined from a  
25       State and exported carry the tax burden with them.

1 It's something that is already happening for States  
2 that produce natural gas or oil or any of the other  
3 kinds of things.

4 And we are paying other States severance  
5 taxes currently because we are consumers of those  
6 products and so --

7 REPRESENTATIVE CHRISTIANA: We're  
8 consumers of other states' natural gas?

9 SECRETARY HASSELL: Yes.

10 REPRESENTATIVE CHRISTIANA: Okay. So you  
11 would admit -- what you're saying, though, makes  
12 sense to me, that ultimately the consumer of the  
13 product, of the natural resources pays the taxes  
14 associated with that. I think that's what the  
15 Governor was saying. That sounds like what you  
16 would say, and what I would agree with.

17 But the consumers of the natural gas are  
18 also Pennsylvania families, correct?

19 SECRETARY HASSELL: My understanding is  
20 that the great majority of the natural gas that's  
21 produced here is exported.

22 REPRESENTATIVE CHRISTIANA: Okay. So  
23 then, you would agree that whether the Governor's  
24 number of 20 percent is accurate, 20 percent is  
25 consumed within Pennsylvania. Pennsylvania families

1 using natural gas would be paying a severance tax  
2 that they're currently not paying, which would  
3 ultimately be an increase on Pennsylvania families,  
4 correct?

5 SECRETARY HASSELL: I think that the  
6 Governor's statements have been about avoiding  
7 broad-based tax increases, sales tax, income tax in  
8 this budget.

9 REPRESENTATIVE CHRISTIANA: I would agree  
10 with you, Mr. Secretary, but he said without any tax  
11 increases in his budget. So while I would agree  
12 with you that he didn't say -- he could have said  
13 without a broad-based tax increase, but what he's  
14 saying is that this budget could be balanced without  
15 any tax increase on Pennsylvania families.

16 And what you and I seem to agree on is  
17 that some of the natural gas consumed in  
18 Pennsylvania would bear the burden of a severance  
19 tax, therefore, can we just say that Pennsylvania  
20 families will pay higher taxes to fund this budget  
21 if this budget relies on severance tax revenue?

22 SECRETARY HASSELL: I think that, again,  
23 the great majority of that revenue will come from  
24 out-of-state consumers and that the impact on  
25 Pennsylvania families should be minimal.

1                   REPRESENTATIVE CHRISTIANA: Okay. Can we  
2 talk about the amount of revenue anticipated from  
3 the Governor's severance tax proposal?

4                   How much revenue do you anticipate coming  
5 into the Treasury in budget year 2018-'19 from the  
6 Governor's severance tax proposal?

7                   SECRETARY HASSELL: I believe the  
8 estimate is for \$248 million next year.

9                   REPRESENTATIVE CHRISTIANA: And is that  
10 exclusively from unconventional drilling or would  
11 that include conventional drilling, as well?

12                   SECRETARY HASSELL: It's on the same  
13 wells that the impact fee is imposed on, so it's  
14 unconventional.

15                   REPRESENTATIVE CHRISTIANA: So  
16 unconventional?

17                   SECRETARY HASSELL: Yep.

18                   REPRESENTATIVE CHRISTIANA: Okay. And  
19 can you maybe just address how after the Supreme  
20 Court's recent decision on the casinos that this  
21 would not violate the uniformity requirement for  
22 taxes?

23                   SECRETARY HASSELL: Well, I'm not a  
24 Justice of the Supreme Court, but the impact fee has  
25 stood the test of time, at this point. And this

1 proposal is structured in the same way and should  
2 have the same effect.

3 REPRESENTATIVE CHRISTIANA: But the  
4 impact fee would not necessarily -- a fee does not  
5 violate the Uniformity Clause about taxes, correct?

6 So the fact that we call it a fee versus  
7 calling a severance tax a tax could violate the  
8 Uniformity Clause if you look at the casino industry  
9 and what the Supreme Court has recently said about  
10 treating those within an industry differently.

11 SECRETARY HASSELL: For those legal  
12 issues that have to do with the Uniformity Clause,  
13 the question that would go to Court would be, is  
14 there a rational basis to distinguish one class from  
15 another class?

16 And so in this case, the question would  
17 be, is there a rational basis to distinguish these  
18 unconventional wells from other types of wells?

19 I think you can, you know, the  
20 legislature has decided that there is a rational  
21 distinction between those two types of things.

22 REPRESENTATIVE CHRISTIANA: Do you think  
23 that there's a rational distinction between these  
24 two?

25 SECRETARY HASSELL: I do.

1                   REPRESENTATIVE CHRISTIANA:   Okay.   Thank  
2   you, Mr. Chairman.

3                   Thank you, Mr. Secretary.

4                   MAJORITY CHAIRMAN SAYLOR:   Representative  
5   Schweyer.

6                   REPRESENTATIVE SCHWEYER:   Thank you,  
7   Mr. Chairman.   I appreciate the opportunity to ask a  
8   question here.   I'd like to talk a little bit,  
9   switch over to tobacco taxes.   It's something that I  
10  really am sort of concerned about.

11                   I think the last number is that we  
12  generated about \$450 million a year, give or take,  
13  based on taxes levied on tobacco products.

14                   Is that about your number?

15                   Am I way off base there or --

16                   SECRETARY HASSELL:   I think it's higher  
17  than that.   Hang on a second.

18                   SECRETARY HASSELL:   So last fiscal year  
19  through June, there was collection of  
20  \$1,261,000,000.00 just in cigarette tax.

21                   REPRESENTATIVE SCHWEYER:   And the  
22  \$450 million was the increase in the taxes.   I  
23  believe that's the correct number.

24                   SECRETARY HASSELL:   That may be right.

25                   REPRESENTATIVE SCHWEYER:   But the overall

1 number of folks that are using and consuming  
2 tobacco-based products seems to be shrinking every  
3 year.

4 SECRETARY HASSELL: Yes. So it sounds  
5 like this might be really good healthcare policy or  
6 public health policy, in terms of a fiscal strategy  
7 for the Commonwealth.

8 REPRESENTATIVE SCHWEYER: Continuing to  
9 rely on the shrinking base seems like either it's  
10 something that we're going to have to either, A,  
11 encourage more people to smoke, which seems stupid,  
12 or continue to increase the taxes on the consumer of  
13 this one to continue to get that billion-plus a year  
14 of annual revenue, correct.

15 SECRETARY HASSELL: Yeah, I would agree  
16 with you that to some extent those two things are  
17 our intention, right?

18 It's in the public's best interest to  
19 reduce the amount of people who are smoking  
20 cigarettes, but if we're successful at that, there  
21 will be less tax revenue.

22 So eventually moving away from this as a  
23 way to fund a significant part of our General Fund  
24 may be an appropriate way to move forward for the  
25 Commonwealth, from both a getting rid of that



1 cognitive dissidence between what is the right  
2 public policy versus the right fiscal policy.

3 REPRESENTATIVE SCHWEYER: But also, as  
4 people do continue to move away from tobacco-based  
5 products, using that. I'm worried about the  
6 volatility, I guess, is the point I'm trying to get  
7 at, the other half of the point, the volatility in  
8 that tax.

9 It's not going to be -- do you have any  
10 objections about the stability of that moving  
11 forward?

12 Are you worried about the stability of  
13 that income that's generated?

14 SECRETARY HASSELL: It's not that it's  
15 unstable. It's that it reliably goes down year  
16 after year for exactly the reason you stated. And  
17 in fact, one of the problems in this fiscal year's  
18 revenue was exactly that, the implementation of the  
19 dollar per pack increase in cigarette tax had a  
20 larger impact reducing tax revenue there than the  
21 estimate allowed for.

22 We knew that the cigarette tax, at the  
23 base, would shrink with a higher rate, but it did so  
24 even more than we had anticipated. So I think it is  
25 something that deserved some study and is a source

1 of concern, to the extent that we have revenue  
2 sources that are not only not stable, but are  
3 actually shrinking over time. That's going to be a  
4 fiscal problem.

5 REPRESENTATIVE SCHWEYER: Switching gears  
6 a little bit. Again, I'm looking long term on a  
7 number of these issues, but staying with the general  
8 realm of tobacco-based funding. At our tobacco  
9 settlement, we borrowed a significant amount of  
10 money from it, paid off -- and we're taking money  
11 for future revenues.

12 Could we describe a little bit about what  
13 the long-term impact is going to be on the ability  
14 to those tobacco cessation programs in out years as  
15 a result of us using one-time funding to balance a  
16 budget last year?

17 SECRETARY HASSELL: I think I would  
18 recommend that this be a conversation with the  
19 Budget Secretary for the support of those spending  
20 programs going forward over time. That's probably  
21 not something I can address.

22 REPRESENTATIVE SCHWEYER: Fair enough.  
23 I'll save that for that day.

24 Thank you very much. I appreciate it.

25 Thank you, Mr. Chairman.

1 MAJORITY CHAIRMAN SAYLOR: Representative  
2 Dunbar.

3 REPRESENTATIVE DUNBAR: Thank you,  
4 Mr. Chairman.

5 Welcome, Secretary. I'll follow up on  
6 where Representative Schweyer was going, as far as  
7 we're talking about revenues. I think it is  
8 something that we do need to discuss, that we saw  
9 the after effects of overzealous revenue estimates  
10 in the past. I'm sure none of us want to go back  
11 down that road again.

12 With that being said, as I look at the  
13 Governor's revenue projections in some of the out  
14 years, most specifically CNIT in '18-'19, a little  
15 bit over \$3 billion, \$3.074 billion. And then in  
16 '19-'20, it jumps up to \$4.007 billion, which is  
17 almost a billion dollar increase, a 31 percent  
18 increase, doing quick math.

19 I understand that in our questions we  
20 were told that the majority of that increase is  
21 coming from implementation of combined reporting and  
22 a number that you provided us was \$903 million,  
23 which to me, makes me a little bit nervous because I  
24 go back to the same conversation I had with  
25 Secretary McNulty two years ago.

1                   And I asked her, what is the revenue  
2 projection, net of any rate changes, for combined  
3 reporting?

4                   She told me \$507 million. This morning,  
5 I asked IFO the same question and they told me 300  
6 million. So I'm curious to where we get to \$900  
7 million. If you could -- and fortunately, it's a  
8 couple years out, so if you can elaborate a little  
9 bit how you got to that number, I'd appreciate that.

10                   SECRETARY HASSELL: Sure. You're  
11 probably aware that the Department has been asked to  
12 analyze combined reporting proposals many times over  
13 the years, and we spent a lot of time on it, going  
14 back to the '80s. And so we have developed a  
15 methodology that starts with tax return data from a  
16 combined reporting state and matches those returns  
17 up with Pennsylvania returns to see how the base  
18 would be different than the base that we have today,  
19 if we were to implement combined reporting.

20                   And so that's the source of information  
21 for a lot of these kinds of --

22                   REPRESENTATIVE DUNBAR: So you can  
23 attribute any type of change in the last two years  
24 -- because it was Secretary McNulty that gave me the  
25 \$500 million number.

1                   SECRETARY HASSELL: Well, let me just add  
2 to that that the estimates are very sensitive to  
3 what you do with net operating loss carryovers. And  
4 some proposals that we have looked at over time have  
5 proposed including an uncapped on a well going  
6 forward. This proposal keeps in place current law,  
7 which is a 40 percent limit on NOL usage. And those  
8 -- and I don't know the specific numbers. Maybe  
9 Amy Gill to my right can speak to that, but those  
10 issues are very important in determining what the  
11 number is.

12                   REPRESENTATIVE DUNBAR: Just for my own  
13 good, if someone could provide me just an analysis  
14 of where we were two years ago and where we are  
15 today. And I understand the Nextel case has  
16 transpired since then, but --

17                   SECRETARY HASSELL: Yeah.

18                   REPRESENTATIVE DUNBAR: But at least if I  
19 can understand a little bit better, I'd feel  
20 comfortable about that.

21                   SECRETARY HASSELL: Sure.

22                   REPRESENTATIVE DUNBAR: Changing gears a  
23 little bit. We talked a little bit about the tax  
24 cut, the Jobs Act and what happened in Federal  
25 government and what we have and haven't done here in

1 Pennsylvania. And no, I'm not going to bonus  
2 depreciation. I'll let someone else take care of  
3 that.

4 But part of the tax cut in the Jobs Act  
5 was the elimination of unreimbursed employee  
6 business expenses on the Federal level. So there's  
7 no longer going to be a deduction for that at the  
8 Federal level.

9 Has there been any consideration and  
10 discussion between you and the Administration about  
11 doing that at the Pennsylvania level, as you talk  
12 about new and innovative revenue sources?

13 I call it a tax increase, but has there  
14 been any discussion about eliminating that in  
15 Pennsylvania?

16 SECRETARY HASSELL: I'm not aware of any  
17 kind of discussion about that. That is one of those  
18 issues that would not impact our system directly,  
19 unless, as you said, that were adopted specifically.  
20 But it is something we could get back to you on.

21 REPRESENTATIVE DUNBAR: Okay. And  
22 lastly, last year, maybe it was early this year or  
23 late last year, there was a news release about a  
24 glitch in a computer system that held back some  
25 refunds, about \$15 million of refunds. And I had

1 several calls of practitioners, most of them were  
2 sales tax refunds that were through the Board of  
3 Appeals.

4 Is that what everything was tied up --  
5 was it appellate-type refunds that were held up?

6 What exactly happened there?

7 I also heard that it was Treasury.

8 Can you enlighten us a little bit so we  
9 don't go down the same road.

10 SECRETARY HASSELL: Yes. So last fall  
11 there was a problem discovered in the communications  
12 between our business access system and Treasury's.  
13 Those two systems are in daily communication,  
14 literally, because there are so many refunds  
15 requested by our Department.

16 We issue 1.6 million refunds a year so a  
17 tremendous number. Treasury let us know that they  
18 were having to reject some of our refund requests  
19 because the name wasn't formatted correctly. Like a  
20 long company name would get truncated, literally.

21 And we needed to make changes in order to  
22 simply get the name formatted correctly. That took  
23 a little bit of time. There were, as I recall,  
24 something like 700 refunds affected. And it was  
25 resolved in January, I believe, by resolving that

1 miscommunication between the two agencies. And  
2 that's probably what you're hearing about.

3 REPRESENTATIVE DUNBAR: Okay. Thank you.

4 MAJORITY CHAIRMAN SAYLOR: Representative  
5 Briggs.

6 REPRESENTATIVE BRIGGS: Thank you,  
7 Chairman. I just wanted to ask a couple of  
8 questions about the lottery, so I'll direct them to  
9 Drew. It's amazing the innovation and the way  
10 you're able to keep costs low with all the programs  
11 that the lottery handles. I had a question  
12 regarding the RFP process for the instant tickets  
13 and related services.

14 My understanding -- that's being drafted  
15 as we speak, I guess?

16 SECRETARY HASSELL: Correct.

17 REPRESENTATIVE BRIGGS: My understanding  
18 is that two distinct services are going to be  
19 included in one RFP. One is related to warehousing  
20 and distribution and delivery services, and the  
21 other is the printing of the tickets.

22 Has there been any conversation or can  
23 you explain to me why it's -- it seems like one  
24 entity would have to have dual specialties to  
25 provide the best service for the lottery.



1                   Is there a reason why it's in one  
2 contract?

3                   SECRETARY HASSELL: Yeah. So we -- so  
4 you're talking about the Instant Tickets, the  
5 scratch-off tickets. Right, there are some -- there  
6 are two, essentially, parts of that contract, the  
7 distribution, as you said, and the warehousing and  
8 then the actual printing and design of those  
9 tickets.

10                  We generally -- and most lotteries bundle  
11 it as one because the efficiency of our business and  
12 the efficiency of the distribution of that product  
13 depends so heavily upon data and the people that --  
14 and that also feeds into the design of the product.

15                  So in other words, if we -- when we're  
16 designing a game, we have to sort of right size it  
17 for the market and that's really -- that's  
18 determined not only by demand, but also by factors  
19 like distribution. And so our approach has been, in  
20 most, if not all of the top 10 lotteries that I'm  
21 aware of, to bundle it as one because of the  
22 reliance upon data and how important it is for us to  
23 make sure that when we're designing products, that  
24 we're considering the supply chain as part of that  
25 whole product design process.

1                   REPRESENTATIVE BRIGGS: Is the one  
2 winner of the contract -- are they guaranteed all of  
3 the printing services, are you aware?

4                   EXECUTIVE DIRECTOR SVITKO: So we haven't  
5 released the contract yet. But generally  
6 speaking -- I'll speak even to our existing  
7 contract -- we have the ability to contract with not  
8 just one supplier, but have other, you know, a  
9 certain percentage of the contract can be still -- a  
10 percentage of the ticket, I should say can be  
11 printed by a third party or another major supplier  
12 so that's a practice that we've used in our  
13 contracts for as far back as I can remember, 20  
14 years. I expect it to be the case going forward, as  
15 well.

16                   We always want the best overall solution,  
17 but the ability to go out and get something if the  
18 next greatest thing happens next week.

19                   REPRESENTATIVE BRIGGS: I mean,  
20 that's the point I was trying to get to and I'm glad  
21 you go there regarding the innovation. A number of  
22 the lotteries in the country allow 50 to 30 percent  
23 of secondary vendors for printing various things as  
24 they come up. My understanding is Pennsylvania uses  
25 10 percent.

1           If there's any way to figure out if  
2           that's the right number or to try to make that -- if  
3           the lottery deems fair, I think it's the minimum is  
4           90 percent for the primary vendor. If they're doing  
5           a great job, I guess they could do it all.

6           But you know, if something does come up,  
7           it would be great to be able to take advantage of  
8           that, so thank you very much.

9           Thank you, Chairman.

10           MAJORITY CHAIRMAN SAYLOR: Representative  
11           Helm.

12           REPRESENTATIVE HELM: Thank you,  
13           Mr. Chairman.

14           Secretary Hassell.

15           SECRETARY HASSELL: Hi.

16           REPRESENTATIVE HELM: Hi. I'd like to  
17           talk about the Property Tax Rent Rebate Program.  
18           The estimated amount of the property tax rent  
19           rebates to be paid in 2018-'19 is \$262.8 million,  
20           which is a decrease of \$1.9 million from 2017-'18.

21           Please explain the decline in the amount  
22           of rebates under the Property Tax Rebate Program in  
23           light of the anticipated growing senior population  
24           in the Commonwealth.

25           And do you anticipate a growing demand

1 for this program as more of the baby boomers are  
2 becoming age eligible for the program?

3 SECRETARY HASSELL: Yes, thank you for  
4 that. The history of the program is that whenever  
5 the parameters remain the same for a period of time,  
6 then the numbers begin to go down gradually. And I  
7 think it's just because the -- as incomes of seniors  
8 rise, then fewer people are going to qualify under  
9 those income parameters.

10 And you're right that the number of  
11 seniors is rising and is going to continue to rise,  
12 but that doesn't seem to be offsetting the bracket  
13 creep, essentially, of people whose incomes are  
14 rising.

15 REPRESENTATIVE HELM: I get a lot of  
16 questions about that, so I have another question to  
17 talk about a letter that was sent December 1, 2017  
18 to all legislators. Outlined is a new process for  
19 legislative offices to contact the Department of  
20 Revenue regarding constituent inquiries.

21 And part of this process includes having  
22 the constituents sign a waiver for the Department to  
23 discuss account specifics with the member's office  
24 staff. I just was wondering, why was this change  
25 made and under what circumstances must a waiver be

1       obtained from the constituents?

2               As an example, people many times contact  
3       our office to simply see if, you know, to find out  
4       about their Property Tax Rent Rebate. I just  
5       wondered, in this case, will I need to have them  
6       sign the waiver?

7               SECRETARY HASSELL: Sure. So there was a  
8       conversation earlier about the security of taxpayer  
9       data, and it is something we take very seriously.  
10      We put that process in place to protect seniors in  
11      PTRR, but taxpayers in general. And it's simply a  
12      process that allows us to make sure that the  
13      information we're releasing to a member's office is  
14      something they authorized, that they're okay with  
15      it.

16              It is similar to a process that's in  
17      place in other States, as well as with the IRS. So  
18      I know from my own personal experience of dealing  
19      with the IRS on my mother's behalf, they -- the  
20      Congressman's office would not deal with her issue  
21      until there was a waiver in hand that they could  
22      give to the IRS, so it's a fairly common type of  
23      process.

24              But specifically on PTRR, we have said  
25      that if it's just a status inquiry to ask, you know,

1     what's the status currently on a rebate claim we'll  
2     do that without the waiver in hand.  But if you want  
3     to pursue it further and ask, well, if it was  
4     denied, why was it denied, what was the income  
5     reported, what's the issue, then I think we're going  
6     to have to have the waiver in hand.

7             Again, it's to protect the individual  
8     from unauthorized use of their information.

9             REPRESENTATIVE HELM:  I know the office  
10    staff was concerned to listen to your answer there.

11            What about the cost, is there a cost to  
12    implement this?

13            SECRETARY HASSELL:  I don't believe so.

14            REPRESENTATIVE HELM:  Okay.  Another  
15    question, which you didn't answer earlier, but the  
16    Farm Show.  I was really interested to hear your  
17    answer.

18            Since you couldn't answer, who can we  
19    contact?

20            Who can give us those answers?

21            SECRETARY HASSELL:  I would think that  
22    the Department of General Services has been involved  
23    in that and also the Budget Office.

24            REPRESENTATIVE HELM:  All right.  Thank  
25    you.

1 SECRETARY HASSELL: Yes.

2 MAJORITY CHAIRMAN SAYLOR: Representative  
3 Kim.

4 REPRESENTATIVE KIM: Good afternoon.

5 SECRETARY HASSELL: Good afternoon.

6 REPRESENTATIVE KIM: My question is that  
7 I believe you have a program for compulsive  
8 gamblers. It's a small program where if you believe  
9 you have a gambling problem, you can sign yourself  
10 up and essentially be banned from certain places.

11 I was wondering, now that the iSports is  
12 coming up, is there that same kind of process for  
13 Internet users?

14 SECRETARY HASSELL: Yes, I believe that  
15 there is a self exclusion component to this.

16 EXECUTIVE DIRECTOR SVITKO: Absolutely.  
17 The R.I. lottery program will have all the social  
18 responsibility controls that you would expect. We  
19 are following industry standard. There's an  
20 industry certification in Internet gaming, and we're  
21 following that as our lead as we design the program  
22 and all of the controls that will be in place.

23 Players will have the ability to not only  
24 self exclude, and they can self exclude for, you  
25 know, maybe take a year off or maybe take forever

1 off, but there will be other daily spend limits,  
2 amount of time, these are all configurable by the  
3 user. In their account setup, they'll be able to  
4 have a lot of controls and put a lot of controls in  
5 place if they're concerned that they would not be  
6 able to use it responsibly.

7 REPRESENTATIVE KIM: Thank you for that  
8 answer. And in, let's say the past two years, have  
9 you seen a number of users going up or has it stayed  
10 the same in terms of people signing up?

11 EXECUTIVE DIRECTOR SVITKO: So we don't  
12 have that program yet. The casinos have --

13 REPRESENTATIVE KIM: Oh, no. In terms of  
14 the program.

15 Yeah, the casinos.

16 EXECUTIVE DIRECTOR SVITKO: Right. The  
17 casinos have a self exclusion program. The lottery  
18 doesn't yet. It will be coming as part of our  
19 iLottery solution. But responsible gaming is  
20 something that we're awfully concerned about and  
21 committed to and absolutely committed to working  
22 with professionals.

23 So we're not problem gambling experts,  
24 but we partner with problem gambling experts, like  
25 our partners at DDAP, as well as the Pennsylvania



1 Council on Compulsive Gambling. We have a  
2 longstanding sponsorship and partnership with them.  
3 And we sponsor, we help sponsor the 1-800-GAMBLER  
4 hotline, as well.

5 REPRESENTATIVE KIM: Okay. That's good  
6 to hear.

7 I know from the information that we  
8 received that Instant Games is going up and doing  
9 well. You know, representing an impoverished area,  
10 I get a little protective over my folks.

11 Do you have any profile as to who they  
12 are?

13 And do you keep track of who they are in  
14 terms of the Instant Games?

15 EXECUTIVE DIRECTOR SVITKO: Obviously, we  
16 don't track consumers.

17 REPRESENTATIVE KIM: Right.

18 EXECUTIVE DIRECTOR SVITKO: We do  
19 surveys. And we know from that, and this is  
20 counterintuitive, but we know from that that by and  
21 large, at the end of the year, the people that play  
22 Pennsylvania lottery are the average Pennsylvanians.  
23 We see two differences, actually, in our data and  
24 that is that the household income is slightly above  
25 statewide average and education rankings are --

1 ratings are slightly higher than average.

2 I know that's counterintuitive from what  
3 people think, but if we're talking about, you know,  
4 people who played the lottery over the course of the  
5 year, and it's, you know, it's six or seven million  
6 adult Pennsylvanians play the lottery every year.  
7 So it's a wide range of people, but we don't, to  
8 your question, don't track it by individual.

9 REPRESENTATIVE KIM: Okay. I appreciate  
10 your answers. That's all I have.

11 Thank you.

12 MAJORITY CHAIRMAN SAYLOR: Representative  
13 James.

14 REPRESENTATIVE JAMES: Thank you,  
15 Representative. Over here on your right, at the  
16 good-looking table.

17 You started down the road of iGaming for  
18 a brief period to talk about keno. I wonder if you  
19 could expand upon that a little bit and explain to  
20 me exactly what virtual sports gaming might look  
21 like.

22 And then, among those 3,000 new vendors,  
23 which you will have, what sort of establishments  
24 will benefit from that and how will they benefit by  
25 providing that service?

1 EXECUTIVE DIRECTOR SVITKO: Sure. So  
2 I'll start with the last one, the type of  
3 establishment. So our monitor games -- and that's  
4 the product category we're talking about. We're  
5 talking about keno and virtual sports, our monitor  
6 games. And they're called that because in these  
7 age-controlled social environments like bars and  
8 taverns, that tends to be where they're most  
9 successful.

10 That's what we hope to get lots of, and  
11 are, so far, successful in that, but in those  
12 locations, there are monitors up on the wall, so a  
13 big screen TV. And you watch -- essentially, you  
14 watch the drawing on that big screen TV.

15 So that's why they're called monitor  
16 games. So monitor games like keno and virtual  
17 sports will be played in, again, mostly social  
18 environments, where adults tend to hang out.

19 There will be -- you will see it in some  
20 more traditional lottery locations. You may see  
21 some grocery stores have a cafe attached to them if  
22 they have a license to, you know, promote on-premise  
23 consumption of alcohol. So it may be in places like  
24 that. But all retailers, all 9200 other retailers,  
25 will also be able to sell those products, but they

1 won't have a monitor.

2           So while you can buy monitor games -- you  
3 will be able to buy as of May 1st monitor games in  
4 maybe a convenience store. It may not make sense  
5 for us to go through the expense of having the  
6 monitors on the wall in those locations, so we're  
7 really focused more on the social environments, but  
8 all 9200 retailers will be able to sell those  
9 products.

10           So virtual sports you asked about. Yeah,  
11 virtual sports, it's a really exciting product.  
12 What does it look like? Think about -- I will take  
13 a step back. These are products that are designed  
14 to attract a new audience, right.

15           It's the most responsible thing we can do  
16 long-term, is grow the business by reaching new  
17 players in new ways, by delivering a relevant and  
18 engaging, entertaining content to an increasing  
19 breadth of lottery players, all over the age of 18,  
20 but these products are designed to attract younger  
21 people.

22           So if you think about what a lot of  
23 younger people grew up doing -- I'm talking about  
24 25-year-olds, right, grew up playing video games and  
25 that's a big source of entertainment and continues

1 to be. I have a 23-year-old son who still plays  
2 video games occasionally.

3 But those games are -- those virtual  
4 sports games will look like the highest quality  
5 sports sort of video games that you can imagine.

6 REPRESENTATIVE JAMES: Are they  
7 interactive?

8 EXECUTIVE DIRECTOR SVITKO: They are --  
9 so they're not interactive. It is -- in essence, I  
10 mean, the way they work is, you are watching a  
11 lottery drawing. It just looks like you're watching  
12 a football game or a snippet of the football game.  
13 The drawings themselves will be actually conducted  
14 through a random number generator, just like we do  
15 for our midday draws and have done for many years.

16 And then those machines just animate the  
17 drawing results to look like a football game. It's  
18 complex stuff, but it's really neat, really  
19 engaging, entertaining content. We're excited to  
20 launch it. We're going to be, I think, the first  
21 U.S. lottery to launch it in brick-and-mortar retail  
22 stores.

23 We're excited about it because we think  
24 it really proves our relevance as an entertainment  
25 source to a whole new generation of lottery players.

1                   REPRESENTATIVE JAMES: Our target  
2 beneficiaries are, then, typically older  
3 Pennsylvanians.

4                   What is your feeling about the long-term  
5 stability of the lottery system that we have now?

6                   EXECUTIVE DIRECTOR SVITKO: So I think  
7 Act 42, which gave us the ability to sell iLottery  
8 and monitor games, was a fantastic step toward  
9 stable, long-term growth of profits for older  
10 Pennsylvanians. It's again -- we've never been told  
11 that we don't need more money, so we have to keep  
12 generating more money. And if we have to do that by  
13 just asking existing players to spend more, that  
14 doesn't make business sense.

15                   It's not good government. It's not good  
16 policy. It's not sustainable. So by growing in  
17 these new ways, I think is a great thing. It's  
18 absolutely something that is going to continue to  
19 grow well into the future.

20                   REPRESENTATIVE JAMES: Thank you.

21                   MAJORITY CHAIRMAN SAYLOR: Okay.  
22 Representative Keller.

23                   REPRESENTATIVE KELLER: Thank you, Mr.  
24 Chairman.

25                   Thank you, Mr. Secretary, and the rest of

1 your team for being here today. I'd like to go back  
2 to the refunds that we had an issue with because of  
3 the truncated names.

4 Was that a problem with the system at  
5 Revenue or was that a problem with the system at  
6 Treasury?

7 SECRETARY HASSELL: I think --

8 REPRESENTATIVE KELLER: Who changed?  
9 Who changed their system, I guess, would  
10 be the --

11 SECRETARY HASSELL: My understanding is  
12 that there were changes on both sides, honestly.  
13 The Treasurer made a change and they started looking  
14 more closely at business tax refunds than they had  
15 in the past. And as we were making adjustments to  
16 accommodate that, allowing them to reject one refund  
17 request at a time instead of a whole batch of  
18 thousands of them, then that triggered some of these  
19 other problems.

20 REPRESENTATIVE KELLER: I guess I --  
21 because what you told us earlier was there was a  
22 problem because the names were truncated.

23 SECRETARY HASSELL: Yes.

24 REPRESENTATIVE KELLER: Who truncated the  
25 names?

1 SECRETARY HASSELL: Our system.

2 REPRESENTATIVE KELLER: Okay. And we  
3 didn't think that we should test that?

4 SECRETARY HASSELL: It was not something  
5 that was picked up in our testing.

6 REPRESENTATIVE KELLER: So we -- okay.  
7 I find that -- I mean, if our stated mission and  
8 goal is to fairly, efficiently and accurately  
9 administer tax laws and other revenue programs of  
10 the Commonwealth and the testimony that you gave us,  
11 I think we probably failed.

12 SECRETARY HASSELL: On this particular  
13 issue, it should not have occurred. I would agree.

14 REPRESENTATIVE KELLER: I guess that  
15 gives me much concern over other areas, which I'm  
16 going to go back to one here. It mentions as part  
17 of the Governor's GO-TIME Initiatives, the  
18 Department saved taxpayers \$29.3 million in the last  
19 fiscal year.

20 Due to issues with fraudulent and  
21 erroneous tax refunds -- have we corrected -- I  
22 mean, have we corrected the things that we would be  
23 making errors on with tax refunds?

24 SECRETARY HASSELL: We're talking about  
25 errors on tax returns that come to us. And we have



1 established a new unit in the Department, the Fraud  
2 Investigation Unit, whose job it is to watch out for  
3 fraudulent requests for refunds from the  
4 Commonwealth because, as we've talked about here  
5 already today, there are many people out there who  
6 seem to be looking for ways to break our system and  
7 to get money from the Commonwealth when they're  
8 not --

9 REPRESENTATIVE KELLER: Are we sure that  
10 we don't have any errors in that system that pick up  
11 law-abiding citizens like we had in the ones that  
12 didn't get their refunds?

13 SECRETARY HASSELL: I'm sure that nothing  
14 is 100 percent. And the system that we have in  
15 place to detect fraudulent refunds has multiple  
16 components to it. We're working with software that  
17 flags certain refunds as being suspicious and worthy  
18 of follow up.

19 And we have individuals who then look at  
20 them more closely and often a letter is sent to the  
21 home address of the individual asking them to verify  
22 that it's their return and to verify the information  
23 on the return. So those identity verification  
24 letters have been ramped up dramatically in order to  
25 make sure that we're not dealing with someone who

1 has stolen someone's identity in order to defraud  
2 the Commonwealth of a refund.

3 REPRESENTATIVE KELLER: So we're  
4 confident that law-abiding taxpayers won't have the  
5 same issue that the 700 returns experienced this  
6 past year?

7 SECRETARY HASSELL: As I said, nothing is  
8 ever 100 percent, but we're working very hard to  
9 make sure that we do what we do efficiently and  
10 accurately.

11 REPRESENTATIVE KELLER: Okay. Thank you.

12 MAJORITY CHAIRMAN SAYLOR: Representative  
13 Greiner.

14 REPRESENTATIVE GREINER: Thank you,  
15 Mr. Chairman.

16 Good afternoon, Secretary Hassell. I  
17 have a question, which I had asked this morning  
18 also, about the Federal bonus depreciation and the  
19 Corporation Tax Bulletin 2017-02. The Federal Tax  
20 Cuts and Jobs Act of 2017 provided the schedule for  
21 bonus depreciation over several years, initially  
22 permitting a 100 percent bonus depreciation for  
23 property placed in service after September 27th of  
24 2017.

25 I know you're aware of this, but on

1 December 22nd, 2016, your Department issued a  
2 Corporation Tax Bulletin, the 2017-02, addressing  
3 disallowance and recovery of the 100 percent  
4 depreciation.

5 And on background, I said this morning,  
6 I've worked in public accounting for over 20 years  
7 and worked with a lot of companies and we try to  
8 create jobs in this State. I'm actually concerned  
9 about the message that was sent to the business  
10 community in issuance of this bulletin.

11 And I need to ask, in your opinion, is it  
12 sound tax policy to completely allow depreciation  
13 over the usable life of business property as the  
14 business -- as your Bulletin prescribes? Until the  
15 property is sold or otherwise disposed -- we're  
16 talking about this for life exchange, now we're  
17 talking about this for actual purchases. And are  
18 you aware of any other State that has taken this  
19 position?

20 SECRETARY HASSELL: To address the last  
21 question first, I don't think so. But let me back  
22 up a little bit. We're working with the statute  
23 that was adopted in 2002 in order to decouple  
24 Pennsylvania corporate tax from the first version of  
25 bonus depreciation that was enacted by the Federal

1 government.

2           That initial Federal law allowed a 30  
3 percent bonus and it was the agreement of the  
4 General Assembly and the Governor at the time to not  
5 allow that to flow through into our tax. The  
6 problem that has occurred since then is that the  
7 formula that's in that decoupling statute was  
8 designed for 30 percent and it doesn't work that  
9 well when the rate is something other than 30  
10 percent.

11           Because for a number of years there has  
12 been in Federal law a bonus of 50 percent. We still  
13 have had this statute that says, well, you had back  
14 the 50 percent bonus, but we're going to allow you  
15 to recover that by scaling up the remaining  
16 appreciation by 30 percent. So the formula that's  
17 in the statute doesn't work that well with a bonus  
18 that's other than 30 percent. And we were faced  
19 with a difficult choice. The Federal bill that  
20 adopted 100 percent bonus depreciation passed at the  
21 end of December.

22           And we needed to provide some quick  
23 guidance for what taxpayers were supposed to do as  
24 they began to fill out their returns early in  
25 January. And it is not within our ability as an

1 agency, it's not within our ability to fix this  
2 formula that's in the statute.

3 What the Bulletin does is simply follow  
4 the literal letter of the law, which gives you the  
5 result that you described. And I'm not going to say  
6 that that's the correct policy result, but --

7 REPRESENTATIVE GREINER: Let -- yeah,  
8 because I know I'm probably running out of time  
9 here. Let me just follow up on that. I mean, the  
10 reality is that whatever we do is going to end up  
11 being revenue neutral anyway. Now, maybe you are  
12 dealing with the time value of money, but the  
13 reality is, it is going to be revenue neutral over  
14 time for the State, correct, with the --

15 SECRETARY HASSELL: Eventually.

16 REPRESENTATIVE GREINER: Exactly.

17 SECRETARY HASSELL: Yes, over a 20-year  
18 period. Yes.

19 REPRESENTATIVE GREINER: Well, let me ask  
20 you -- let me just follow up because I do want to  
21 emphasize that point, but let me follow up. We have  
22 a bill that just came out of the House Committee.  
23 It was unanimous out of the Finance Committee,  
24 HB 2017, that brings in where we're allowed to still  
25 depreciate an asset, not necessarily take the 100

1 percent.

2 I don't know whether you've looked at the  
3 language in that bill. And I wanted to know whether  
4 you've -- first of all, have you done an analysis on  
5 that bill and would the Department and  
6 Administration support that language in that bill at  
7 this point?

8 SECRETARY HASSELL: We have looked at  
9 that bill. There was an amendment in Committee  
10 recently that I think corrected some of the issues  
11 that we had with it. I think the language works as  
12 it is. My only comment on it is that our standard  
13 answer on any tax legislation that has a fiscal  
14 impact is that it should be considered in the  
15 context of balancing the budget and that's the same  
16 answer that we have on this.

17 It's that what we have done is to buy  
18 time for the General Assembly to act to consider  
19 what to do on this score so that it can be fixed in  
20 the statute where it belongs.

21 REPRESENTATIVE GREINER: Appreciate your  
22 answer. Appreciate the time.

23 Thank you.

24 SECRETARY HASSELL: All right.

25 MAJORITY CHAIRMAN SAYLOR: Representative

1 Grove.

2 REPRESENTATIVE GROVE: Good afternoon.

3 SECRETARY HASSELL: Good afternoon.

4 REPRESENTATIVE GROVE: Thanks for joining  
5 us. First, you sent over a sheet of IT budgeting  
6 stuff.

7 Do you have that there with you?

8 It was sent over --

9 SECRETARY HASSELL: Yes, I understand  
10 that that came from the Budget Office. There was a  
11 response from the Budget Office to your questions on  
12 this. I don't think we've seen what was sent yet.

13 REPRESENTATIVE GROVE: Okay. Well,  
14 there's -- line one of this is general government  
15 operations personnel. Our understanding is your  
16 personnel budget for your IT employees, '17-'18,  
17 listed as \$20.2 million, '18-'19 listed as \$175,000.  
18 So obviously, a large drop in cost for IT personnel.

19 Getting rid of them, are they shifted  
20 somewhere else?

21 SECRETARY HASSELL: They are -- they are  
22 part of the Governor's initiative to centralize IT  
23 and HR resources --

24 REPRESENTATIVE GROVE: Okay.

25 SECRETARY HASSELL: -- under the Office

1 of Administration, so they're no longer in our  
2 budget.

3 REPRESENTATIVE GROVE: So my  
4 understanding with discussions from Secretary  
5 Minnich of OA is while the employees will be under  
6 OA, they're getting charged back to you; is that  
7 still accurate?

8 SECRETARY HASSELL: Yes. Yes.

9 REPRESENTATIVE GROVE: So should your GGO  
10 reflect that cost or should OA's if they're getting  
11 charged back?

12 SECRETARY HASSELL: As I understand it,  
13 the mechanism -- the formula for charging those  
14 costs back to agencies is still being resolved.  
15 It's been a subject of study and we haven't landed  
16 on a final formula at this point. So we don't know  
17 exactly what those numbers will be.

18 REPRESENTATIVE GROVE: Okay. But if we  
19 get OA's budget, it should reflect the total cost of  
20 personnel, basically what your documents are  
21 showing, those costs have been shifted over to OA's  
22 budget?

23 DEPUTY SECRETARY GILL: Correct.

24 SECRETARY HASSELL: Correct.

25 REPRESENTATIVE GROVE: Correct, okay.



1 That answers that question.

2           Could you give a breakdown, past seven  
3 years to make it a good bipartisan breakdown, of  
4 your head count for IT personnel compared to your  
5 staff augmentation?

6           I believe there should be a staff  
7 augmentation contract utilized.

8           Can you give us a breakdown of the  
9 temporary augmentation staff versus your actual  
10 employee head count, past seven years?

11           SECRETARY HASSELL: Sure.

12           REPRESENTATIVE GROVE: That would be  
13 helpful. Thank you.

14           I asked this earlier with the IFO. They  
15 did a -- and this goes back to last year's budget.  
16 They did a mid-year update published January 25th,  
17 2017. They assumed revenues would continue to fall  
18 short of estimate over the next five months after  
19 January. The fiscal year would be short of  
20 estimates, \$716.4 million.

21           When the Governor presented his executive  
22 budget two weeks later on February 7th, he  
23 anticipated revenues would end the fiscal year short  
24 by \$374.7 million. Basically, the assumption is  
25 we'll get more revenue in the next five months to

1 not have such a huge deficit.

2 Ultimately, June 30th 2017, when the  
3 fiscal year ended, collections were short by \$1.1  
4 billion. Now, what was Revenue seeing that the IFO  
5 wasn't to get that analysis done?

6 SECRETARY HASSELL: And I'm sorry,  
7 specifically, you're asking about the change in the  
8 Revenue estimate from the time of the budget to  
9 year-end?

10 REPRESENTATIVE GROVE: Yeah. So  
11 basically in 2017, January 25th, IFO said, for the  
12 rest of the fiscal year, '16-'17 budget, revenues  
13 would continue to decline. The Department of  
14 Revenue, in their analysis built into the Governor's  
15 budget said, we're going to see an uptick in revenue  
16 for the remainder of the fiscal year, so it won't be  
17 quite that bad. You know, two different entities  
18 analyzing it.

19 What was Revenue seeing differently than  
20 the IFO during that time frame?

21 SECRETARY HASSELL: We would have been  
22 looking at the revenue forecast -- excuse me, the  
23 economic forecasts that were available to us at the  
24 time. As you know, the Commonwealth contracts with  
25 IHS to provide economic data and forecasts and the

1 last fiscal year, the actual economic results came  
2 in much lower than what had been forecast by IHS.

3 We can go through those numbers, if you  
4 like, but that's essentially the story.

5 REPRESENTATIVE GROVE: Okay. Do you --  
6 IFO just sent this out, I think maybe December time  
7 frame. They actually do a self analysis of their  
8 revenue estimates. They kind of mark how wrong --  
9 do you do an internal look at your error rates on  
10 your revenue estimates?

11 SECRETARY HASSELL: Not in a formal way,  
12 but we always look back after the fact in order to  
13 evaluate, what did we get right, what did we get  
14 wrong, look for ways to improve our process and  
15 learn, basically, lessons learned after the fact.

16 REPRESENTATIVE GROVE: Thank you.

17 Thank you, Mr. Chairman.

18 MAJORITY CHAIRMAN SAYLOR: Representative  
19 Delozier.

20 REPRESENTATIVE DELOZIER: Thank you,  
21 Mr. Chairman. I just had a real quick question.

22 We had talked a little bit about the Rent  
23 Rebate Program, and I was doing a little bit of  
24 research because my recollection was that one of the  
25 issues when I have folks calling in is that they are

1 on Social Security and they get a little bit of a  
2 bump, not much, but just enough to throw them over.

3 We had a moratorium out there on the fact  
4 if their increase for Social Security was not to be  
5 counted --

6 SECRETARY HASSELL: Yes.

7 REPRESENTATIVE DELOZIER: -- in order for  
8 them to qualify for -- my understanding is that has  
9 ended.

10 SECRETARY HASSELL: Yes.

11 REPRESENTATIVE DELOZIER: And so my  
12 direct question is, how many in 2017 will be bumped  
13 off of Rent Rebate because of that?

14 SECRETARY HASSELL: We could take a look  
15 at that. I don't have those numbers in front of me,  
16 but yes.

17 REPRESENTATIVE DELOZIER: And that is the  
18 ability for -- do you have any costs as to -- and I  
19 guess the numbers that are going to be bumped off  
20 will tell us how many folks are going to lose out on  
21 that opportunity. Because I know my folks depend on  
22 that heavily and that's one of the biggest calls I  
23 get in my office as to --

24 SECRETARY HASSELL: Sure.

25 REPRESENTATIVE DELOZIER: -- when is the

1 form coming out?

2 When can I apply?

3 When is my check coming?

4 SECRETARY HASSELL: Yes.

5 REPRESENTATIVE DELOZIER: So that is a  
6 big call that I get. So I would be very interested  
7 to see what that difference is, because I think it  
8 was a big benefit to a lot of our seniors that are  
9 right on that edge and only a couple of bucks knocks  
10 them off and they lose a lot of money from that  
11 program.

12 SECRETARY HASSELL: Sure. We can take a  
13 look at that.

14 REPRESENTATIVE DELOZIER: Okay. I'd  
15 appreciate it.

16 Thank you very much, Mr. Chairman.

17 MAJORITY CHAIRMAN SAYLOR: All right.

18 The next we will move to are Chairmen of  
19 the Committees. We have Representative Hennessey,  
20 who is Chairman of Aging.

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

23 SECRETARY HASSELL: Good afternoon.

24 REPRESENTATIVE HENNESSEY: Good  
25 afternoon, Secretary Hassell and panel members.

1 I'm going to direct my questions  
2 primarily to Drew because the Department of Aging  
3 doesn't draw on the State General Fund. We get 80  
4 percent of our money from the lottery, roughly, and  
5 about 20 percent from the Older Americans Act,  
6 Federal funding, various titles.

7 So the importance of the lottery is  
8 magnified in my view. And I just wanted to talk to  
9 you, Drew. We meet periodically through the year  
10 and you keep me up to date, and I appreciate the  
11 fact that you do keep me up to date on both the  
12 operation of the lottery and the health of the  
13 Lottery Fund.

14 With regard to the operations, you've  
15 talked about the implementation schedule and how  
16 we're rolling it out in the spring and summer. It  
17 sounds like that's proceeding at a pace and that's  
18 healthy. Tell me about the difference between  
19 Powerball and Mega Millions.

20 Months ago, it seems to me, that  
21 Powerball had the odds against winning, so to speak,  
22 adjusted upwards to a point where Powerball was  
23 really riskier in a sense than to pay the Mega  
24 Millions.

25 I understand that the State Commission

1 has changed that and that Mega Millions is now  
2 slightly harder to win than Powerball; is that  
3 accurate?

4 Can you give me any numbers, if you have  
5 them at the top of your head?

6 EXECUTIVE DIRECTOR SVITKO: Yeah. So  
7 it's about, I think, about 292 million to 1 to win  
8 the jackpot.

9 REPRESENTATIVE HENNESSEY: For Powerball?

10 EXECUTIVE DIRECTOR SVITKO: Right, for  
11 Powerball.

12 Mega is slightly more than that. I don't  
13 have that -- 295, 296 maybe. You know, the --

14 REPRESENTATIVE HENNESSEY: But that  
15 adjustment is already -- that's happened. That's  
16 the laws or the status of the games as we play them  
17 today.

18 EXECUTIVE DIRECTOR SVITKO: Correct.  
19 Yeah, that change has happened and it's really just  
20 those games, people play them to win a life-changing  
21 humongous prize.

22 REPRESENTATIVE HENNESSEY: Right.

23 EXECUTIVE DIRECTOR SVITKO: So they are  
24 tweaked occasionally to respond to supply and demand  
25 issues, or demand only, and generate bigger

1     jackpots.  And that's really what that change was  
2     designed to do.

3                 REPRESENTATIVE HENNESSEY:  Okay.  Now,  
4     moving to the health of the lottery, you've heard a  
5     number of people ask you about the fact that we have  
6     faced -- we are an aging population here in  
7     Pennsylvania.  By the year 2020, two years from now,  
8     our Secretary of Aging, Teresa Osborne, tells us  
9     that 20 percent of our population will be over the  
10    age of 60.  With that, we would expect draws on our  
11    existing programs, the Lottery Funds for our senior  
12    population.

13                Tell us about the health of the lottery  
14    and the long-term ability of the lottery to sustain  
15    the funding for those programs.  And if we are in  
16    trouble, tell us about that.  So tell us what we  
17    have to do.

18                EXECUTIVE DIRECTOR SVITKO:  So the  
19    management of the Lottery Fund, as you know, is not  
20    managed by the lottery.  We're more the majority of  
21    the input of that, that fund.  You know, the revenue  
22    generating side, and I'm pleased to say again, the  
23    new programs that we have in place coupled with the  
24    hard work of the 9200 retails we already have.

25                So we are better prepared for the future



1 than we've ever been. The iLottery Program and  
2 monitor games are going to help us broaden our reach  
3 in retailers and types of businesses selling our  
4 product, broaden our reach in the people who are  
5 playing the games and attracted to the games. And  
6 therefore stabilizing that revenue stream for many  
7 years to come.

8           That said, you know, ours is a -- you  
9 know, we're selling a product that people don't  
10 need. This is an entertainment product and we have  
11 to keep in mind that we are always competing for top  
12 of mind awareness, competing for -- against many  
13 other things. Anything else you can do with that  
14 extra dollar in your pocket is essentially  
15 competition for the lottery.

16           So we will always -- we have been and  
17 will continue to be looking for new opportunities to  
18 generate money well into the future, small  
19 opportunities, big opportunities, all opportunities.

20           REPRESENTATIVE HENNESSEY: Okay. But the  
21 takeaway from your testimony is the Pennsylvania  
22 lottery is a healthy product and it is positioned  
23 well for sustaining the kind of programs that our  
24 seniors depend on here in Pennsylvania, even given  
25 the expected increase in senior population.

1 EXECUTIVE DIRECTOR SVITKO: That's  
2 correct. Our collective -- our lottery is one of  
3 the top performing lotteries in the nation --

4 REPRESENTATIVE HENNESSEY:  
5 Congratulations.

6 EXECUTIVE DIRECTOR SVITKO: -- one of the  
7 most profitable, and one of the most efficient and  
8 is positioned to continue to be that well into the  
9 future, as long as we keep, you know, getting the  
10 support that we've been enjoying and being able to  
11 respond to changing market conditions and demands of  
12 retail and demands of players. As long as we  
13 continue to be able to, you know, think and act like  
14 a business in that regard, we're going to continue  
15 to grow.

16 REPRESENTATIVE HENNESSEY: Okay. One  
17 final follow-up.

18 Can you provide the Appropriations  
19 Committee with a listing of the various senior  
20 programs that are funded through the lottery?

21 EXECUTIVE DIRECTOR SVITKO: Absolutely.  
22 And I would encourage you to check out our website  
23 at palottery.com. There's a great Who Benefits  
24 section that has an interactive map that describes  
25 by county all the different amounts that go to each,

1 prizes that are paid to that county and all the  
2 different funding for the benefit programs by  
3 county, but we can also supply that in writing, as  
4 well.

5 SECRETARY HASSELL: And if I could jump  
6 in there. I apologize, Mr. Chairman, but just to  
7 add a little bit of additional information. The  
8 Governor's budget, taking a count of the new games  
9 that have been added to the mix, as well as making  
10 changes in the programs that are funded, does get us  
11 to the point where we can reestablish a reserve in  
12 the Lottery Fund of \$75 million a few years out and  
13 I think that indicates some confidence that we're  
14 getting back to stable funding for those programs.

15 REPRESENTATIVE HENNESSEY: Thank you,  
16 Drew. Thank you, Mr. Secretary.

17 Thank you, Mr. Chairman.

18 MAJORITY CHAIRMAN SAYLOR: I'm going to  
19 interrupt the proceedings just quickly here.

20 Chairman Markosek had to go to a very  
21 important meeting, and I have to leave for another  
22 important meeting, as well. We're turning it over  
23 to our Vice-Chairmen, Representative Briggs and  
24 Representative Dunbar.

25 But before I do leave, Mr. Secretary --

1 they get big pay for this -- but before I do leave,  
2 one of the concerns I've had, and you didn't get to  
3 see it because I guess the Budget Office was  
4 supposed to share it with all of the secretaries  
5 before coming in here, was the IT report and how  
6 much money has been spent on IT.

7           Based upon the report the Budget  
8 Secretary gave me, that in the last 10 years at the  
9 Department of Revenue, we've spent \$528 million  
10 dollars on IT. And we're requesting \$46.5 million  
11 this coming year.

12           I really think the concern I have, and  
13 you're just one Department, that's a lot of money to  
14 not be able to do the things that we need to be able  
15 to do in the Department of Revenue. And again, it  
16 goes over multiple registrations. I'm not pointing  
17 it out to you, Mr. Secretary, or to this Governor.

18           My concern is just there are so many  
19 demands for money in our budget. People have needs,  
20 whether it's children with autism, it's the  
21 education system. It just seems to me that whatever  
22 we're doing with IT in this State, when we're  
23 spending a half a million dollars just in one  
24 Department, I can't imagine. I'm waiting to see  
25 what the DHS is spending on IT.

1           It really bothers me that, are we getting  
2 our bang for our buck that we're getting?

3           When we ask for a program, are we really  
4 getting something that's going to last into the  
5 future or is it something we're going out on a  
6 contract on every year to update something that  
7 should be easily done by our own personnel without  
8 any cost to it since we have IT personnel on board?

9           So I'm not asking you to respond,  
10 necessarily, it's just a statement for me. If you  
11 want to respond, you're welcome to, but I have a  
12 real concern. Like I said, it's not about this  
13 Administration. Both Democratic and Republican  
14 Administrations have spent a lot of money on IT in  
15 every department. And just in your Department  
16 alone, \$500 million is a lot of money.

17           SECRETARY HASSELL: Yeah, I agree with  
18 you, Mr. Chairman. And I think that that is a key  
19 concern of this Governor, and he has put some things  
20 in place in order to make sure that we get every  
21 value that we can out of every dollar that's spent  
22 on IT. And that's part of the reason for the  
23 consolidation initiative, to make sure that we're  
24 combining, overlapping resources across different  
25 agencies.

1           And I think that Sharon Minnich will be  
2           able to speak in more detail about this, but I think  
3           it's absolutely the correct question to ask and  
4           something we should be working together on.

5           MAJORITY CHAIRMAN SAYLOR: Very good.  
6           Thank you, Mr. Secretary.

7           SECRETARY HASSELL: Thank you.

8           MAJORITY CHAIRMAN SAYLOR: And with that,  
9           the next questioner is Representative Wheatley.

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

12          Thank you, Mr. Secretary, and all of the  
13          Department folks that you brought with you.

14          I know that your Department is  
15          responsible for implementation and that you try to  
16          keep your influences around policy to a minimum, but  
17          earlier today we heard from the IFO about the  
18          demographic trends and some challenges that we could  
19          potentially face if we don't do something to change  
20          them and that is, we're seeing some issues with the  
21          20-to-64-year-olds, as well as with citizens having  
22          children in the Commonwealth and those numbers  
23          versus what our population over 65 is, is very  
24          concerning as we move out into the future years.

25          So in your analysis of the State revenue

1 streams, do you believe our structure, our current  
2 makeup of taxes, are structurally fair and are they  
3 helpful to us to try to really attract, maintain and  
4 grow that future work force and that future family  
5 support?

6 SECRETARY HASSELL: That's a great  
7 question. And I probably don't have a comprehensive  
8 answer to that, but I mean, I think it's something  
9 that we should be looking at as we think about the  
10 future and thinking about what's the right way to  
11 fund government in a way that's efficient, attracts  
12 jobs and doesn't burden our citizens.

13 In this budget, the Governor is again  
14 talking about reforming the corporate tax to bring  
15 the rate down and spread the base out in a way that  
16 should make the Commonwealth more competitive among  
17 other States so that we're not sticking out there at  
18 the top or the bottom of all the lists with the 9.99  
19 percent rate.

20 That certainly is a step in the right  
21 direction. But your question, I know, goes well  
22 beyond that. And I think it's something that's  
23 worth study, to come up with that kind of  
24 comprehensive plan.

25 REPRESENTATIVE WHEATLEY: Second

1 question, with the new changes to the Federal tax  
2 law, which reduces the rate for the C Corps, do you  
3 foresee a shift or do you anticipate a shift of  
4 pass-throughs in PA opting to restructure to become  
5 more of a corporate tax payer?

6 SECRETARY HASSELL: You know, I don't  
7 have statistics on that. Of course, I think that's  
8 a work in progress, but that's what I understand,  
9 that a lot of businesses looking at the Federal tax  
10 changes are restructuring and changing the way they  
11 do business in order to intelligently take advantage  
12 of the new Federal system.

13 We will see, once returns start to come  
14 in, where we are on that. But that might be a  
15 significant shift in our business population.

16 REPRESENTATIVE WHEATLEY: And do you  
17 think that would positively or negatively impact our  
18 revenue?

19 SECRETARY HASSELL: To the extent that  
20 there are more corporations, then you would expect  
21 more corporations' tax.

22 REPRESENTATIVE WHEATLEY: And then  
23 finally, this is a question -- I'm just trying to  
24 figure this out.

25 Do you think we would be better off --



1 again, going to your own thought -- would we be  
2 better off expanding our bases and maybe even  
3 lowering our tax rates?

4 And if so, do you think it would generate  
5 revenue or lose revenue, specifically, as we are  
6 talking about trying to target our tax structure to  
7 really help families, help that 20-to-64 age group?

8 And do you think it would be beneficial  
9 for us to consider, just consider, possibly doing  
10 something with future retirement income or expanding  
11 the sales tax base?

12 SECRETARY HASSELL: Yeah, I think that it  
13 would be a good thing to look at the sales tax base  
14 and think about whether all of the exemptions that  
15 are there make sense. And again, this isn't in the  
16 context of an overall reform. You know, the sort of  
17 classical tax reform study/proposals that lots of  
18 States look at are, again, how do you broaden the  
19 base and lower the rate because that spreads the  
20 burden out. It makes it less difficult for  
21 individuals who are subject to tax to actually pay  
22 what they owe.

23 So if there's an opportunity to do that  
24 kind of study and to design a better, fairer tax  
25 system, then I'd be happy to participate in that.

1                   REPRESENTATIVE WHEATLEY: Thank you.

2                   Thank you, Mr. Chairman.

3                   REPRESENTATIVE DUNBAR: Thank you.

4                   And continuing with our parade of  
5 Chairmen will be Chairman Samuelson.

6                   REPRESENTATIVE SAMUELSON: Thank you,  
7 Representative Dunbar.

8                   Most of my questions have to do with the  
9 Property Tax Rent Rebate. My local office is very  
10 involved in that Program. We do about a thousand of  
11 those every year. So far this year, we've completed  
12 159, including the 53 I brought down today since the  
13 last time I was here just a few days ago.

14                   First, I want to thank you. The  
15 Department processes a half a million of these every  
16 year. It seems like the average person, the seniors  
17 in Pennsylvania, get \$250 million. So the average  
18 person is getting about \$500.00.

19                   And the employees of the Department are  
20 very helpful when we have questions. I also  
21 appreciate that you took up one of my suggestions  
22 from previous years that the booklets were  
23 distributed to the legislative offices and the  
24 public by January 31st this year. Previous years,  
25 there had been a delay, but we got them. We were up

1 and running before the end of January.

2 Thank you.

3 A couple of suggestions. I brought last  
4 year's book and this year's book. Last year, the  
5 chart, which encapsulates the whole program in a  
6 very readable format, was on page one. This year,  
7 they stuck the chart inside. I think it's better to  
8 have it right out front, so the public can see it.

9 SECRETARY HASSELL: Okay.

10 REPRESENTATIVE SAMUELSON: One more  
11 suggestion. Last year on the chart, they clearly  
12 said that you only have to count half of your  
13 Social Security income. That was an important  
14 reform that we did 18 years ago, dramatically  
15 increased the number of people who are eligible.  
16 This year's chart omits that fact.

17 So I wonder, I know the books are all  
18 printed, but maybe on the website you could update  
19 that to clearly say that you only count half of your  
20 Social Security income. I know it's in the text of  
21 the booklet, but to put it right out front, that  
22 would be helpful.

23 SECRETARY HASSELL: Okay. We'll look at  
24 that.

25 REPRESENTATIVE SAMUELSON: One more

1 suggestion. We have -- in my community, we help  
2 seniors. We help low income individuals, people  
3 with disabilities. The booklet says that, if you're  
4 a renter, this is available to homeowners or  
5 renters. The booklet say if you are a renter, that  
6 could be an apartment, that could be a boarding  
7 home. That could be -- it lists a whole bunch of  
8 categories.

9 I have run into some issues over the last  
10 year. My constituents who are low income, who live  
11 in boarding homes, they almost never get the rebate  
12 the first time. They get a follow-up letter from  
13 the Department, an additional level of scrutiny  
14 that's not given to the homeowners and apartment  
15 dwellers who apply for this program.

16 So I wonder if somebody could follow up  
17 with this or ask about this internally in the  
18 Department of what is that additional level of  
19 scrutiny. As I said, almost every single person  
20 who's renting a room in a boarding house who has  
21 applied through my office has received a follow-up  
22 letter before they can get the rebate.

23 And I hope some don't give up when they  
24 get that letter saying you can't get it, you know.  
25 So I just want you to take a look at that.

1                   SECRETARY HASSELL:   Sure.   Okay.

2                   REPRESENTATIVE SAMUELSON:   My main point  
3   is what you said earlier about bracket creep.   It  
4   has been 11 years since we increased the income  
5   limits for this program.   January 2007, we raised  
6   the income limits to \$35,000 net income for  
7   homeowners, dramatic increase.   We doubled the  
8   number of people who were eligible.

9                   And that \$35,000 is after you only count  
10   half of your Social Security income.   So people even  
11   above \$35,000 can qualify, but as that number has  
12   stayed the same for 11 years, as people's incomes  
13   have gone up, the number of people receiving this  
14   rebate has gone down.

15                  And I saw some statistics you put in the  
16   budget book that we were talking about a 10-percent  
17   decrease.   If we go back just six short years ago,  
18   there were approximately 600,000 people getting the  
19   Property Tax Rent Rebate.   Now, we're in the  
20   ballpark of 540,000.

21                  So every year there's a small Social  
22   Security increase or people have other income  
23   increases, they could be in danger of being priced  
24   out of this program.   So I think it's long overdue  
25   for the House of Representatives and the General

1 Assembly to go back and increase the income limits  
2 on this program.

3 I know former Representative  
4 Phyllis Mundy, Chair of the Finance Committee, she  
5 had an amendment one time that would raise it up in  
6 the \$45,000-\$50,000 range. We have not raised this  
7 program since January of 2007, and it's about time.

8 I do want to follow up on what  
9 Representative Delozier said about the moratorium,  
10 if you get a small Social Security increase that  
11 could price you out of the program. We're starting  
12 to see that this year because we're comparing 2017  
13 incomes with 2016 incomes and there was a  
14 three-tenths of a percent increase.

15 So there are people moving out of the  
16 program because we no longer have that moratorium.  
17 That problem is going to grow dramatically a year  
18 from now because in the future when we're comparing  
19 2018-2017, there's a two percent increase in Social  
20 Security. There are going to be tens of thousands  
21 of people who are going to lose this benefit if we  
22 don't address that Social Security cost of living  
23 issue.

24 And I think the better way to address it  
25 is just an across-the-board increase in this

1 program. So I wanted to make a few points about the  
2 Property Tax Rent Rebate Program. I know it depends  
3 on the lottery. And Drew was talking about the  
4 lottery. I saw the income. The sales have gone up  
5 this year.

6 There was a dip in sales last year. It's  
7 a very successful program. We've had a billion  
8 dollars in profit six years in a row. That's  
9 extraordinary, but after last year's dip, I noticed  
10 it went up 4.9 percent in the current year.

11 My question for Drew is, what can you  
12 attribute that 4.9 percent increase to in comparing  
13 the first half of this year to the first half of the  
14 previous year?

15 EXECUTIVE DIRECTOR SVITKO: Yeah. So in  
16 this case, it was jackpots. All right. So I said  
17 before, huge jackpots from Powerball or  
18 Mega Millions are typically the difference between  
19 us having a good year and a great year. In this  
20 case, the first half of the fiscal year, we had a  
21 couple really big jackpots and we didn't have those  
22 over the same period last year.

23 So on a year-to-year basis, we're up. We  
24 also launched a new project category Fast Play.  
25 Fast Play has generated over a hundred million

1 dollars in its first full year, which is  
2 dramatically more than we projected. It's doing  
3 very well. That's a new type of game for us.

4 And scratch-offs continue to grow, as  
5 well as a few other products, but you know, it's  
6 fighting for entertainment dollars at 9200 retailers  
7 all across the Commonwealth. So that success is due  
8 to the work in 9200 retailers and 238 dedicated  
9 professionals who love their jobs back at lottery.

10 REPRESENTATIVE SAMUELSON: Thank you,  
11 Drew. Thank you, Secretary Hassell.

12 SECRETARY HASSELL: You're welcome.

13 REPRESENTATIVE DUNBAR: Thank you,  
14 Mr. Chairman. And we will go for a brief second  
15 round of questions.

16 We'll start with Representative Quinn.

17 REPRESENTATIVE QUINN: Thanks. By brief,  
18 I still get my five minutes, right?

19 Okay. Don't even answer. You're  
20 clicking the clock.

21 Mr. Secretary, I have introduced HB 1511.  
22 There's a counterpart, and what this does is  
23 clarifies the Tax Code on the collection of hotel  
24 occupancy taxes and the online travel companies.

25 It's my understanding that the online



1 travel companies currently remit the State sales tax  
2 and the local hotel occupancy tax based on the rate  
3 that they negotiated with the hotel, not the rate  
4 that they contract between the end user, the person  
5 putting their head on the pillow and themselves,  
6 correct?

7 SECRETARY HASSELL: Yes, that's correct.

8 REPRESENTATIVE QUINN: Okay. Could you  
9 please let me know if the online travel companies  
10 require -- do we require them differently to state  
11 on the receipts the amount of state taxes and local  
12 taxes paid as well as the additional fees, markups?

13 Do we have them break out in any way to  
14 their end user that, you know, State taxes are being  
15 paid here, yet the taxes are going on the \$100 for  
16 example, not the \$160 that they're paying for the  
17 room?

18 SECRETARY HASSELL: My understanding of  
19 this is there are basically two transactions, right,  
20 there is, let's say, I'm going to Expedia and  
21 reserving a room and I will have a receipt from  
22 Expedia indicating what I paid. And it probably  
23 doesn't tell me what they're paying, what Expedia is  
24 paying the hotel.

25 When I get to the hotel, they're probably

1 going to give me a separate receipt that indicates  
2 what the room charge was and it will disclose the  
3 taxes that they charge as part of the process.

4 REPRESENTATIVE QUINN: Right.

5 SECRETARY HASSELL: So because the law  
6 says that hotel tax is due from a hotel operator,  
7 Expedia doesn't operate any hotels.

8 REPRESENTATIVE QUINN: Do you agree that  
9 they should be paying, remitting to the State and to  
10 the local taxing authority the full amount on the  
11 rate that they had the room occupied for as opposed  
12 to the negotiated rate with the hotel entity?

13 SECRETARY HASSELL: I think that would be  
14 a good change. All I'm saying is that in our  
15 current statute, the fee that Expedia is charging me  
16 isn't part of the tax base. I think that's clear.

17 REPRESENTATIVE QUINN: This is a concern  
18 for me, not just for the lost revenue there and the  
19 competition that it puts up against our  
20 brick-and-mortar facilities that have been paying  
21 this for years, but we have a whole new-ish industry  
22 throughout Pennsylvania now and predominantly in  
23 certain pocket areas, like the Poconos.

24 I can look down at the other end of the  
25 table with the AirBnBs and the other places where

1 people are actually renting out their home.

2 SECRETARY HASSELL: Sure.

3 REPRESENTATIVE QUINN: I have been made  
4 aware that an agreement has been brokered, for lack  
5 of a better word, between AirBnB and I'm not sure if  
6 it's the State or is it a city of the first class  
7 whereby there are taxes being paid, but I can't find  
8 details.

9 SECRETARY HASSELL: The agreement is with  
10 our Department.

11 REPRESENTATIVE QUINN: I cannot find  
12 details of that agreement.

13 Are they out there and I'm lacking, or  
14 can you provide something to me?

15 Because it's not just the AirBnBs. They  
16 are one. That's like saying Kleenex when there are  
17 so many other brands that offer the like product of  
18 renting an individual's residence.

19 SECRETARY HASSELL: I'm sure we can get  
20 you some information about that. You're correct  
21 that there are other online companies that do  
22 similar things, maybe not exactly the same. But the  
23 agreement that we have currently is with AirBnB.  
24 They have been collecting hotel taxes in  
25 Pennsylvania for some time.

1                   REPRESENTATIVE QUINN:  So presently, and  
2   I'm a realtor by background; I know we have a couple  
3   in this Committee, but presently, if you are  
4   involved in a transaction with real property, either  
5   leasing a home to someone for three months or three  
6   years or a transaction of a sale of a property, you  
7   need to be a brokered -- real estate licensed  
8   realtor to accept those dollars to hold them in  
9   escrow before you're releasing them.

10                   Is that the case with the AirBnB?

11                   Because these companies -- and again, I  
12   don't mean to pick on or advertise for one company,  
13   but these companies are holding hundreds of  
14   thousands of dollars.  If I book today for my Fourth  
15   of July vacation, they would be holding those  
16   dollars prior to remitting them to the -- is that  
17   something that falls under your purview, you as the  
18   Secretary of Revenue?

19                   SECRETARY HASSELL:  Well, let me take a  
20   stab at that.  I mean, that sounds like a consumer  
21   protection issue to me.

22                   REPRESENTATIVE QUINN:  The reason I'm  
23   bringing it up here is I'm trying to identify a  
24   mechanism by which the State gets those dollars that  
25   I believe we should be entitled to for the same

1 function of someone coming in, you know, for a  
2 vacation or business, whatever it is, and renting a  
3 room and then not paying the sales tax nor the local  
4 dollars that typically go to tourism.

5 SECRETARY HASSELL: Right. So for the  
6 companies other than AirBnB, since they're doing tax  
7 collection for us, there are lots of other --  
8 there's VRBO, for example.

9 REPRESENTATIVE QUINN: Are they under the  
10 same agreement that AirBnB would be?

11 SECRETARY HASSELL: No, I don't.

12 REPRESENTATIVE QUINN: VRBO?

13 Are they under an agreement with us  
14 for --

15 REPRESENTATIVE DUNBAR: Representative?

16 SECRETARY HASSELL: I'm not aware of one.

17 REPRESENTATIVE QUINN: Oh, sorry.

18 SECRETARY HASSELL: All I wanted to say  
19 is that the Department has been gathering data from  
20 these websites and reaching out directly to the  
21 property owner to say if you are advertising your  
22 home or your facility for a rental, then you need to  
23 be remitting hotel tax to the State and local  
24 government.

25 So I don't know those numbers off the top

1 of my head, but I'll be on them.

2 REPRESENTATIVE QUINN: I'm glad to hear  
3 you are being proactive on that. Thank you.

4 SECRETARY HASSELL: Yes. We are reaching  
5 out to those homeowners and asking them to remit the  
6 tax, and many have.

7 REPRESENTATIVE QUINN: That's quite a  
8 task. Thank you.

9 REPRESENTATIVE DUNBAR: Thank you.  
10 We're going to move on to Representative  
11 Grove.

12 REPRESENTATIVE GROVE: Thank you. Just a  
13 follow-up on the revenue estimates.

14 Is it possible to do, again, a lookback  
15 of estimates, the error rates maybe over the past  
16 four years to see specific tax and their error  
17 rates. If you could model that off of the IFO  
18 report, which you can find online, it would be very  
19 helpful.

20 SECRETARY HASSELL: Yes.

21 REPRESENTATIVE GROVE: But at what point  
22 during that time frame where revenues continue to  
23 drop, do you sound the alarm on, we're spending  
24 money, we don't have revenue to back it up.

25 Internally, how does that work within the

1 administration?

2 SECRETARY HASSELL: I -- excuse me, I  
3 meet frequently with the Budget Secretary and he's  
4 always very interested in knowing how things are  
5 going on the Revenue front, so it's a frequent topic  
6 of conversation. And obviously, we're producing  
7 reports that are public, but also internally, we're  
8 releasing all of that information.

9 And we talk frequently with the  
10 administration about how things are going and  
11 whether we're seeing worrisome friends.

12 REPRESENTATIVE GROVE: All right. At any  
13 point of that time, was there -- you know, as you're  
14 getting closer to the June deadline, obviously,  
15 there's May -- April and May are good revenue  
16 months.

17 At what point does that trigger maybe a  
18 more structured discussion, more eminent destruction  
19 -- or not destruction, discussion -- on moving money  
20 into budgetary reserve?

21 I mean, did those discussions happen  
22 during that time frame?

23 SECRETARY HASSELL: So this would have  
24 been, roughly, a year ago --

25 REPRESENTATIVE GROVE: Yeah.

1                   SECRETARY HASSELL:  -- during '16 and  
2                   '17.

3                   REPRESENTATIVE GROVE:  Obviously, you  
4                   weren't the Secretary then, but --

5                   SECRETARY HASSELL:  That's correct.  I  
6                   was not.

7                   REPRESENTATIVE GROVE:  Yeah.

8                   SECRETARY HASSELL:  But I certainly  
9                   remember conversations with Budget where they were  
10                  concerned about those trends and were talking about  
11                  steps to take.

12                  REPRESENTATIVE GROVE:  Okay.

13                  SECRETARY HASSELL:  And I don't remember  
14                  the timing of the decisions that were made, but as I  
15                  said, it's a frequent topic of conversation with  
16                  Budget.

17                  REPRESENTATIVE GROVE:  Okay.  Obviously,  
18                  you don't have the final decision to stop spending  
19                  money, but I'm glad to hear that those discussions  
20                  were happening.  And I don't know at what level of  
21                  alarm we're having at that point, but you know,  
22                  unfortunately if you don't hit the mark on the  
23                  revenues one year, the floor creeps out, we're  
24                  facing dire straights financially.

25                  You know, there has to be some kind of



1 correction moving forward. Obviously, we don't want  
2 to be in the same position. I mean, we're blessed  
3 to see revenues trending nicely at this point.

4 Hopefully we're not in that position  
5 again, but going back, learning some lessons that  
6 had happened, try to prevent them in the future, I  
7 always thing that's a positive thing moving forward,  
8 so thank you.

9 SECRETARY HASSELL: I absolutely agree.

10 REPRESENTATIVE DUNBAR: Thank you,  
11 Representative.

12 We'll go back to Chairman Samuelson, who  
13 promised he'll get his question out before the red  
14 light comes on.

15 MR. SAMUELSON: One follow-up question.

16 Mr. Secretary, on your testimony, page 4,  
17 you talk about the Automated Call Project. So when  
18 you apply for the Property Tax Rent Rebate, you used  
19 to get a letter saying it's been received. The last  
20 couple of years, instead, you get an automated phone  
21 call, a robo call from the revenue.

22 All of our offices, the Attorney General,  
23 all across Pennsylvania were concerned about  
24 identity theft. We're concerned about scams. We're  
25 concerned about scams that affect seniors, which are

1 prevalent on the phone, day and night.

2           So here's my -- I want somebody in the  
3 Department, you or your team, to take a look at  
4 this. We tell folks that if you get a call that  
5 says they're from the IRS, that's a scam. Don't  
6 answer it. Don't give them any information.

7           So the United States Department of  
8 Revenue, if they're calling you, that is not them.  
9 But then if the Pennsylvania Department of Revenue  
10 calls you, this is a legitimate phone call.

11           That's confusing for senior citizens.  
12 Secondly, I had constituents tell me about that  
13 phone call. And when you get the automated robocall  
14 from Pennsylvania Department of Revenue, it says, if  
15 you want information about your rebate, type in your  
16 Social Security number.

17           We tell people at our forums, never give  
18 somebody your Social Security number if you're not  
19 the one who initiated the call. So I have a deep  
20 concern that the Pennsylvania Department of Revenue  
21 is having a robo call, which tells people to type  
22 your Social Security number in.

23           I know that your program is legitimate,  
24 but how is a citizen to distinguish that from all of  
25 the scammers that are calling people day and night.

1 It's a real problem, and I have a real concern about  
2 this program.

3 SECRETARY HASSELL: I understand your  
4 question. I'd like the opportunity to go back and  
5 have some more conversation about exactly that  
6 issue.

7 MR. SAMUELSON: Okay. And if they want  
8 to continue with this, maybe take out the part where  
9 you're asking people to give their Social Security  
10 number over the phone. Maybe a reminder phone call  
11 like, hey, we got your information, if you'd like to  
12 follow up, you contact us; not have the person punch  
13 their Social Security number in right away.

14 Maybe that's a revision that could be  
15 made, or go back to the old-fashioned letters that  
16 people used to get in the mail. There was no  
17 problem with that.

18 SECRETARY HASSELL: Right.

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

21 REPRESENTATIVE DUNBAR: Thank you,  
22 Mr. Chairman. And there we found something we can  
23 agree on there.

24 We'll move on to Representative Heffley.

25 MR. HEFFLEY: Thank you, Mr. Chairman.

1 Thank you Mr. Secretary.

2 Just a follow-up on some of the questions  
3 with the online booking companies. Now, specific to  
4 like the AirBnB arrangement where you have an entity  
5 that's out-of-state and they are selling or using  
6 their platform for you to rent your room out for a  
7 night or whatever, you said you have an agreement  
8 with them, the Department of Revenue has an  
9 agreement with them to collect some of that sales  
10 tax.

11 Are you taxing their fees or are you just  
12 collecting the taxes that would be remitted by the  
13 person that's renting the room?

14 Are you taxing the profits or the fees  
15 that they're charging?

16 SECRETARY HASSELL: I believe it would be  
17 the amount that the individual is getting for the  
18 rental.

19 REPRESENTATIVE HEFFLEY: But they're  
20 essentially operating --

21 SECRETARY HASSELL: I should verify that,  
22 just to make sure that I'm telling you the straight  
23 story, but I think that that's the case.

24 REPRESENTATIVE HEFFLEY: You can get back  
25 to me because, obviously, they're operating -- and I

1 know that's Federal laws and there are some things  
2 we did in this past budget cycle to capture some of  
3 that online shopping.

4 And also, now you have an agreement with  
5 AirBnB. Do you share that information with the  
6 local taxing authorities at the county level?

7 One of the things that we're finding is  
8 that our county treasurers are having a very  
9 difficult time collecting the local hotel tax.

10 And if you are sharing that information,  
11 or if you're not, why wouldn't you share that  
12 information?

13 SECRETARY HASSELL: I know that there has  
14 been some data exchange because some of the counties  
15 were ahead of us on this, and we're doing a good job  
16 enforcing their local hotel tax and shared their  
17 data with us. I think it's gone both ways, but my  
18 understanding is that AirBnB is also collecting the  
19 local tax.

20 But again, I should verify those facts.

21 REPRESENTATIVE HEFFLEY: Yeah, from what  
22 I'm hearing is that if they are collecting it, we're  
23 not seeing it from our county treasurer that it's  
24 getting remitted.

25 SECRETARY HASSELL: Okay.

1           REPRESENTATIVE HEFFLEY: And also, are  
2 you currently working with other online -- not  
3 really the online travel companies, the Travelocity  
4 and stuff. They're doing things a little bit  
5 different. But these other platforms that are  
6 operating like bed and breakfasts where people can  
7 list their room in their house or half of their own  
8 property.

9           Are you in current negotiations with them  
10 to ensure that it's a level playing field for both  
11 our established bed and breakfast and hotels that  
12 are operating right now in the Commonwealth, with  
13 people that just want to rent their room out?

14           Is that an ongoing process?

15           SECRETARY HASSELL: I believe that AirBnB  
16 is the only one that's been willing to have the  
17 conversation so far.

18           REPRESENTATIVE HEFFLEY: And is there  
19 anything that we're doing as a Commonwealth to  
20 capture that?

21           It just doesn't seem fair to me that  
22 we're looking at other revenue and yet we're having,  
23 you know, entities that are operating that are kind  
24 of cheating the system. And you know, it's not fair  
25 to those that are legitimately paying their taxes.

1                   SECRETARY HASSELL: Sure. And we do want  
2 there to be a level playing field, so that everyone  
3 is treated equally. And if we can't get cooperation  
4 from the online company, then the only thing we can  
5 do is to approach the homeowner and say, you're  
6 renting rooms, you need to remit hotel tax. And so  
7 it needs to be one or the other.

8                   For some of these companies, I think that  
9 they see it as part of the service that they can  
10 offer to their client, who are the homeowners, to do  
11 that, to take on the burden of the tax calculation  
12 for them, and it's part of the service that they  
13 offer.

14                   And other companies don't see it that  
15 way. They just don't want to be involved or have  
16 that burden. They're essentially telling the  
17 homeowner, you're on your own. It's -- if the  
18 company is not located in Pennsylvania or it doesn't  
19 have a nexus whereby we can approach them and  
20 enforce compliance, then the only thing we can do is  
21 to approach the homeowner and ask them to comply.

22                   REPRESENTATIVE HEFFLEY: And I know that  
23 -- I don't want to go over my time -- but I know how  
24 many people are fearful. They want to make sure  
25 they pay their taxes. They don't want the

1 Department of Revenue or anybody coming after them  
2 for anything. And that's the task that you have, to  
3 ensure that people are paying their taxes.

4 And I would just ask that we move on this  
5 matter to ensure that those folks and those entities  
6 that operate inside of our State are not cheating  
7 the system, and in a sense, you know, making it an  
8 unfair playing field for those businesses that want  
9 to rent.

10 SECRETARY HASSELL: And I agree with you.

11 REPRESENTATIVE DUNBAR: And our final  
12 question will come from Representative Santora.

13 REPRESENTATIVE SANTORA: Mr. Secretary,  
14 right here.

15 Sorry to keep harping on the AirBnB, but  
16 I really do believe we're falling into the realm of  
17 a real estate license. And there should be an  
18 escrow account set up in Pennsylvania for any funds  
19 that are coming in and being held by the company and  
20 then released to the homeowners. They're, in a  
21 sense, being involved in a rental agreement,  
22 property management agreement type of situation,  
23 almost as if they're operating illegally because of  
24 our real estate laws.

25 I own a real estate company. I have to



1 set up an escrow. I have to have a telephone inside  
2 the State of Pennsylvania. I have to have an office  
3 operating in Pennsylvania with a door and a sign and  
4 a conference room.

5 I feel that we're -- and I understand  
6 that side of it. I'll talk to the Department of  
7 State about it when they're here. But on the  
8 Revenue side, we're missing a lot of the boat.  
9 We're missing the fees and the revenue that would  
10 come in with that. So I think it's something we  
11 should be looking at and maybe collectively be with  
12 your Department and the Department of State. It's  
13 something we should be focused on.

14 SECRETARY HASSELL: Yeah, I'd be happy to  
15 participate in that conversation. Again, my concern  
16 is just that enforcement of those statutes, I don't  
17 think, rests with the Revenue Department, but if we  
18 can be part of the solution, I'd be happy to help.

19 REPRESENTATIVE SANTORA: Okay. And then  
20 to backup Representative Samuelson's point. I'm  
21 shocked that the scammers have not figured out that  
22 Pennsylvania does this and haven't barraged people  
23 because I get the calls from the IRS and people  
24 basically -- I can tell that they're from overseas  
25 that are doing these scams. And fortunately, for

1 me, I'll keep them on the phone and harass them for  
2 a while, but for some seniors, it's very  
3 intimidating, especially if they're going to tell  
4 them they're from the Pennsylvania Department of  
5 Revenue.

6 And if we're telling people, yes, this  
7 happens, that's got to be fixed. It's got to be  
8 fixed quickly because we're going to see a barrage  
9 of scams coming up. Luckily nobody is watching this  
10 so we can keep it secret for a little longer.

11 But my third and final point. Being  
12 someone that has voted for and supports the medical  
13 marijuana industry in Pennsylvania, are we set up to  
14 collect the income tax and everything else that goes  
15 along with that industry and are there going to be  
16 any issues with the Federal government because they  
17 don't recognize that as a legal industry?

18 And if they start -- they're going to  
19 start paying income tax to the Federal government on  
20 a regular basis, Social Security and everything else  
21 that goes along with a full-time employee and also  
22 part-time employees and we're collecting at the  
23 State.

24 Is that going to set any red flags up?

25 Are we prepared for that?

1                   SECRETARY HASSELL: That's a great  
2 question. It is a concern. All I can tell you is  
3 that we haven't had issues with that yet, but we are  
4 at the beginning of the process.

5                   And one question that we've talked about  
6 frequently is what if the company involved in  
7 medical marijuana can't get a bank because the bank  
8 refuses to take their money. So that would present  
9 us with the issue of having to accept cash for tax  
10 payments, which presents a whole host of difficult  
11 issues.

12                   REPRESENTATIVE SANTORA: You can make  
13 them go get money orders.

14                   SECRETARY HASSELL: And again, so far  
15 that has not been an issue, but we're trying to be  
16 ready to deal with those kinds of issues. If  
17 somebody new does have to remit in cash, then we'll  
18 work with them and figure out how to do it.

19                   REPRESENTATIVE SANTORA: Okay. Thank  
20 you.

21                   REPRESENTATIVE DUNBAR: Thank you.

22                   And with that, we are at a conclusion.

23                   I wanted to thank Secretary Hassell.

24                   Was this your first hearing -- your first  
25 one as Secretary?

1                   SECRETARY HASSELL: My first one as  
2   Secretary, yes.

3                   REPRESENTATIVE DUNBAR: You've been here  
4   many times before, but thank you for your time.

5                   And thank you, Deputy Secretaries and  
6   Drew, for all being here.

7                   We are back tomorrow morning at 10:00 for  
8   job creation in Pennsylvania. We're adjourned.  
9   Thank you.

10                  SECRETARY HASSELL: Thank you.

11                  (Whereupon, the hearing concluded.)

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C E R T I F I C A T E

I hereby certify that the proceedings 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.

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Tracy L. Markle, Court Reporter  
Notary Public