

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
APPROPRIATIONS COMMITTEE

STATE CAPITOL
HARRISBURG, PA

MAIN BUILDING
ROOM 140

THURSDAY, MARCH 8, 2018
10 A.M.

BUDGET HEARING

BUDGET SECRETARY - OFFICE OF THE BUDGET

BEFORE:

HONORABLE STANLEY SAYLOR, MAJORITY CHAIRMAN
HONORABLE SHERYL DELOZIER
HONORABLE GEORGE DUNBAR
HONORABLE GARTH EVERETT
HONORABLE KEITH GREINER
HONORABLE SETH GROVE
HONORABLE MARCIA HAHN
HONORABLE DOYLE HEFFLEY
HONORABLE SUE HELM
HONORABLE LEE JAMES
HONORABLE FRED KELLER
HONORABLE JASON ORTITAY
HONORABLE MARGUERITE QUINN
HONORABLE BRAD ROAE
HONORABLE JAMIE SANTORA
HONORABLE CURT SONNEY
HONORABLE JOSEPH MARKOSEK, MINORITY CHAIRMAN
HONORABLE KEVIN BOYLE
HONORABLE TIM BRIGGS
HONORABLE MARIA DONATUCCI
HONORABLE PATTY KIM
HONORABLE STEPHEN KINSEY

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ALSO IN ATTENDANCE:
HONORABLE DAWN KEEFER
HONORABLE FRANK RYAN

COMMITTEE STAFF PRESENT:
DAVID DONLEY, MAJORITY EXECUTIVE DIRECTOR
RITCHIE LaFAVER, MAJORITY DEPUTY EXECUTIVE
DIRECTOR
MIRIAM FOX, MINORITY EXECUTIVE DIRECTOR
TARA TREES, MINORITY CHIEF COUNSEL

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Pennsylvania House of Representatives
Commonwealth of Pennsylvania

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TESTIFIERS

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ANNE BALOGA DIRECTOR OF LEGISLATIVE AFFAIRS AND COMMUNICATIONS, OFFICE OF THE BUDGET.....	4

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Summer A. Miller, Court Reporter
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1 P R O C E E D I N G S

2 * * *

3 MAJORITY CHAIRMAN SAYLOR: We'll get the
4 hearing started.5 Mr. Secretary, would you please rise --
6 unless -- are you going to testify, as well, and comment?

7 MS. BALOGA: Yes. And --

8 MAJORITY CHAIRMAN SAYLOR: Why don't you
9 rise, as well? Thank you, Anne.10 Raise your right hand and repeat after me --
11 or just say "I do" when I am finished.12
13 RANDY ALBRIGHT and ANNE BALOGA, called as
14 witnesses, being duly sworn, testified as follows:15
16 MAJORITY CHAIRMAN SAYLOR: This is our last
17 hearing for this fiscal year. And I think we're all ready
18 for a little time down until we come back next week in
19 session. But I did -- being the last day of hearings, I
20 wanted to pay special tribute to our departing member here,
21 who has been chairman of the Appropriations Committee for
22 eight years and chair of the Transportation Committee and
23 has been a great member.24 I've enjoyed working with him when I was on
25 the Appropriations Committee for years, as well as working

1 with him as the chairman. We've worked well together. He's
2 represented Allegheny County and that region very well. And
3 he is a person who I can truly call a friend. I think that
4 we've joked a lot. We kid about the Turnpike Commission
5 going broke now that he's not going to be traveling back and
6 forth to Harrisburg. In fact, he might even get on the
7 turnpike just to turn around and come back just to see what
8 the experience is like.

9 But, Joe, I want to thank you for your years
10 of service to the people of the Commonwealth of
11 Pennsylvania, not just to your region. You've been a great
12 representative, you've been a friend to so many members on
13 both sides of the aisle here. And I want to thank for your
14 dedication and commitment to this Commonwealth because we've
15 been very blessed and the people of Pennsylvania have been
16 blessed for all of the good things you've done. So thank
17 you very much.

18 So now he's not allowed to ask any questions
19 today. No.

20 With that, I think we will move into
21 questionings and I will start off.

22 Chairman Markosek, would you like to make any
23 comments, by the way, to start?

24 MINORITY CHAIRMAN MARKOSEK: Well, I'll just
25 start with a couple of comments.

1 Thank you for those kind words. It's been a
2 bittersweet decision. I've chatted with almost everybody
3 here in the room, at least the members on these -- you know,
4 the decision to not be a candidate again.

5 And I want to say, Chairman, it's been
6 wonderful working with you. You have been a gentleman,
7 you've been very gracious. I've seen a side of you that I
8 hadn't seen, you know, just from a distance and you're a
9 real, just a down-to-earth guy, really, and you know, it's
10 been a pleasure to work with you. And all of the members
11 here on both sides of the aisle, and the staff here, a lot
12 of the staff, too. I can't forget them on both sides of the
13 aisle. They've very good staff.

14 And I just want to, you know, let the members
15 know that the chairman and I get along really pretty well.
16 We each have a company line and we have some differences,
17 you know, in strategies and -- but we've always been on the
18 same page as far as human beings. We're just looking out
19 for what's best for not only the people in our districts,
20 but our members here, trying to take care of them. And the
21 chairman has always been very, very fair with me, lets me
22 know things in advance. So we've had that.

23 I think I only accidentally drank out of his
24 coffee cup one time. So I think that's a pretty good
25 record.

1 When you sit next to somebody all of these
2 hours and hours, with Dave and Miriam, you kind of get a
3 different perspective with the people that -- they become
4 like family, really. So I just want to say, that's the hard
5 part about this because it is like family and leaving is
6 bittersweet. But, you know, hopefully, everything will turn
7 out and I hope that everything is good for all of you.

8 You know, it's a great, great Commonwealth we
9 live in. Great people that live here. And we get to
10 represent them, which is really an honor and it's just been
11 wonderful.

12 So thank you very much.

13 MAJORITY CHAIRMAN SAYLOR: I have offered to
14 Joe that he may want to come back one time a week during
15 next year's budget hearings to kind of wean himself off of
16 all of these hearings. I don't think he's going to take me
17 up on it.

18 But anyway, we'll move to our first
19 questioner, and it's Representative Hahn.

20 REPRESENTATIVE HAHN: Thank you, Mr.
21 Chairman.

22 Good morning, Mr. Secretary. How are you?

23 SECRETARY ALBRIGHT: Good morning.

24 REPRESENTATIVE HAHN: I want to start off
25 with the modernization of the County Assistance Offices.

1 In the '17-'18 budget, they included a
2 savings of 8.5 million state funds and almost 18 million in
3 total funds from modernizing the application and processing
4 system through the CAOs through the increased use of
5 web-based applications and processing centers to improve the
6 distribution of cases through them.

7 So last year's budget noted that it was going
8 to be a multistep effort. But this year's budget, or the
9 '18-'19 budget, contained no mention of additional savings
10 or continued steps.

11 Is the Administration no longer pursuing the
12 modernization at the County Assistance Offices?

13 SECRETARY ALBRIGHT: We are.

14 As you may remember, last year's proposed
15 budget did propose a statutory restructuring unification
16 plan to bring together all four state human service agencies
17 under a single agency umbrella. That was not something in
18 the end that the -- or excuse me, that the general assembly
19 decided to adopt. That did alter to some extent those
20 consolidation efforts as they related to the operation of
21 our County Assistance Offices. It remains a work in
22 progress and we have taken additional steps that we can take
23 with executive authority to complete some of that
24 consolidation activity among the operations of those
25 agencies. And then in part, how those consolidations affect

1 the operation of our County Assistance Offices.

2 As we talked about last year, it's something
3 we want to look at vertically, you know, as well as
4 horizontally, meaning we want to look at how we coordinate
5 the operations of our state agencies as they --

6 REPRESENTATIVE HAHN: I don't mean to
7 interrupt you, because we are short on time. I have a time
8 limit here. But the --

9 SECRETARY ALBRIGHT: Still, if I may simply
10 finish, though, as they affect the operations of the CAOs,
11 but also how we integrate those operations with local
12 governments and how they --

13 REPRESENTATIVE HAHN: Okay. But the
14 secretary, excuse me, Secretary Miller had said that the
15 initiatives were no longer being pursued because staff
16 didn't want them pursued. So I'm just a little confused
17 with how that's working. I mean, you know, when the
18 secretary is saying that they don't want to modernize, staff
19 doesn't want to modernize. I mean, we're looking at, we're
20 trying to have savings here and consolidate. So I guess
21 that's my concern.

22 SECRETARY ALBRIGHT: I don't know what
23 specifically the secretary may have said or not said or how
24 her words may have been misunderstood or misconstrued, but I
25 assure you that we continue to look at efforts to, you know,

1 further integrate the operations of our County Assistance
2 Offices, again both across agencies and with local
3 governments and how they operate, their operational
4 efficiencies.

5 REPRESENTATIVE HAHN: But if they're not
6 doing it in this year's budget, then we need to -- aren't
7 you going to have to find a way to fill in -- if you're
8 still going to modernize. We have to find, DHS has to find
9 a way to make up that savings that you had put in the budget
10 if we haven't done it in this time frame.

11 SECRETARY ALBRIGHT: I assure you we are
12 going to meet all of the expenditure targets that are
13 included as part of our proposed spending plan for the
14 current fiscal year. There will be spring update changes,
15 there will be adjustments, some appropriations may be
16 slightly higher, some lower. But the overall spend will be
17 consistent with the dollars that were appropriated.

18 In our proposed budget, we believe we can
19 meet all of those budget goals as we've set them forth in
20 the budget that we unveiled on February the 6th.

21 REPRESENTATIVE HAHN: Are some of the savings
22 federal dollars that are coming in?

23 SECRETARY ALBRIGHT: The savings are both
24 state and federal dollars.

25 REPRESENTATIVE HAHN: Okay. Well, like I

1 said, as we're looking to downside government and we can do
2 something to consolidate some of these offices and make it
3 better.

4 So since I still have a green light, I want
5 to go to the health care centers. I think the same thing.
6 We're looking to take the state health care centers and
7 maybe reduce the number of brick and mortars and consolidate
8 those. Maybe put them in with the County Assistance Office
9 or the Area Agency on Aging.

10 So are we still looking at doing that and are
11 there at least buyouts in the budget, anything that we're
12 looking to --

13 SECRETARY ALBRIGHT: Again, in this case,
14 there are both statutory, as well as legal, constraints that
15 we have to operate within. We -- it's something we want to
16 continue to work with the general assembly to address.

17 We were able to reduce our total
18 expenditures, you know, within that line item significantly.
19 We were not able to meet the current year budget target.
20 But we want to continue to realize savings, and again, look
21 at those operations and make the operations of those centers
22 more effective and efficient as we go forward.

23 You know, I will say this, that the task and
24 the objective here is to both increase service, as well as,
25 you know, realize cost savings. So we do want to do -- do

1 we want to save money? Yes. But we also want to do a
2 better job in the way we serve people through those centers.

3 REPRESENTATIVE HAHN: I had a few more
4 questions, but I'll wait till the next round.

5 Thank you, Mr. Chairman.

6 MAJORITY CHAIRMAN SAYLOR: I did want to
7 recognize that we have been joined by Representative Dawn
8 Keefer, who is not a member of the committee, but members
9 stop in from both sides of the aisle to observe the hearings
10 off and on.

11 Mr. Secretary, I did want to start off, and I
12 forgot to say, that members on both sides of the aisle cut
13 off the secretaries and speakers because they only have five
14 minutes. We will do a second round, hopefully we will have
15 time, for members that need it. But just so you're aware,
16 they will cut you off. They're not meaning to be rude, but
17 they want their questions in in five minutes.

18 SECRETARY ALBRIGHT: I will try to do my best
19 to accommodate everyone.

20 MAJORITY CHAIRMAN SAYLOR: All right. Our
21 next questioner is Representative Briggs.

22 REPRESENTATIVE BRIGGS: Thank you, Mr.
23 Chairman.

24 And I do want to add my sentiment toward
25 Chairman Markosek and the great job he's done as the

1 Democratic Appropriations Chair for eight years. I wasn't
2 on it for the first four years, but Joe graciously appointed
3 me to it four years ago and he's done a terrific job
4 representing the caucus and I'm sure we'll continue to
5 attribute him for the eight or nine or ten months.

6 But with that, I'm pledging that I'm going to
7 do everything I can in my power, and I hope the whole
8 committee joins us, in doing an early budget in recognition
9 of Joe's service. That would be a terrific way to send him
10 off.

11 But, Mr. Secretary, I have two quick
12 questions that I, over the last couple of weeks of hearings,
13 kind of have been in my head. And hopefully, I'll --
14 they're short questions, probably not short answers. But
15 the first one has something to do with what a lot of us are
16 very concerned about, is the rising cost of our tuition for
17 our college students.

18 It seems that the rising cost hasn't been a
19 recent instance. I got elected in 2008. In 2011, I
20 remember the PASSHE schools had to drastically increase
21 tuition because of budget cuts. But during the last couple
22 of weeks, there's been a lot of talk about the APSCUF
23 contract in relation to the current rising cost of tuition.

24 Is that a topic that you could shine some
25 light on about what the Administration's position is

1 regarding the cost of tuition?

2 SECRETARY ALBRIGHT: Look, you know, higher
3 education and the cuts that were made in assistance in the
4 prior Administration and our attempts to restore that
5 funding have not been maybe the focus that local school
6 districts and aid for basic education programs have been.
7 But nonetheless, we have tried to, within our means,
8 modestly, with funds available, do the best job that we can
9 working with the general assembly to provide some increased
10 direct appropriation to support, not just to our state
11 system, but to state-related universities, as well as our
12 community colleges.

13 You know, we think that the contract that was
14 recently entered into ultimately for our state system was
15 appropriate, modest. We don't think it will have a
16 significant impact. And in fact, as you note, tuition
17 increases, you know, whether it's our, again, community
18 colleges, whether it's the state system or whether it's our
19 state-related universities, has been modest in recent years.
20 And we would like to think that's partially due to our
21 efforts here working with the general assembly, to do what
22 we can at the state level.

23 REPRESENTATIVE BRIGGS: Thank you, Secretary.

24 The second question that was, a few days ago
25 was a very heavily discussed topic. I'm bad with numbers.

1 I think it was House Bill 59, the work requirement for
2 Medicaid. I urged the Governor to veto that measure because
3 of the unintended consequences, I think, of, what I feared
4 as unintended consequences of getting people off of Medicaid
5 that need the health care.

6 I feel like it was a talking point to try to
7 just get people off of Medicaid. And I understand the
8 Governor put a lot of thought into the veto.

9 Could you share the Administration's position
10 regarding work requirements on Medicaid?

11 SECRETARY ALBRIGHT: We did not, or we do not
12 believe that that is good public policy.

13 Look, you know, reducing the cost curve, the
14 rise in costs particularly for medical assistance, but
15 throughout the DHS budget, is a continuing focus. I mean,
16 the first, you know, questions today were about a different
17 aspect of that. I've said here, in this room in prior year
18 hearings, that if we aren't taking every step we can take to
19 reduce or manage costs in our DHS budget -- often it's to
20 reduce the increase in those costs with, you know, health
21 care inflation and things outside of our control that become
22 givens before we even begin to address how we can provide
23 services maybe more cost effectively.

24 You know, we're going to fail in our
25 overarching attempts to balance the state's budget or put

1 our fiscal house back in order. But we'd like to
2 concentrate on those things, those initiatives that do have
3 real cost savings opportunities.

4 In this case, mandated work or work search
5 requirements, first of all, we don't believe would really
6 impact a large group of recipients in the first place. We
7 don't want to jeopardize the receipts of health care
8 benefits. We think that we, in fact, want to continue to
9 take steps to make sure that all Pennsylvanians receive for
10 them and their families quality health care.

11 And so we would rather focus the debate on
12 steps that we can take that could provide more significant
13 and real cost savings.

14 REPRESENTATIVE BRIGGS: Thank you, Secretary.

15 And Thank you, Chairman.

16 Just to note, that is how a five-minute
17 series of questions could be done. Thank you.

18 MAJORITY CHAIRMAN SAYLOR: Representative
19 Delozier.

20 REPRESENTATIVE DELOZIER: Thank you, Mr.
21 Chairman.

22 Secretary Albright, over here. We're moving
23 around on you.

24 I have some questions on the lease-leaseback
25 of the Farm Show. So I just, to recap what we have heard

1 from secretaries, we know that this is the first of its
2 kind, contracted for the state, according to the DGS
3 secretary, that this is, the state set up the Farm Show
4 lease, but yet, the Secretary of Agriculture said they're
5 not involved in this and the Farm Show Commission was not
6 involved in the approval, as well as DGS and the statute
7 that states, through DGS, that it has to go through the
8 Board of Commissioners and the Public Grounds and Buildings
9 to approve any lease. But he said this one didn't apply to
10 that. So he is getting me a list of which ones don't apply
11 to that particular statute -- as well as the ability that we
12 know this money wasn't borrowed for a capital debt or
13 emergency or something that's constitutional to take the
14 debt out for \$375 million.

15 So I just wanted to get your perspective as
16 to exactly under what entity or what directive or what
17 jurisdiction or what legal authority the Governor had to go
18 into this contract on behalf of the Commonwealth.

19 SECRETARY ALBRIGHT: Okay. So let me say
20 this first, to set the record straight or to be clear about
21 what the Administration's preferred alternatives were or
22 were not to balance the current year budget.

23 REPRESENTATIVE DELOZIER: No, absolutely.
24 And I totally understand because I've heard your point of
25 view as to what we could have done. But what I'm trying to

1 ask is exactly what is the legal authority for you to enter
2 into this contract. And I am jumping in primarily because I
3 have a bunch of other questions with it. So I do know why
4 you think you should have done it. I'm just asking what
5 authority did you have to do it.

6 SECRETARY ALBRIGHT: Okay. So to continue,
7 we would have much preferred a severance tax.

8 REPRESENTATIVE DELOZIER: And the authority
9 that you're going to use for this?

10 SECRETARY ALBRIGHT: That was our clear
11 preference, but that was not the choice of the general
12 assembly. So in the end, we were given clear authority in
13 the Fiscal Code to identify \$300 million in transfers from
14 funds or accounts, and in many cases, to transfer from funds
15 that otherwise -- special fund accounts -- that otherwise
16 had clear language that said that you couldn't use transfers
17 from those funds for general fund budget balancing purposes.
18 But the Fiscal Code gave us the clear authority to make
19 those transfers. And using that authority, and then the
20 statutory authority that DGS themselves has to enter into
21 contracts to actually execute this transaction.

22 REPRESENTATIVE DELOZIER: Okay. So the loan
23 that was taken out, you're saying that the loan that was
24 taken out is to comply with the special fund intent of what
25 the legislature put forward?

1 Because you are correct. We talked about
2 special funds, talked about how much money is in the budget
3 that's not being used, that we want to use existing money in
4 existing accounts, and instead you're saying that the
5 Governor decided to go out and take a loan out for \$200
6 million and establish a new account in which to use for that
7 transfer to comply with that part of the budget that was in
8 the Fiscal Code?

9 SECRETARY ALBRIGHT: This was one of the
10 steps that we took in lieu of a severance tax to put the
11 current year budget in balance.

12 REPRESENTATIVE DELOZIER: Okay. The Fiscal
13 Code doesn't mention severance because that was not passed
14 by the legislature. It mentions special funds. So the
15 Governor went and developed -- and as of January --
16 established a new special fund and then took a loan out to
17 fill that special fund and then decided to transfer that
18 money into the general fund to comply with what had been
19 written in the Fiscal Code in October. Am I understanding
20 that correctly?

21 SECRETARY ALBRIGHT: This was one of the
22 steps that we took to comply using the authority given to us
23 in the Fiscal Code to balance the current year budget.

24 REPRESENTATIVE DELOZIER: Okay. But --

25 SECRETARY ALBRIGHT: I have to correct

1 something that you also said in your opening statement.

2 REPRESENTATIVE DELOZIER: Okay.

3 SECRETARY ALBRIGHT: This is not the first
4 time we've used these.

5 REPRESENTATIVE DELOZIER: Okay. Well, that
6 was what the DGS secretary said. So please, what is it?

7 SECRETARY ALBRIGHT: In fairness to him, I'll
8 look at Representative Markosek, who I know was here at the
9 time, but the first time we actually used this transaction
10 mechanism was to build four prisons expeditiously at the, I
11 think, in 1990. My memory may be off by a year or so.

12 But, you know, when we first initiated, or
13 when our corrections population was, frankly, out of control
14 and we had --

15 REPRESENTATIVE DELOZIER: So was that for a
16 public safety entity? Because that is one the
17 constitutional allowances to do this.

18 SECRETARY ALBRIGHT: We had to, you know,
19 build or construct four new prisons as expeditiously as
20 possible. And this was the mechanism we used. More
21 recently, I think around 2010, we used it to do improvements
22 down the street for Harristown 2, the Strawberry Square, or
23 what you think of as Strawberry Square building
24 improvements. Also, we used a similar, the same financing
25 mechanism.

1 REPRESENTATIVE DELOZIER: So were those
2 contracts, did those contracts go through, were they
3 considered a lease-leaseback, were they considered anything
4 that would go through DGS and the commission that we talked
5 about in DGS that approves all leases or anything like that?

6 SECRETARY ALBRIGHT: You're referencing a
7 different -- I think you're referencing the Farm Show
8 Commission.

9 REPRESENTATIVE DELOZIER: No, no. The one
10 that's under the board in DGS. It's -- let me get the exact
11 name of it because I always mess it up a little bit -- "the
12 Board of Commissioners of Public Grounds and Buildings is
13 required to approve all leases for executive offices."

14 SECRETARY ALBRIGHT: I think in this case, it
15 was a contract and it was done under their existing
16 executive authority given to them under the Administrative
17 Code to operate --

18 REPRESENTATIVE DELOZIER: Well, they were not
19 involved in this contract. They were excluded from this
20 contract. They were not a part of this lease-leaseback.

21 SECRETARY ALBRIGHT: This contract was
22 executed, you know, by DGS.

23 REPRESENTATIVE DELOZIER: But not through
24 this commission. And that's what I'm --

25 SECRETARY ALBRIGHT: No. The commission

1 didn't have a required responsibility as part of the
2 transaction.

3 REPRESENTATIVE DELOZIER: So it only, the
4 statute only applies to certain contracts.

5 SECRETARY ALBRIGHT: I think I've been clear
6 about the statutory authority that DGS has to enter into
7 contracts.

8 REPRESENTATIVE DELOZIER: Okay. So we just
9 disagree as to what has to go through that, for that
10 statute, what has to comply with it.

11 The secretary is giving me a list. He said
12 that -- which type of contracts have to go through and which
13 ones don't. We're waiting for that list, so it will be
14 interesting to see how many other types of things do not
15 have to comply with statute.

16 So, thank you, Mr. Chairman.

17 SECRETARY ALBRIGHT: Thank you.

18 MAJORITY CHAIRMAN SAYLOR: Very good.

19 Representative Kim.

20 REPRESENTATIVE KIM: Mr. Secretary, over to
21 your left. Good morning. Thank you for being here.

22 SECRETARY ALBRIGHT: Thank you.

23 REPRESENTATIVE KIM: We have a lot to cover
24 today, but I wanted to take advantage of your vantage point
25 as being Budget Secretary, kind of take the temperature of

1 how we're doing fiscally. For me, personally, I feel that,
2 you know, we have a leaner government today than three years
3 ago. We're looking to fill a rainy day fund, which we
4 haven't done, I feel like, for decades. We're fighting hard
5 to put in one-time revenue sources.

6 Mr. Secretary, what, in your view, where are
7 we now and what steps do you think we've taken to get us, I
8 feel like, on this firmer foundation?

9 SECRETARY ALBRIGHT: Yeah. Oftentimes, I
10 think, in the media we want to focus on the dysfunction in
11 Harrisburg. We want to focus on things where, you know --
12 whether it's the Administration and the general assembly,
13 whether it's Republicans or Democrats, things that we don't
14 agree about. You know, I'd like to say, at this point, you
15 know, when we now look at where we are, we assess the
16 Commonwealth's fiscal position here in 2018 knowing where
17 we've come from when, at least our Administration began in
18 2015. We're proud of the progress that's been made. We've
19 taken several significant steps forward, working in most
20 cases with the general assembly. If there were steps at
21 times that we had to make unilaterally using executive
22 authority, we aren't shy about doing that.

23 But today, we believe, particularly with the
24 current year budget that was put in place, that we, to your
25 point, as you've already eluded to it, we were able to

1 identify more than \$2 billion in real budget savings, that
2 we were able to take out of expenditure needs in the current
3 year budget that's been put in place. If you look at the
4 revenue packages that have been enacted by the general
5 assembly over the course of each of the last two fiscal
6 years, together they provide for the '18-'19 fiscal year
7 budget, about a billion dollars in real recurring revenue
8 going forward to cover our expenditures for '18-'19.
9 Cumulatively, that's more than \$3 billion of budget
10 progress.

11 Do we still have work to do in the next
12 fiscal year going forward? Yes. But we've made substantial
13 progress. And the state's fiscal health today, to your
14 point, is better than it's been for more than a decade since
15 the Great Recession hit.

16 REPRESENTATIVE KIM: That's all I have.
17 Thank you, Mr. Secretary.

18 SECRETARY ALBRIGHT: Thank you.

19 MAJORITY CHAIRMAN SAYLOR: Representative
20 Curt Sonney.

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

23 Mr. Secretary, good morning.

24 SECRETARY ALBRIGHT: Good morning.

25 REPRESENTATIVE SONNEY: I want to talk about

1 the lease-leaseback agreement again and do a little
2 follow-up on that.

3 I'm really kind of curious to know how we,
4 you know, we moved from an RFP that went out for a
5 lease-leaseback, and it's my understanding from Secretary
6 Topper that the respondents to that RFP, I believe you said
7 there were four, all responded in a lease-leaseback
8 agreement --

9 SECRETARY ALBRIGHT: There were four
10 finalists. There were significantly more original
11 respondents.

12 REPRESENTATIVE SONNEY: And were those
13 responses all dealing with a lease-leaseback type of
14 agreement?

15 SECRETARY ALBRIGHT: They were in response to
16 the RFP as it was issued.

17 REPRESENTATIVE SONNEY: And did it not say in
18 the RFP that it was a lease-leaseback?

19 SECRETARY ALBRIGHT: They were in response to
20 the RFP as it was written.

21 REPRESENTATIVE SONNEY: Well, it does say in
22 the RFP that it was a lease-leaseback, Mr. Secretary. It
23 does not say that that is --

24 SECRETARY ALBRIGHT: I think I've answered
25 your question.

1 REPRESENTATIVE SONNEY: And so how did that
2 become a loan? How does a lease-leaseback become a loan?

3 SECRETARY ALBRIGHT: Maybe the confusion in
4 part is because there are two layers to this transaction.
5 The difficulty we had is that this is not the only, you
6 know, foray into the credit market this year to balance this
7 budget.

8 We had to go out and do two other debt
9 offerings. One, a continuing effort to pay for the backlog
10 for school construction reimbursements that are funded
11 through the state, the PlanCon process as people refer to
12 it, as well as a significant \$1.5 billion --

13 REPRESENTATIVE SONNEY: Mr. Secretary --

14 SECRETARY ALBRIGHT: But I have to explain
15 this so you understand the transaction.

16 REPRESENTATIVE SONNEY: I do understand those
17 because those were all very specific in the Appropriations
18 bill and the Fiscal Code.

19 SECRETARY ALBRIGHT: So that --

20 REPRESENTATIVE SONNEY: Nowhere in the
21 Appropriations bill or the Fiscal Code did it direct the
22 Administration to create a new account. I think anybody
23 that reads those two documents and sees the language that
24 specifically says that \$300 million would be transferred
25 from special fund accounts --

1 SECRETARY ALBRIGHT: Special funds and
2 accounts, those are two separate things.

3 REPRESENTATIVE SONNEY: Special funds and
4 accounts, I think anybody reading those would have taken
5 those as existing accounts and not the creation of new
6 accounts and not specifically an ability to go out and
7 borrow money.

8 SECRETARY ALBRIGHT: We were very clear at
9 the time that general assembly -- or that legislation was
10 enacted by the general assembly, what it gave us the
11 authority to do.

12 REPRESENTATIVE SONNEY: And so do you believe
13 that any department secretary has the ability to go out and
14 borrow money for the general fund?

15 SECRETARY ALBRIGHT: No. That is specific to
16 DGS's authority in their capacities and responsibilities.

17 But if I can try to finish the prior answer I
18 was providing, because we were doing those three major
19 financings, if you will, we had to sequence them. And it's
20 the ultimate Farm Show transaction that is the smallest that
21 will go last. So they'll have to finish their work in the
22 credit market. Their commitment to us is two tiered. And
23 so there's an interim loan and that's how they satisfied the
24 obligation to transfer the \$200 million that was transferred
25 consistent with the timing of the RFP. And then the

1 ultimate transaction in the credit market is yet to be
2 completed.

3 REPRESENTATIVE SONNEY: Do we know how long
4 that we have to carry this loan and how much interest we're
5 going to have to pay?

6 SECRETARY ALBRIGHT: It's a 29-year loan in
7 this case at an interest rate of a little above
8 four percent. It's a taxable transaction, so we're again
9 pleased, as we were in all three cases in the end, how well
10 we were able to do in the credit markets.

11 REPRESENTATIVE SONNEY: So you believe that
12 the secretary of DGS can borrow money at any time for the
13 general fund?

14 SECRETARY ALBRIGHT: If the statutory
15 authority is provided for the circumstances that I already
16 described. We would have to have a Fiscal Code
17 authorization that would give us the authority, if you're
18 asking that we would be doing that borrowing to transfer
19 funds to balance the general fund budget.

20 REPRESENTATIVE SONNEY: And specifically,
21 where do you see that authority, in the Fiscal Code or the
22 budget?

23 SECRETARY ALBRIGHT: I'll ask Anne to look it
24 up. It is a specific section of the current year Fiscal
25 Code that was put in place.

1 REPRESENTATIVE SONNEY: "The Secretary of the
2 Budget shall transmit to the State Treasurer a list of
3 amounts to be transferred from special funds and restricted
4 accounts to the general fund."

5 SECRETARY ALBRIGHT: Correct.

6 REPRESENTATIVE SONNEY: And so where in that
7 line does --

8 SECRETARY ALBRIGHT: You read the words.

9 REPRESENTATIVE SONNEY: -- that give you the
10 authority to go out and borrow money?

11 SECRETARY ALBRIGHT: You read the words. We
12 were given the unfettered authority to identify among
13 special funds and accounts \$300 million to balance the
14 budget.

15 I can't say it enough. This was not our
16 preferred. We agree with you. This was not our preferred
17 approach. We would have much preferred a severance tax.
18 That's why our proposed budget does not include any further
19 special fund transfers of that sort, but it does include
20 again a proposed severance tax --

21 REPRESENTATIVE SONNEY: Mr. Secretary --

22 SECRETARY ALBRIGHT: -- and we believe that
23 it would be a much more responsible way to balance the
24 state's budget.

25 REPRESENTATIVE SONNEY: Could I ask you what

1 would you have done if the wording would have said "existing
2 funds"?

3 SECRETARY ALBRIGHT: I can't speak to you in
4 hypotheticals. We were very clear about what our plan was.
5 We were very clear about the language that we needed in the
6 Fiscal Code to have the authority to complete this
7 transaction and that's why the Fiscal Code was written in
8 the way it was written.

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

11 MAJORITY CHAIRMAN SAYLOR: Representative
12 Kinsey.

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

15 Good morning, Mr. Secretary.

16 SECRETARY ALBRIGHT: Good morning,
17 Representative.

18 REPRESENTATIVE KINSEY: The theme over the
19 past three weeks has really focused on job creation and
20 workforce development. I know that the Administration has
21 really talked about this and I think over the past three
22 weeks, we've sort of dove into those particular topics.

23 I think that many of us believe that in order
24 to create a better economy for Pennsylvanians, it's going to
25 require a partnership between employers, workers, and our

1 government, and this is going to take efforts for all of us
2 to be inclusive for every Pennsylvanian, basically from
3 every race, every ethnicity, age, ability, and income level.

4 Recognizing that we're wrapping up, you know,
5 the three weeks of budget hearings here today, as you peruse
6 the budget, can you sort of shed some light -- and maybe
7 this might just be from your opinion. I mean, you've done
8 this for a couple of years, Mr. Secretary. But can you shed
9 some light on what you believe or the aspects of this budget
10 that you believe is going to help move our economy forward,
11 help to ensure that Pennsylvanians have this opportunity to
12 get placed into the workforce? I mean, is there some
13 optimism that the Administration has? I mean, I know we're
14 going to hit on some gloomy issues and you're going to be
15 drilled, but by the same token, you know, I guess my
16 perspective is that we sit here to develop a budget that's
17 going to be beneficial to our constituency. So can you shed
18 some light on, I guess, the light at the end of the tunnel
19 that's going to bring hope to the folks that are watching
20 these discussions?

21 SECRETARY ALBRIGHT: We think that
22 Pennsylvania has a great story to tell, as you know. You
23 know, we are actively competing to bring an Amazon facility
24 here and we have not one, but two potential locations that
25 continue to be in the running for that effort. But we think

1 we already have a great story to tell.

2 Net employment has increased during our
3 tenure over the first three years of our Administration by
4 nearly 180,000 jobs. In 2017, that employment growth at
5 about 1.3 percent outpaced most of our northeastern and
6 state competitors for new business expansion and job growth.

7 We believe, given Pennsylvania's diverse
8 state economy, that we have huge opportunities going
9 forward, now even as a energy state given the natural gas
10 reserves that we have here and the whole Marcellus Shale
11 play, that we have huge opportunities as a Commonwealth to
12 grow our future economy. And that is the real answer,
13 ultimately, to long-term fiscal health. If we're not
14 creating jobs, if we're not convincing employers that are
15 here already to expand their operations and help them be
16 competitive, if we're not enticing employers from out of the
17 Commonwealth to locate here for future business expansion,
18 then we're not going to be successful in really solving the
19 long-term fiscal challenges that we face.

20 So we think we have a great story to tell.
21 We've worked with the general assembly to make key
22 investments. The Manufacturing PA Initiative, for one, that
23 was funded in the current year budget provides \$12 million
24 in targeted funds for our manufacturing industries, for job
25 training, for direct cooperative work with our major

1 research institutions. The full phaseout of the capital
2 stock and franchise tax was an important step to create a
3 better, more competitive business climate. And now some of
4 the outside business ranking agencies have looked at
5 Pennsylvania and said that we are among the top 25 states
6 when they rank our business climate.

7 As we look forward, can we do more? Yes. Do
8 we want to continue to work with the general assembly to
9 further develop these efforts in our proposed budget with an
10 emphasis on making sure we provide a skilled workforce with
11 new investments in our career and technology programs?
12 These are all important next steps, as well as taking some
13 steps to create a fair corporate net income tax system and
14 reduce that corporate net income tax rate over each of the
15 next five years, as our proposed budget would accomplish.

16 REPRESENTATIVE KINSEY: Great.

17 Mr. Secretary, I appreciate you sharing that.
18 I just think it's important that folks who are watching
19 these budget debates go on, that they recognize that there
20 is hope for Pennsylvania, that there is a plan to move our
21 economy forward. And I think that you, the Governor, as
22 well as the general assembly, have an obligation to work
23 together so that we can make it feasible for all
24 Pennsylvanians.

25 So again, thank you very much, Mr. Secretary.

1 Thank you, Mr. Chairman.

2 SECRETARY ALBRIGHT: It is, for the record,
3 Section 1726-G, were the words of the Fiscal Code that were
4 being referred to earlier.

5 MAJORITY CHAIRMAN SAYLOR: Representative
6 James.

7 REPRESENTATIVE JAMES: Thank you, Mr.
8 Chairman.

9 Mr. Secretary, good morning.

10 SECRETARY ALBRIGHT: Good morning.

11 REPRESENTATIVE JAMES: I'd like to return to
12 the electric topic of the financing agreement on the Farm
13 Show Complex, please.

14 First question, would be, in light of the
15 fact that the budget shortfall was an estimated 400 million
16 and the directed action was to transfer from reserves and/or
17 accounts an amount equal to 300,000, how do we arrive at the
18 number of 200,000 to borrow -- excuse me, million,
19 200 million to borrow?

20 SECRETARY ALBRIGHT: The shortfall for our
21 current year budget was about, in the end turned out to be
22 about \$2.2 billion. I'll remind you that we ended the last
23 fiscal year with a more than one-and-a-half-billion-dollar
24 shortfall. So we had to, in providing for a balanced budget
25 for the current fiscal year, identify more than \$2.2 billion

1 in revenue to close that budget gap, and this was one of
2 those steps that we took in the end to do that.

3 REPRESENTATIVE JAMES: Could you, for the
4 record, give me your best estimate, please, of the total
5 amount of interest which the Commonwealth would owe if we
6 concluded the 29-year amortization schedule?

7 SECRETARY ALBRIGHT: We'll have to make
8 annual payments beginning in the '19-'20 fiscal year of
9 about thirteen and a half million dollars to repay that
10 loan.

11 REPRESENTATIVE JAMES: We can't be talking
12 about the same thing. The amortization schedule, which we
13 were provided with, shows a much larger amount, \$200 million
14 repaid over 29 years.

15 My next question --

16 SECRETARY ALBRIGHT: The annual payments that
17 we intend to make to repay that obligation is about thirteen
18 and a half million dollars annually.

19 REPRESENTATIVE JAMES: I'm talking about the
20 total over 29 years, approximately.

21 SECRETARY ALBRIGHT: You can do that math.

22 REPRESENTATIVE JAMES: Well, let me help you.
23 It's about \$175 million, which by the way, our grandchildren
24 will have the honor of finishing paying for us.

25 SECRETARY ALBRIGHT: Again, that's why we

1 would have much preferred a severance tax. We think that
2 that would have been the appropriate solution.

3 REPRESENTATIVE JAMES: It's okay. We're here
4 to discuss what's been done, not the talking point, please.

5 SECRETARY ALBRIGHT: I can only answer what
6 our preferred approach would have been. You obviously --

7 REPRESENTATIVE JAMES: I think we understand
8 that.

9 SECRETARY ALBRIGHT: You obviously didn't
10 prefer this method, but we didn't have the authority to
11 impose a severance tax. That's something we would have to
12 have the general assembly's approval to do so.

13 REPRESENTATIVE JAMES: Where in the document
14 is the rate of interest established? Is it in an escrow
15 agreement or is it somewhere in the financing agreement?

16 SECRETARY ALBRIGHT: Yeah. It will be in the
17 ultimate financing agreement.

18 REPRESENTATIVE JAMES: Okay. So it's not
19 available for public consumption at this moment?

20 SECRETARY ALBRIGHT: We can provide that when
21 it's completed.

22 REPRESENTATIVE JAMES: Okay. Looking at the
23 total amount of interest repaid, and doing the calculations
24 backwards, it appears to be something on the order of
25 four percent.

1 SECRETARY ALBRIGHT: Correct. If I did, I
2 apologize if I didn't already say so, that that's about
3 where we think the transaction will fall.

4 REPRESENTATIVE JAMES: Are there other costs
5 involved in this financing package?

6 SECRETARY ALBRIGHT: I believe that's the
7 extent of the payments. It's really a fairly plain vanilla
8 transaction in the end.

9 REPRESENTATIVE JAMES: The financing
10 agreement amortization schedule indicates that there may be
11 an escrow agreement which was signed January 30th. This
12 morning I heard that perhaps that's not the case.

13 SECRETARY ALBRIGHT: I think we've provided
14 to you already, to the committee, all of the documents
15 related to the transaction, and we'll continue to do so, you
16 know, as the transaction is completed.

17 REPRESENTATIVE JAMES: So the escrow
18 agreement is available to us now?

19 SECRETARY ALBRIGHT: Again, when the final
20 transaction is completed, then we'll provide that
21 documentation to you, as we have all of the financing
22 documents related to all three transactions, including the
23 PlanCon borrowing and the tobacco settlement securitization.

24 REPRESENTATIVE JAMES: Okay. Getting back to
25 the four finalists and perhaps the other individual

1 organizations that were asked to provide some sort of a bid,
2 did the RFP also contain any information or requests for
3 information on, say, underwriting costs or other fee costs?

4 SECRETARY ALBRIGHT: I was not a direct
5 participant in the RFP process. I was not privy to --
6 because I wasn't part of that selection committee -- the
7 process they use to determine the ultimate awardee.

8 REPRESENTATIVE JAMES: Who all then prepared
9 this document? Who was engaged in that?

10 SECRETARY ALBRIGHT: This was a contract and
11 a process executed through DGS.

12 REPRESENTATIVE JAMES: Okay. And would you
13 categorize it as a loan or a lease?

14 SECRETARY ALBRIGHT: I'm not one who likes to
15 get caught up in semantics. We refer to it as a Farm Show
16 transaction for that reason. But the obligation is the
17 state's obligation long-term. Again, it is part of the
18 financings that we had to do to balance this year's budget.
19 It was the smallest of the three financial transactions that
20 we did have to enter into.

21 From our view, it's regrettable that these
22 were the steps that we had to take to balance the current
23 year budget. We proposed a much different approach, but we
24 continue to work with the general assembly. And ultimately,
25 I think from my view, from our view, we would rather focus

1 on the positive things that have resulted from the current
2 year budget than the places where we disagree.

3 REPRESENTATIVE JAMES: Given the fact that
4 there may be a second round, I'll return to ask a few
5 questions about consideration and other matters.

6 Thank you.

7 SECRETARY ALBRIGHT: Thank you .

8 MAJORITY CHAIRMAN SAYLOR: Representative
9 Donatucci.

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

12 Good morning.

13 SECRETARY ALBRIGHT: Good morning.

14 REPRESENTATIVE DONATUCCI: Yesterday the
15 state police testified, and again, we discussed a \$25 per
16 capita fee on municipalities relying on state police
17 troopers. We also know that the Fiscal Code of 2016
18 established a cap on the amount of funding that can be
19 transferred from the Motor License Fund to support state
20 police.

21 In the Governor's proposed budget for
22 2018-19, state police will receive \$769.7 million from the
23 Motor License Fund, which is the maximum allowed by the 2016
24 Fiscal Code. It leaves no flexibility for additional
25 funding from that source in 2018-19. That budget also

1 relied on the 63 million from the proposed \$25 per capita
2 fee that I already referenced.

3 If the legislature again does not enact a fee
4 on these municipalities, how would the Administration
5 address the hole created by the state police budget?

6 SECRETARY ALBRIGHT: As you point out,
7 because of the statutory cap, if we don't choose to put a
8 fee in place for those communities to at least pay some
9 portion of our costs for providing police services for those
10 jurisdictions, we'll then have a \$63 million hole in our
11 general fund budget, because of that statutory restraint, if
12 you will, on the amount of funding that the Motor License
13 Fund can provide, is allowed to provide, to offset the cost
14 of the state police operations. Now, that has to be made up
15 at the budget table, if you will, to, you know, find other
16 cuts or revenues to replace that \$63 million wholly from the
17 general fund.

18 REPRESENTATIVE DONATUCCI: Thank you.

19 Now I'm going to go into a different
20 direction. We know that there is a lot of changes happening
21 at the federal level. And it was recently brought to my
22 attention that the Federal Tax Reform Law includes the
23 creation of a new Opportunity Zone Program and gives
24 Governor Wolf until March 22nd of 2018 to submit his
25 opportunity zone nominations or request a 30-day extension.

1 There's a lot of uncertainty around this, in the absence of
2 promulgated federal regulations and a substantially public
3 process, like we've seen in other states. So policymakers
4 to the public deserve as much time as possible to educate
5 themselves on the potential benefits and consequences of
6 taxpayer subsidized speculation in their communities. This
7 is all new to me.

8 Due to these circumstances, doesn't it make
9 sense to at least request an extension and refine our
10 process to ensure the best outcomes for the people of
11 Pennsylvania?

12 I mean, I have no idea how this works.

13 SECRETARY ALBRIGHT: We will likely seek an
14 extension, if possible. We will ultimately submit an
15 application. I want to be clear to everyone about that.
16 But we will likely seek a 30-day extension, if possible.

17 REPRESENTATIVE DONATUCCI: Thank you. I have
18 nothing else.

19 SECRETARY ALBRIGHT: Thank you.

20 MAJORITY CHAIRMAN SAYLOR: Representative
21 Dunbar.

22 REPRESENTATIVE DUNBAR: Thank you, Mr.
23 Chairman.

24 Welcome, Secretary.

25 SECRETARY ALBRIGHT: Good morning.

1 REPRESENTATIVE DUNBAR: And we will talk
2 about something other than the Farm Show lease-lease for a
3 few minutes here.

4 SECRETARY ALBRIGHT: That will be refreshing,
5 if you have other concerns.

6 REPRESENTATIVE DUNBAR: Over the last few
7 weeks, we've had a lot of discussions, a lot of various
8 secretaries. And as you know, as these hearings go on, some
9 things crop up and they generate some concerns. And I'd
10 just like to discuss a few of those issues with you to see
11 what your thoughts are as we move forward.

12 First off, with DGS, we had some discussions
13 about the Medicaid capitation line being an augmentation,
14 essentially reduction of that line based upon the GRT tax,
15 which is no longer going to be available to us in the
16 future, and does that create a budget hole next year.

17 In our discussions with the secretary, they
18 said there's going to be normal growth of about \$400 million
19 on that line and a loss of the augmentation of 351 million
20 can potentially mean an increase next year of \$750 million
21 on that line item alone.

22 Do you agree with that assessment?

23 SECRETARY ALBRIGHT: Look, I don't know what
24 the secretary may or may not have said. You know, we meet
25 on a regular basis. You know, every other week we sit down

1 with Secretary Miller and her staff.

2 As I already eluded to, you know, trying to
3 take, you know, whatever steps we can take, working with the
4 general assembly, to, you know, bend that cost curve, to
5 maximize the amount of federal reimbursements, third party
6 reimbursements, to fully fund our medical assistance and
7 larger DGS obligations, is a constant focus of our budget
8 efforts.

9 You know, we hope to again, like we have done
10 in the current fiscal year, as we have done in both previous
11 fiscal years, continue to identify additional measures,
12 steps that we can take to reduce what we believe to be
13 otherwise the cost of fully funding those obligations.

14 REPRESENTATIVE DUNBAR: And, Secretary, she
15 did elude to the fact that, you know, they're looking to try
16 to find some innovative ways to address that. But your
17 answer is that, right now, that is a potential that we need
18 to address?

19 SECRETARY ALBRIGHT: Yeah. Here's the way I
20 would answer it. If you want to compare budget books, I
21 mean, go back, you know, look at historical record at what
22 we anticipated the '18-'19 DGS expenditures to total and
23 then look at what our proposed budget for '18-'19 --

24 REPRESENTATIVE DUNBAR: Okay.

25 SECRETARY ALBRIGHT: -- ended up to be. It's

1 about a billion-dollar delta.

2 REPRESENTATIVE DUNBAR: Right.

3 SECRETARY ALBRIGHT: And we hope to, again,
4 as we look at '18-'19 and '19-'20 and each year thereafter,
5 continue to identify, to your point, necessary initiatives
6 to reduce those costs going forward.

7 REPRESENTATIVE DUNBAR: And also looking
8 forward, it's not so much something that will affect this
9 year's budget, but next year's budget, is the Governor's
10 proposal for combined reporting. In discussions we've had
11 with the various secretaries over the year, there's been a
12 wide range of numbers of what is expected to come to the
13 Commonwealth, additional revenues that the Commonwealth can
14 obtain through combined reporting.

15 Do you have an estimate yourself of what you
16 believe it is?

17 SECRETARY ALBRIGHT: Yeah. For -- this would
18 be for '19 --

19 REPRESENTATIVE DUNBAR: Net of any rate
20 changes.

21 SECRETARY ALBRIGHT: Yeah, yeah. This would
22 be for '19-'20, not '18-'19. We would -- it takes two years
23 to implement combined reporting, so while it would be
24 effective January 1 of 2019, it wouldn't have a budget
25 impact, if you will, for the '18-'19 fiscal year. But we

1 believe that number for '19-'20 to be worth about
2 \$900 million.

3 REPRESENTATIVE DUNBAR: And can you tell me,
4 just for my own edification, why in the past when I've
5 talked to Secretary McNulty, in '15-'16, she told me the
6 number would be \$507 million, net of any rate changes?

7 Secretary Hassell this year -- just let me
8 finish. Secretary Hassell this year said 900 million. He
9 said the same number you did. At the same time, Director
10 Matt Knittel of the IFO said anywhere from nine to
11 twelve percent of the total collections that we normally
12 have from CNIT, which I believe is a little over \$3 billion.
13 So that would be anywhere from 270 million to 360 million
14 increase.

15 Can you tell me the difference between your
16 estimate and the IFO's and Secretary McNulty's in '15-'16?

17 SECRETARY ALBRIGHT: There are other moving
18 pieces, particularly the NOL and what we do with an NOL cap
19 or allowance, you know, can be intertwined. A lot of the
20 past proposals have eliminated any caps on net operating
21 losses going forward.

22 As we've provided or recommended, the shift
23 to full unitary combined reporting, that may account for
24 some of the differences. I'd have to know what people
25 assume.

1 REPRESENTATIVE DUNBAR: Yeah. And I think
2 the biggest concern there, really, is the difference between
3 your estimate and the IFO's. And I think we need to really
4 thrash out exactly what is the difference there, so we don't
5 have a situation in the future.

6 And lastly, real quickly, the LCB, when they
7 were here, they made comment that they had some concerns
8 about the ability to continue to make \$185 million transfer
9 in the future. Do you have those concerns, as well?

10 SECRETARY ALBRIGHT: We're, I think, from the
11 Administration's standpoint, we're very bullish about what
12 the opportunities may be for the LCB going forward.

13 Again, another one of those things that I
14 would say "thank you" to the general assembly. I think we
15 worked well to come to a consensus plan for what was then, I
16 believe, Act 39 of 2016. We think it's a win-win for the
17 Commonwealth. We think we've immeasurably improved customer
18 convenience, we're given customers more options to shop for
19 particularly beer and wine in supermarkets, as well as
20 through the wine and spirit stores for those beverages.

21 We think that with the competitive pricing
22 and other flexibilities that that legislation provided our
23 LCB system, that they cannot only meet, but maybe exceed
24 those out-year forecasts. And we're confident that working
25 with them, yes, pushing and prodding them, I admit, from

1 time to time -- that's our job as the Administration, that's
2 the Governor's job personally. But we are confident that we
3 can meet those long-term forecasts and see that again as
4 another great example of the good work that can occur when
5 the general assembly and our Administration can figure out
6 how to work together.

7 REPRESENTATIVE DUNBAR: And I truly hope that
8 is the case, but thus far, I have yet to see it actually
9 materialize in profits. And hopefully those changes made in
10 the past will materialize. I don't see it right now.

11 Just in closing, I wanted to make comment
12 that collectively all of these things does generate some
13 concerns, not so much this year's budget, but future year
14 budgets of "do we have any type of deficit that we're going
15 to need to address?" And I'm certain that you will be
16 paying attention to it as much as we will.

17 Thank you, Mr. Chairman.

18 SECRETARY ALBRIGHT: Thank you.

19 MAJORITY CHAIRMAN SAYLOR: Representative
20 Boyle.

21 REPRESENTATIVE BOYLE: Thank you, Secretary,
22 for being here -- right here. Hi there.

23 This is the beginning of the fourth year of
24 Governor's Wolf's reign as Governor of our state. I was
25 curious about just --

1 SECRETARY ALBRIGHT: We would like to say
2 "service."

3 REPRESENTATIVE BOYLE: Sure, service.

4 I was interested in just more of a general
5 outlook of our overall fiscal health, especially in
6 comparison to Governor Wolf's predecessor, Governor Corbett,
7 who had served four years. How would you compare the fiscal
8 health of PA right now, in the fourth year of Governor Wolf,
9 to the four years of Governor Corbett?

10 SECRETARY ALBRIGHT: Again, and when I answer
11 positively and say that our fiscal health has improved
12 significantly, you know, I want to look at all of you and
13 say that that's to our collective effort.

14 You know, working with the general assembly,
15 the process is often hard. And again, the press, the media
16 often wants to focus on the dysfunction, the disconnect, the
17 arguments, the places that we don't agree, but in the end,
18 regardless of how messy that process may appear, you know,
19 in the end, we've found the consensus working with the
20 general assembly to take significant forward steps.

21 Yes, you know, many of them were initiated
22 possibly, in many cases, through executive action, but we
23 have identified, in the end, more than \$2 billion of real
24 cost savings to balance the current year budget. Our
25 complement is about 1500 positions today lower than it was

1 in December of 2016. Our workforce today at less than
2 73,000 positions in the Governor's direct jurisdiction,
3 lower than it's been in more than four decades. We've
4 talked already today about some of the steps to consolidate
5 agency operations in many facets, including creating
6 operationally a Department of Criminal Justice,
7 consolidating across all four Human Service agencies, our
8 administrative budget, back office operations, of steps that
9 we took even within our pension systems to, one, pay those
10 obligations, make sure that pension debt doesn't grow, but
11 finally -- and step up and meet the full actuarially
12 required contributions, but also operationally, steps that
13 they can take within both systems and now mandated by Act 5
14 as a commission begins to meet this year, looking within
15 both systems to find shared cost savings of more than
16 \$3 billion in the way that they operate going forward,
17 again, so that that looming debt liability begins to
18 decrease, not continue to increase. All of that has spelled
19 good news for the state's fiscal position and we are
20 thankful for our collaborative efforts with the general
21 assembly to make all of that possible.

22 REPRESENTATIVE BOYLE: Thank you.

23 SECRETARY ALBRIGHT: Thank you.

24 MAJORITY CHAIRMAN SAYLOR: Representative
25 Keller.

1 REPRESENTATIVE KELLER: Thank you, Mr.
2 Chairman.

3 And thank you, Mr. Secretary.

4 SECRETARY ALBRIGHT: Thank you.

5 REPRESENTATIVE KELLER: I want to focus on a
6 couple of areas just so we understand what we're doing going
7 forward. Because I know in the past, and I think, you know,
8 it's been said in this room, that one-time gimmicks were
9 used and I'm going to try and understand what's happening in
10 the Human Services lines.

11 I'm in your budget book on page E22-16. I
12 notice that all programs, general fund is increasing by
13 about \$221 million, which would be found on a tracking run.
14 But then there's two other lines, "special funds" and "other
15 funds." And they're increasing respectively, about
16 54 million and a little over a billion.

17 Can you tell me why we wouldn't have put
18 those into the tracking run so that we...

19 SECRETARY ALBRIGHT: I think what you're
20 referring to are largely the assessments that we do through
21 our MCOs. They're part of an effort to maximize our federal
22 reimbursements to cover --

23 REPRESENTATIVE KELLER: That would be part of
24 it. That would be part -- excuse me, I don't have much time
25 here.

1 That's part of it, but then next year, they
2 go down by a half a billion dollars and then we increase the
3 general fund by almost a billion dollars. So why don't we
4 just put it up in that line and be honest with ourselves, so
5 we can plan going forward?

6 SECRETARY ALBRIGHT: Well, those -- the point
7 of that, or the distinction here that's really important for
8 state taxpayers, is that that is not state taxpayer revenue.

9 REPRESENTATIVE KELLER: One-time revenue,
10 then?

11 SECRETARY ALBRIGHT: No, it is not one-time
12 revenue, hopefully. And that's why we try to, you know,
13 make sure that when we take these steps, we look at
14 methods that --

15 REPRESENTATIVE KELLER: Okay. Just, if it's
16 not one-time revenue -- excuse me, if it's not one-time
17 revenue, then why is the line going down the next year?

18 SECRETARY ALBRIGHT: We can -- we have to be
19 careful about the assumptions that we can make and until we
20 complete work with the general assembly, until we negotiate
21 future agreements with hospitals, future agreements with our
22 MCO providers, we want to maximize all of those efforts.

23 REPRESENTATIVE KELLER: So how much of that
24 is MCO money?

25 SECRETARY ALBRIGHT: I can't tell you off the

1 top of my head, but we can get that information to you.

2 REPRESENTATIVE KELLER: Would it be half a
3 billion dollars, \$300 million?

4 SECRETARY ALBRIGHT: I don't want to, off the
5 top of my head, give you a wrong answer, so let us do our
6 homework. We'll provide that information to the committee.

7 REPRESENTATIVE KELLER: Okay. Speaking about
8 doing homework, we were given the true interest cost on the
9 Farm Show lease, of 4.33 percent. Is that an accurate cost
10 on that?

11 SECRETARY ALBRIGHT: I think. I think it's
12 in that range, again, a little bit more than four percent,
13 yes.

14 REPRESENTATIVE KELLER: Now, I thought that
15 it was a done deal when we got that, we booked that money
16 earlier this year. Then I understand that we have a
17 short-term agreement until July; is that correct?

18 SECRETARY ALBRIGHT: No. And I couldn't kind
19 of finish the answer earlier, so thank you for giving me the
20 chance to do it.

21 In the end, we had to sequence three credit
22 transactions. They asked to not go out and do the permanent
23 financing and put it in place while we were already doing a
24 significant, the significant additional borrowing for
25 PlanCon and the tobacco settlement securitization. So

1 that's why we sequenced this as the final transaction, the
2 smallest transaction, but to go, to give a little bit of
3 space in the market.

4 REPRESENTATIVE KELLER: Okay. Thank you for
5 that answer.

6 Then why did we book it in January?

7 SECRETARY ALBRIGHT: Well, again, that had
8 been part of the RFP. That had been put in place before we
9 understood what, how all of the rest of these transactions
10 would be sequenced. And so they needed to comply with that
11 RFP. We needed to finalize, if you will, the state's side
12 of the transaction. In other words, you know, that's really
13 for the private entity that's completing the transaction,
14 not for us. But that allowed us to finish our work with
15 them and now they have to finish their work in the credit
16 market.

17 REPRESENTATIVE KELLER: So we booked it as
18 revenue because they said, "Pennsylvania booked this as
19 revenue in January."

20 SECRETARY ALBRIGHT: They had to be complicit
21 with the RFP and the conditions under which they were
22 awarded the contract.

23 REPRESENTATIVE KELLER: A contract which the
24 general assembly had no part of.

25 SECRETARY ALBRIGHT: I think I've already

1 spoken about the authority given to us through the Fiscal
2 Code and --

3 REPRESENTATIVE KELLER: The authority in the
4 Fiscal Code was to transfer money from existing special
5 funds, and didn't we create a special fund to put this money
6 into?

7 SECRETARY ALBRIGHT: I believe in this case
8 the general assembly didn't want to identify specifically
9 where those funds would be transferred from. And so in lieu
10 of that, you chose to give the Administration the
11 responsibility to ultimately identify --

12 REPRESENTATIVE KELLER: I guess that's our
13 mistake.

14 SECRETARY ALBRIGHT: -- how that --

15 REPRESENTATIVE KELLER: I guess that's our
16 mistake. If we give you authority next year, will you
17 borrow money on the Capitol?

18 SECRETARY ALBRIGHT: I think that if you give
19 us future authority, we will execute that authority to what
20 we believe to be the most prudent and effective and
21 appropriate way.

22 REPRESENTATIVE KELLER: Put our grandkids in
23 debt. Thank you.

24 SECRETARY ALBRIGHT: I think we've already,
25 in fairness, spoken about our preference for a severance tax

1 that wouldn't have provided any debt obligation to
2 Commonwealth taxpayers at all.

3 REPRESENTATIVE KELLER: With all due respect,
4 Mr. Secretary, that doesn't generate all the money you want
5 to spend. So let's be honest with the taxpayers of the
6 Commonwealth. The Governor wants to spend money and he
7 wants to tax them to do it. Let's be honest. Let's not
8 hide behind all of these gimmicks.

9 SECRETARY ALBRIGHT: A severance tax would
10 generate in our proposed budget \$248 million, as we've said
11 quite often. The vast majority, about 80 percent, of that
12 revenue would be paid not by Pennsylvania taxpayers, but
13 would be paid by people that use that product --

14 REPRESENTATIVE KELLER: Are you aware of how
15 much energy is produced by natural gas in Pennsylvania?
16 Energy bills are lower because we're using clean natural gas
17 to generate electricity, which is benefiting families in
18 Pennsylvania.

19 We can be political about this all we want,
20 but good budgeting starts with including all of the items in
21 the budget, not having other special funds that go around
22 the general assembly. And if we could get to that point, I
23 think we could have better and more productive budget talks
24 than just political talking points on severance tax and
25 whose pocket we're going to pick, so that we can make the

1 priorities of where the hardworking taxpayers spend their
2 money. Let them keep more of it.

3 MAJORITY CHAIRMAN SAYLOR: Representative
4 Quinn.

5 REPRESENTATIVE QUINN: Oh, goody.
6 Thank you very much for being here.

7 SECRETARY ALBRIGHT: Good morning,
8 Representative.

9 REPRESENTATIVE QUINN: I've served in the
10 minority, I've served in the majority. And this, like
11 Chairman Markosek, is my final hearing, budget hearing, as a
12 House member. And over the years that I've been here, I've
13 learned that whether we're in the majority or the minority,
14 we all have the same goals of having the best interest of
15 Pennsylvania in mind and we just have goals, getting there
16 differently.

17 And sometimes these hearings take the tone of
18 being adversarial. Please understand that we're on the
19 front lines when it comes to seeing our constituents,
20 whether it's in the grocery store, at a town hall meeting,
21 or whatever, and we're just looking for those answers. So
22 thank you for being here to answer.

23 SECRETARY ALBRIGHT: Thank you for those
24 comments, Representative. And I can't emphasize enough,
25 myself -- I'm sorry, I'm going to cut into your five

1 minutes -- but that's why I'm trying to emphasize, if
2 there's one take away from today's hearing that I'd like to
3 provide, it's that we ought to focus on the successes when
4 we work together.

5 REPRESENTATIVE QUINN: Right.

6 SECRETARY ALBRIGHT: And in large measure
7 we're here today to talk about a lot of progress because of
8 that success.

9 REPRESENTATIVE QUINN: Okay. That's in my
10 five minutes, though.

11 If you've been watching the hearings, you may
12 be aware that I've been asking questions regarding the
13 employee liability self-insurance program. I've learned
14 from Secretary Topper that in the past year that
15 \$5.7 million was paid into this fund and \$3 million was paid
16 out.

17 Now, I bet this thing we have in common, too,
18 when the stock markets go down, I sweat for the pension
19 liability that we have. And now, in learning about this, I
20 sweat for the potential liability that we have for a program
21 that I wasn't even aware existed.

22 And one of the lines of questions that I've
23 had for some of the different agencies was with regard to
24 the payouts that have been made of that \$3 million in the
25 last year. I'm aware that it was not all about employee

1 misconduct, but I'm curious if you could provide -- I don't
2 expect you to have it off the top of your head, but of those
3 payouts, how many of them were for abuse of behavior on the
4 part of employees, elected officials, as well as state
5 employees, because they're all under the same umbrella of
6 that fund?

7 SECRETARY ALBRIGHT: Yeah. I think I would
8 just -- we will provide --

9 REPRESENTATIVE QUINN: Thank you.

10 SECRETARY ALBRIGHT: -- as you have requested
11 the information, and say that I think that the Governor, you
12 know, from his bully pulpit, has been very clear about the
13 responsibility we all share as public officials, of the
14 appropriateness or inappropriateness of actions, and how
15 that should be responsibly dealt with, and hopefully, we
16 want to lead by example.

17 REPRESENTATIVE QUINN: Yeah, I agree. And
18 I've read some of the Governor's comments. But it doesn't
19 help me with my concern that there could be cases out there,
20 there could be people coming forward, men and women, with
21 complaints and whether -- and that they're settled on the
22 back of the taxpayer.

23 So with the \$250,000 cap per claim and
24 knowing that some of these payments have far exceeded the
25 \$250,000 claim, I asked one agency yesterday, "Where does

1 any money come from?" And they said from their GGO.

2 SECRETARY ALBRIGHT: So again, we'll provide
3 the detail that you're asking for.

4 REPRESENTATIVE QUINN: When an agency pays
5 out of their GGO for a claim in excess of the \$250,000 cap,
6 is it that agency's decision alone or does it come to the
7 Administration to weigh in on that? To what extent is that
8 agency a silo in this decision?

9 SECRETARY ALBRIGHT: You know, we don't make
10 those decisions -- agencies don't make those decisions in a
11 vacuum. And again, we'll try to work to compile and be
12 responsive to the specific requests that you made.

13 REPRESENTATIVE QUINN: Look, I know this is
14 not unique to one Administration or the other. I'm just
15 trying, as we've seen over the last year -- and I think I
16 pointed out, had one of our state-relateds been a part of
17 the PASSHE system, we'd have been looking at over
18 \$100 million in payouts.

19 So my concern is, if something like that
20 could happen to any one of our agencies, any one of the
21 schools involved, what is our backup plan? Is there a
22 reinsurance plan? Does such a product exist? Are you guys
23 looking along those lines?

24 SECRETARY ALBRIGHT: We're taking a look at
25 all aspects of how this is managed and appropriately, how it

1 should be done going toward.

2 REPRESENTATIVE QUINN: Thank you. I look
3 forward to hearing back and to working with you on this.

4 SECRETARY ALBRIGHT: Yes, thank you.

5 And thank you for your service, by the way.

6 MAJORITY CHAIRMAN SAYLOR: Representative
7 Roae.

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

10 And thank you, Mr. Secretary, for being here.

11 You have said several times today that you
12 would have preferred a severance tax. Now, with all due
13 respect, we would have preferred that you and Governor Wolf
14 would not have spent \$1.5 billion, more than actually was
15 available, for the 2016-2017 budget. The one-and-a-half
16 billion dollars of supplemental appropriations that you
17 requested is what made the budget problem to begin with.

18 You have 30 years of budget experience with
19 the Senate Appropriations Committee and with the
20 Pennsylvania Budget Office, so you're very familiar with not
21 spending more than you have. And yet, we hope that there's
22 a realistic revenue projection this year, as well. But that
23 being said, if we run out of money this year, do you guys
24 plan on spending one-and-a-half billion dollars we don't
25 have or will you stop spending money and stop, you know,

1 putting us into this big deficit?

2 SECRETARY ALBRIGHT: So for the record,
3 supplemental appropriations for the prior '16-'17 fiscal
4 year were about \$400 million above forecast. That was known
5 at the time we enacted the budget. That was actually, at
6 the time, a budget strategy, if you will. You may remember
7 that in that year --

8 REPRESENTATIVE ROAE: Mr. Secretary, we're --
9 Mr. Secretary, okay, regardless of dollar amount, if we run
10 out of money and revenues stop coming in like they're
11 supposed to, will you and Governor Wolf hold back on
12 spending this year?

13 SECRETARY ALBRIGHT: We are very confident
14 that we will be able to manage expenditures for the current
15 fiscal year within the amounts that are appropriated for the
16 current year.

17 REPRESENTATIVE ROAE: So you'll stop spending
18 if we run out of money?

19 SECRETARY ALBRIGHT: We actually expect a
20 budget and revenue surplus for the current fiscal year, and
21 we're hopeful that that surplus --

22 REPRESENTATIVE ROAE: Okay, Mr. Secretary, a
23 yes-no question, if we start running out of money, will you
24 stop spending, yes or no?

25 SECRETARY ALBRIGHT: We can stop spending

1 where we can make decisions --

2 REPRESENTATIVE ROAE: It's a yes or no
3 question, please.

4 SECRETARY ALBRIGHT: It's not a yes and no
5 answer.

6 REPRESENTATIVE ROAE: Okay. I'm just going
7 to move on because we're not getting anywhere.

8 I guess my main question was going to be
9 about the education budget priorities. Now, in the
10 Governor's proposed budget, he proposes a zero percent
11 increase in funding for Penn State, Pitt, Temple, Lincoln,
12 you know, Butler County Community College, Harrisburg Area
13 Community -- you know, all of the community colleges. But
14 he's proposing a 5.2 percent for inmate education. So I
15 guess that says, "If you go to prison, we'll increase your
16 education funding more than if you go to college." But one
17 difference with the college is, the PASSHE colleges, he's
18 proposing a 3.7 percent increase.

19 Is that to pay for the new union contract for
20 the professors?

21 SECRETARY ALBRIGHT: No. That's just
22 believed to be the appropriate increase that we could afford
23 for the PASSHE system.

24 For the community colleges, I would suggest
25 that while the direct grant and aid line is not increased,

1 we have talked about the CTC initiative that is included.
2 There's a \$50 million proposed initiative to increase
3 investments for career and technology programs. And
4 intended is essentially a competitive \$10 million that
5 principally, the community colleges, and in some cases,
6 other higher education institutions, will ultimately compete
7 to provide.

8 So we do think we've included increased funds
9 for the community college system. It's just of a
10 competitive nature and by design structured to more custom
11 fit actual business needs for the training that they
12 provide.

13 REPRESENTATIVE ROAE: Okay. Well, thank you
14 for explaining that.

15 Now, back to union contract, the cost is
16 \$19.7 million for the, you know, the new year here. That's
17 about \$200 per student, when you look at the 100,000
18 students in the PASSHE system. That's \$800 more to get a
19 bachelor's degree.

20 You said that it was a modest union contract.
21 Now, some of the terms in the contract, two pay raises a
22 year. So a professor at the top end of the scale, to teach
23 12 hours a week, to teach 12 hours a week, just in one year,
24 there's about a \$5,000 pay raise. The top of the scale is
25 \$117,632. That's a 4.55 percent increase. Seven percent of

1 the professors can be out on paid sabbatical leave at any
2 given time. Tuition is free for the kids of the professors
3 and the spouses of the professors. And like I said before,
4 a \$19.7 million increase.

5 Do you really consider that to be a modest
6 union contract?

7 SECRETARY ALBRIGHT: We believe the ultimate
8 contract that was adopted to be prudent and appropriate.

9 REPRESENTATIVE ROAE: Okay. I guess we're
10 all entitled to our opinions.

11 My final question is, your budget for the
12 Office of the Budget, the Governor proposed that it goes up
13 by 4.7 percent, that's an \$827 increase. But the budget for
14 the regional cancer centers, the Governor is proposing that
15 we completely eliminate it, you know, eliminate the \$600,000
16 of funding.

17 Can you explain how those budget priority
18 decisions are made and how that helps Pennsylvania
19 residents?

20 SECRETARY ALBRIGHT: The appropriation that
21 you alluded to is what we refer to as a legislative
22 initiative. Those are appropriations that the general
23 assembly deems to be important priorities year to year. We
24 are always willing to work with the general assembly, and in
25 the end --

1 REPRESENTATIVE ROAE: The Governor doesn't
2 consider regional cancer centers to be a priority?

3 SECRETARY ALBRIGHT: We have --

4 REPRESENTATIVE ROAE: Is that why he had zero
5 funding in his budget proposal?

6 SECRETARY ALBRIGHT: We -- every year, and
7 this has been an annual process that predates, you know, my
8 tenure in state government. But we work with the general
9 assembly, those priorities, those appropriations that are
10 deemed to be, you know, ultimately responsible use of
11 taxpayer dollars, then we work with the general assembly to
12 restore those appropriations and fund them at a level that
13 they deem appropriate.

14 REPRESENTATIVE ROAE: Well, thank you for
15 your comments.

16 And I guess we all have our opinions of
17 what's higher priority. I think regional cancer centers are
18 a higher priority than your office budget. And I'm looking
19 forward to being able to, you know, present our budget
20 proposal.

21 But thank you, Mr. Secretary.

22 SECRETARY ALBRIGHT: Thank you.

23 MAJORITY CHAIRMAN SAYLOR: Representative
24 Jamie Santora.

25 REPRESENTATIVE SANTORA: Thank you, Mr.

1 Secretary.

2 SECRETARY ALBRIGHT: Thank you.

3 REPRESENTATIVE SANTORA: Under the Department
4 of Human Services, we have MAXIMUS. And I've said it with
5 the secretary, it's been a poor performing group. Does the
6 Administration agree with this?

7 SECRETARY ALBRIGHT: We think that while
8 there was initial difficulty, if you will -- and we didn't
9 think the original execution of that contract, you know, was
10 at the level that we had expected, we worked with them and
11 we believe, ultimately, managed that contract so that they
12 did provide a legitimate return and service as we expected.

13 REPRESENTATIVE SANTORA: So you, at this
14 point, you feel they're doing a sufficient job.

15 SECRETARY ALBRIGHT: Yes.

16 REPRESENTATIVE SANTORA: And do we have any
17 numbers on how many seniors ended up in nursing homes due to
18 the delay of the application process through MAXIMUS?

19 SECRETARY ALBRIGHT: You've characterized
20 that in a way that I guess I wouldn't agree with, but maybe
21 we'll go back and try to take a look at, you know, MAXIMUS'
22 work, and if we can provide additional detail that would be
23 helpful to summarize how that contract translated to service
24 and impacts in the community, maybe we'll try to provide
25 that.

1 REPRESENTATIVE SANTORA: Okay. That would be
2 great.

3 And then switching gears, I'm more of a --
4 I'm talking in a general term here. You have the entire
5 House of Representatives up for an election this year,
6 you've got the Governor up for an election this year, and
7 you've got half of the Senate. They're going to come back
8 next year. Is this budget, what's in the budget, setting up
9 a potential deficit for next year with one-time expenditures
10 or anything else that could be in here?

11 SECRETARY ALBRIGHT: As I have said, you
12 know, while we're proud of the progress that we've made --
13 I've talked earlier, identified, you know, what we believe
14 to be more than \$3 billion that we've now taken out of that
15 structural budget deficit that we faced. We still have more
16 work to do. We have more work to do in the current fiscal
17 year and we'll still have work to do in the '19-'20 fiscal
18 year.

19 Our hope, as we begin the deliberations for
20 the '18-'19 budget, is that we continue to make progress
21 forward. Realizing that, again, there will be challenges
22 that will remain, but if we simply continue to make
23 progress, then we believe that we're doing our jobs.

24 REPRESENTATIVE SANTORA: So there is a
25 potential that we could come back to a deficit next year?

1 SECRETARY ALBRIGHT: I have to be clear
2 that --

3 REPRESENTATIVE SANTORA: But --

4 SECRETARY ALBRIGHT: -- there's still work to
5 be done.

6 REPRESENTATIVE SANTORA: I got the "still
7 work to be done." You made it clear multiple times in here
8 that there was a clear definition in last year's Fiscal Code
9 that allowed you to transfer X amount of money, do it your
10 way, and part of it was the Farm Show lease. I'm trying to
11 be clear right now. Yes or no, is there a potential for
12 there to be a deficit with what's in this budget now for the
13 next fiscal year?

14 SECRETARY ALBRIGHT: That depends most on the
15 actions that we take when we finally adopt the '18-'19
16 budget for this fiscal year. You know, our proposed budget
17 includes a severance tax of two-hundred-and-nearly-fifty
18 million dollars.

19 REPRESENTATIVE SANTORA: I got it. I'm a
20 supporter of a severance tax.

21 SECRETARY ALBRIGHT: If we choose some other
22 method to balance this year's budget, and if that method
23 isn't real recurring revenue, then that will be an
24 obligation that will be a one-time revenue source --

25 REPRESENTATIVE SANTORA: But that's not what

1 I'm asking. You know, I'm asking what's in your budget
2 proposal, not what is at the end game. What's in there
3 currently.

4 SECRETARY ALBRIGHT: Our proposed budget, as
5 it's structured now, is not only in balance for the '18-'19
6 fiscal year and the '19-'20 fiscal year, but the five-year
7 fiscal forecast period that our budget proposal includes.

8 REPRESENTATIVE SANTORA: So then the answer
9 is "no."

10 SECRETARY ALBRIGHT: No, and not only do we
11 hope to not face a budget shortfall in the '19-'20 fiscal
12 year, but as the Governor points out, it allows us to
13 continue to make what we believe to be increasing
14 significant contributions back into the rainy day fund to
15 even provide, you know, some financial stability for that
16 moment when, you know, a rainy day does occur.

17 REPRESENTATIVE SANTORA: Thank you.

18 SECRETARY ALBRIGHT: Thank you.

19 MAJORITY CHAIRMAN SAYLOR: I want to
20 recognize Representative Ryan who's joined us, who is also
21 not a member of the committee, but here to observe, as well,
22 today.

23 With that, we'll move to our next questioner,
24 Representative Greiner.

25 REPRESENTATIVE GREINER: Thank you, Mr.

1 Chairman.

2 And good morning, Mr. Secretary.

3 SECRETARY ALBRIGHT: Good morning,
4 Representative.

5 REPRESENTATIVE GREINER: I want to go back to
6 a comment that was made earlier, and take a brief minute
7 here, going back to Governor Wolf's first proposed budget in
8 2015 and '16. And in that budget, Governor Wolf had
9 proposed a revenue package that would have taxed our
10 families and businesses almost an additional \$5 billion,
11 between four and a half and five billion alone. And that
12 '15-'16 budget anticipated that if the Governor's proposed
13 tax package were to be enacted, the 2017-18 general fund
14 revenues would have totaled a little over 34 and a half
15 billion dollars.

16 Now, in February of that year, of 2015,
17 Governor Wolf stated that this large tax increase was
18 necessary to resolve our structural deficit. Now, I'll be
19 up front, I'll be on record that I felt at the time, we had
20 a structural deficit, not everybody felt that, but I was one
21 that felt we did.

22 In contrast, though, the estimated general
23 fund tax revenues in 2017-18 are 32.16 billion, which is
24 about two and a half billion dollars less than taken out of
25 the pockets, through taxes, of Pennsylvania families and

1 businesses. And we were able to do this -- and you thanked
2 us just a while ago, you thanked the legislature for working
3 with the Governor. We were able to take care of this
4 deficit through controlling spending and not by raising
5 taxes. And you did mention, and I also heard you on the
6 radio back in Lancaster, that you stated that the structural
7 deficit is virtually gone. And they were your words.

8 What I'm wondering is, through everything we
9 went through, and it's been a tumultuous time, particularly
10 the first couple of years, would the Administration admit
11 now that the tax increases that they sought early on were
12 truly about increasing state spending and not really solving
13 the fiscal challenges of the Commonwealth?

14 SECRETARY ALBRIGHT: We're not really -- I
15 don't want to take too much time here today to revisit what
16 could have been in the '15-'16 fiscal year. But that
17 original proposed budget would have provided two additional
18 things that you didn't mention.

19 It would have provided a path to take the
20 corporate net income tax to 4.99 percent, would have been
21 the fourth lowest of all the states that have a corporate
22 net income tax, rather than nearly the highest, as we still
23 do have today, with a 9.99 percent corporate net income tax.
24 It also would have provided about \$3.8 billion in real
25 recurring annual property tax relief.

1 Now, that's a conversation we may still want
2 to have in the general assembly. That's something that
3 we'll have to continue to work with you to talk about what
4 the right steps or right policy decisions would be in that
5 regard. But you know, I believe the Governor feels strongly
6 that those two things would have been important steps
7 forward that would have been of huge value had we enacted
8 those proposals here in 2018.

9 REPRESENTATIVE GREINER: Well, I'm going to
10 follow up, since my background is a CPA, that combined
11 reporting issue, or dropping the corporate tax rate to 4.99,
12 you'd have to go to combined reporting in order to generate
13 more revenues, in order to drop that tax rate. And it is,
14 it's an extremely complicated issue. I know a lot of our
15 colleagues are going to have to spend a lot of time if we
16 choose to go that route.

17 And then secondly, I know personally, I'm
18 involved in a working group to try to help with property tax
19 reform. I think the legislature continuously tries to deal
20 with that issue. But you know, part of trying to tie all
21 those issues into that budget that particular year was
22 complicated. And I know we're going to continue to try to
23 deal with that. It's an issue that I personally think to
24 try to get a statewide solution is going to be difficult. I
25 think a local option is going to be the route to go.

1 But I will say in response to my prior
2 colleague, I do understand there is one-time funding
3 mechanisms that are being used in this budget to balance it.
4 And your last comments prior about how we're looking at
5 balanced budgets moving forward, I have serious concerns
6 about looking at the numbers without having significant,
7 raising significant taxes on the individuals and businesses
8 in Pennsylvania and I think that's troublesome.

9 You know, we're trying to do what we can to
10 increase economic growth in this state. I think it's
11 something that both parties are working at tirelessly to do.
12 But just looking at the raw numbers right now, I do have
13 some concerns moving forward. And I just wanted to share
14 that.

15 And you know, you talked about the shale tax.
16 That's a pittance when you talk about, you know, the billion
17 dollar hole or two billion dollar hole in the grand scheme
18 of things. I just wanted to -- you know, I mean, that is
19 the reality.

20 SECRETARY ALBRIGHT: Again, I very much
21 appreciate your thoughtful comments. I think that we would
22 like to, you know, have a fuller conversation about combined
23 reporting. We do think it would be a fairer way for our,
24 you know, corporations in Pennsylvania to pay their tax
25 obligations. Particularly, if you think about it from the

1 perspective of a smaller corporate entity that operates
2 exclusively in Pennsylvania. They don't have the means to
3 shelter income elsewhere. They pay the full 9.99 percent
4 corporate net income tax rate. It's the large multinational
5 corporations who do have the ability to shelter income that
6 can take advantage of the Delaware loophole and other tax
7 provisions to not fully account for their operations and
8 their profits here in Pennsylvania, that it's Pennsylvania
9 and smaller Pennsylvania corporations that have to pay the
10 difference. But again, a conversation we look forward to
11 having.

12 REPRESENTATIVE GREINER: Just one thing, half
13 the states in the country, or about half, have combined
14 reporting, half don't. And of those half that do have
15 combined reporting, half of them do it one way and half do
16 it another. And it's going to take a lot, it's going to
17 take a lot of looking into and research to try to deal with
18 that issue.

19 So I do appreciate you being here. I
20 appreciate your time.

21 Thank you, Mr. Chairman.

22 SECRETARY ALBRIGHT: Thank you,
23 Representative.

24 MAJORITY CHAIRMAN SAYLOR: Representative
25 Helm.

1 REPRESENTATIVE HELM: Thank you, Mr.
2 Chairman.

3 Mr. Secretary, I'd like to talk about minimum
4 wage. Over the years, there have been multiple studies
5 showing a correlation between minimum wage increases and net
6 job losses. And Governor Wolf has proposed raising the
7 minimum wage to \$12 an hour. And just last June, the IFO
8 predicted that 54,000 jobs, or four percent of the jobs
9 impacted, would be lost in Pennsylvania.

10 Do you believe the Governor took the study
11 seriously or does he believe that increasing the minimum
12 wage has no adverse impact on employment?

13 SECRETARY ALBRIGHT: We agree much more often
14 with the IFO than we disagree. In this case, we don't.

15 You know, I talked a little bit, I think last
16 year, when we talked about our proposed minimum wage
17 efforts. And our proposal, to be clear, currently is that
18 we think that wage should be increased to \$12 an hour.

19 We first -- how do we get to that number or
20 what's the basis of that? We look at companies like
21 Walmart, who have just gone to an \$11 starting wage for
22 their new hires, and believe that if it's appropriate for
23 Walmart, it's certainly appropriate for, you know, employers
24 in the Commonwealth.

25 But we actually believe it's a net win-win

1 for Pennsylvania and our economy. We think that the
2 negative impacts on employment will be modest. We believe
3 that for revenue collections, while our revenue estimate
4 does not increase or is not inflated to assume a minimum
5 wage is adopted, but if it was, we believe it would be net
6 positive for our revenue collections.

7 The most important part of this conversation
8 is on, and goes back to lot of the entitlement spending side
9 and the impacts that a minimum wage increase would have on
10 our DGS budget. DGS has done an analysis. And netting out
11 the costs that we would have to pay, because some of our
12 providers that we contract with, to them we would have to
13 pay increased wages because they're earning wages below that
14 \$12 threshold now. But even when we net out those costs, we
15 would be able to enjoy net entitlement savings of more than
16 \$100 million a year for state entitlement costs and more
17 than \$600 million annually for federal entitlement costs.
18 And so, another policy reason for doing this is for real
19 cost savings to be realized in our DGS budget.

20 REPRESENTATIVE HELM: Let me talk about, last
21 year with this article about Seattle, Washington's minimum
22 wage, where the city council passed an ordinance to increase
23 the minimum wage incrementally to \$15 an hour by 2021. And
24 I'd just like to quote some of the statistics.

25 The article cited a report by the University

1 of Washington which found that when the city increased the
2 required minimum wage from 10.50 to \$13, during the second
3 incremental increase, this resulted in a nine percent
4 reduction in hours worked, a six percent drop in what
5 employers collectively pay, and 5,000 fewer lower wage jobs.
6 And the six percent drop resulted in about \$125 less per
7 month for an average lower wage worker.

8 And with all that said, like, should the
9 Commonwealth of Pennsylvania flirt with the idea of a \$12
10 minimum wage when our employment rate stands at 4.7 percent,
11 which is 60 basis points higher than the national average?

12 SECRETARY ALBRIGHT: Look, there have been
13 countless studies. Those studies are all over the map in
14 terms of impact.

15 I think the most famous of those studies was
16 of the fast food industry when New Jersey increased its
17 minimum wage. And they looked at that impact in both New
18 Jersey and across the border in Pennsylvania. I relate to
19 that study because it was Pennsylvania specific. And
20 surprisingly, what they found was that there were a whole
21 lot of other factors that were much more dominant in
22 determining jobs and it actually resulted in higher job
23 creation in New Jersey compared to Pennsylvania at the time
24 after they increased their minimum wage.

25 REPRESENTATIVE HELM: Don't you feel, though,

1 that a lot of employers would prefer merit increases? I
2 mean, I was an employer for a long time before this job and
3 I totally like the merit increase system.

4 SECRETARY ALBRIGHT: What we believe is that
5 the minimum wage should be a family-sustaining wage. And at
6 \$7.25, our minimum wage right now is not that. And we think
7 it's wrong that people trying to support families on that
8 wage have to rely on entitlement programs to be able to
9 fully support their families.

10 REPRESENTATIVE HELM: Let's talk a little bit
11 about the manufacturing jobs. I know you earlier talked
12 about this and you mentioned the manufacturing initiative.
13 However, Pennsylvania continues to lose manufacturing jobs.
14 And you know, what are we doing about that? Because I think
15 that's very important that we step that program up and don't
16 continue to lose those jobs.

17 SECRETARY ALBRIGHT: We agree. We did a
18 listening tour last fall so that -- again, as we've tried
19 to, in each successive budget, reach out, consult with the
20 general assembly, with your own leadership, before the
21 Governor gives his speech, before we formulate final budget
22 plans. Last fall, Secretary Galbally, our Policy Secretary,
23 and senior staff led an effort with multiple cabinet
24 secretaries to travel throughout the Commonwealth, get the
25 opinions of business leaders, get the opinions of community

1 leaders throughout the Commonwealth to guide our policy,
2 budget policies and fiscal policies going forward.

3 So concerted attempts to continue to do a
4 better job, most importantly focused on workforce and
5 training and making sure that we have a skilled workforce
6 that's ready to meet business needs going forward,
7 particularly for our manufacturers, rose to the top of the
8 list in that listening tour.

9 But you know, we'd want to work with you and
10 listen and continue to get your own comments and the
11 comments of your caucus and the general assembly in a larger
12 context to, you know, guide future policy decisions that we
13 can make in the here and now, in this budget year, to again
14 continue to try to take steps forward, and particularly,
15 assist manufacturers and their operations.

16 REPRESENTATIVE HELM: Well, we're here to
17 work with you also. So thank you.

18 SECRETARY ALBRIGHT: Thank you.

19 MAJORITY CHAIRMAN SAYLOR: Representative
20 Heffley.

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

23 Mr. Secretary --

24 SECRETARY ALBRIGHT: Good morning.

25 REPRESENTATIVE HEFFLEY: -- good morning.

1 Yeah, we still are before noon.

2 I guess in listening to a lot of the
3 conversation regarding the lease, loan, whatever you want to
4 call it --

5 SECRETARY ALBRIGHT: Transaction.

6 REPRESENTATIVE HEFFLEY: -- transaction, I
7 guess I'm kind of disappointed. I know that the Governor
8 ran a lot and talked a lot about transparency. And I think
9 what's really, you know, bothering the people of
10 Pennsylvania -- and I'm hearing about it when I'm out in my
11 community -- is that there's no transparency in this deal.

12 It seems like a lot of it was done behind
13 closed doors. We talked to the secretary of DGS, one of the
14 people who signed the legal document, really could not give
15 us any details about it. Since February 8th, we've asked
16 for the details of this, and then earlier I believe you had
17 stated that you're still, the details aren't all finalized,
18 but yet, this money was already transferred.

19 And then I would also ask about the entity,
20 Municipal Real Estate Funding, LLC, was this an entity that
21 was created just for this one particular deal?

22 It really -- I think we're living in a
23 different time and a different era than maybe years ago in
24 the state legislature and I think there needs to be
25 transparency on these things, so we can move forward and be

1 honest with the people that we represent. I guess that's
2 what I would ask. I would really ask that we could get the
3 details on this.

4 Was there a bridge loan in between there?
5 And if there is, was there a different rate on that bridge
6 loan? How could this money have been transferred if we
7 don't yet have all of the details?

8 So I would really ask you -- and I guess,
9 it's more of a request, and if you don't have the
10 information, you can get back to me. But we'd really like
11 to see the details on this so that when I'm out, talking to
12 somebody who's working 40 hours a week and paying taxes and
13 busting their butt, and not relying on the government for
14 services, and they're asking me, "What's up with the Farm
15 Show?" I'm saying, "I don't know."

16 And I think that's the frustration, and I
17 really wish that -- I'm requesting transparency on this deal
18 that you and the Administration were involved in.

19 SECRETARY ALBRIGHT: We would agree. We have
20 done everything within, you know, our ability to provide
21 that transparency.

22 REPRESENTATIVE HEFFLEY: But we've asked
23 since February 8th, and we haven't gotten it. How can you
24 transfer the money, you know, if you can't provide us with
25 the language?

1 SECRETARY ALBRIGHT: For this transaction and
2 all of our operations, we, you know, for the convenience of
3 the committee, even tried to provide a tentative list --

4 REPRESENTATIVE HEFFLEY: You tried to
5 provide, but you haven't provided us with that information.
6 And I'm just asking why.

7 SECRETARY ALBRIGHT: Through the letter that
8 we provided to the State Treasurer to detail, not just this
9 transaction, but all of the transactions that we tentatively
10 plan to do to comply with the --

11 REPRESENTATIVE HEFFLEY: But this is the
12 transactions -- because the other transactions were
13 transparent because, and the other loans you talked were
14 passed in statute and they were transparent. This is the
15 one that we're asking about because this isn't transparent
16 and we haven't gotten the information on it yet. So you can
17 see the frustration, because I'm hearing about it from the
18 people that I represent and I want to get the answers from
19 them -- from you who was involved in this.

20 SECRETARY ALBRIGHT: And we will continue to
21 provide all of that documentation and information as soon as
22 it's available to us.

23 REPRESENTATIVE HEFFLEY: But how can we be
24 transferring money if we don't -- if you can't provide us
25 with the information because you don't have it, but you've

1 already transferred the money?

2 SECRETARY ALBRIGHT: The --

3 REPRESENTATIVE HEFFLEY: Did they send that
4 money to you and you transferred it before you have all of
5 the details on this deal, as you said?

6 SECRETARY ALBRIGHT: The final transaction in
7 a two-step transaction, you know, is yet to be completed.

8 REPRESENTATIVE HEFFLEY: But you transferred
9 all the money already.

10 SECRETARY ALBRIGHT: When it is -- that's for
11 their operations not our operations, but when that is
12 completed, then we will provide you with that information.
13 But more important --

14 REPRESENTATIVE HEFFLEY: But how can you not
15 have the information? How can you say that it's going to be
16 four percent interest? And the other question, was this
17 entity set up just for this one deal?

18 SECRETARY ALBRIGHT: I can only answer the
19 questions if you allow me to do so.

20 REPRESENTATIVE HEFFLEY: Well, was this
21 entity set up for only this one deal? That would be a
22 question, yes or no.

23 SECRETARY ALBRIGHT: No.

24 So what we are trying to do is at each step
25 of the way provide you with all of the information related

1 to the transactions, but more importantly, your question
2 began with a question about a goal toward transparency and
3 that is something that this Administration feels very deeply
4 about. It's something that we have tried to do from day
5 one.

6 REPRESENTATIVE HEFFLEY: Tried to do, but on
7 this issue, I don't think that you are trying on this issue
8 because we've asked for this information since February 8th.
9 And I know it is frustrating for you, but it's frustrating
10 for me because I have to answer to the people that I
11 represent and I want to be able to give them the
12 information.

13 People think that the Governor sold the Farm
14 Show because they don't understand this, because that's the
15 perception out there and you're not giving us any of the
16 details of this agreement to actually understand it for
17 ourselves.

18 SECRETARY ALBRIGHT: As a matter of fact,
19 we've been very direct, we have been -- and very clear that
20 the Governor did not sell the Farm Show, that the operations
21 of the Farm Show are in no way controlled or impacted by
22 this transaction. And we've tried to, from the beginning,
23 wall off the Farm Show and make it clear that this
24 transaction was done to balance the state's budget, but does
25 not affect operationally, now or in the future, in any way

1 the operations of the Farm Show. And I think we were very
2 clear about this from the beginning.

3 REPRESENTATIVE HEFFLEY: All right. Well, I
4 see my time is up, but I would once again stress the need
5 for transparency and getting this information to the
6 legislature, and more importantly, to the people of
7 Pennsylvania.

8 Thank you.

9 SECRETARY ALBRIGHT: And we will support and
10 abide by that and champion that along with you.

11 REPRESENTATIVE HEFFLEY: I'll be waiting for
12 that information.

13 MAJORITY CHAIRMAN SAYLOR: We are now moving
14 into our second round of questioning, and we will recognize
15 Representative Keller.

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

18 Question, when we were talking earlier, Mr.
19 Secretary, you had mentioned that we booked the money, but
20 the transaction wasn't complete. Where did we get the cash?
21 Who owns that \$200 million? Where did it come from?

22 SECRETARY ALBRIGHT: That is now Commonwealth
23 money.

24 REPRESENTATIVE KELLER: Where did it -- who
25 paid it?

1 SECRETARY ALBRIGHT: The entity that has the
2 contract.

3 REPRESENTATIVE KELLER: So we have a
4 contract?

5 SECRETARY ALBRIGHT: With them, yes.

6 REPRESENTATIVE KELLER: So we've entered into
7 a contract with them?

8 SECRETARY ALBRIGHT: And we've provided the
9 details to you already.

10 REPRESENTATIVE KELLER: No, that's not what
11 you told me, sir. You've been evasive and it's not fair to
12 my constituents or anybody else's constituents in this
13 Commonwealth, including the Governor's.

14 Now, here is the point. You told me earlier
15 the contract wasn't done, it was two steps. You can't have
16 it both ways. So if we booked \$200 million, who paid the
17 money? Does that belong to Blackford Ventures, LLC? Did
18 they pay it? Yes or no, did they pay the money? Did they
19 give us the money?

20 SECRETARY ALBRIGHT: They've paid the
21 \$200 million --

22 REPRESENTATIVE KELLER: Okay.

23 SECRETARY ALBRIGHT: -- due to the
24 Commonwealth in January.

25 REPRESENTATIVE KELLER: They paid it. Did we

1 sign a contract with them?

2 SECRETARY ALBRIGHT: Yes. We have a
3 contractual obligation with them. They --

4 REPRESENTATIVE KELLER: What's the interest
5 rate? What's the interest rate?

6 SECRETARY ALBRIGHT: They --

7 REPRESENTATIVE KELLER: The interest rate,
8 sir. I want my questions answered. I want to know what the
9 interest rate is on that.

10 SECRETARY ALBRIGHT: I thought we've already
11 put that on the record several times today. We believe it
12 to be just --

13 REPRESENTATIVE KELLER: No, not believe.
14 What is it? If you signed a contract, you know the interest
15 rate.

16 SECRETARY ALBRIGHT: Again, we believe it to
17 come in, we believe that interest rate to be about
18 4.3 percent.

19 REPRESENTATIVE KELLER: No, not believe.
20 What are the people of the Commonwealth going to have to pay
21 over 29 years? I don't go to the bank and sign a mortgage,
22 and say, "Well, I believe it's going to be four percent." I
23 know it's four percent. What's the interest rate? Not
24 believe, what is it?

25 SECRETARY ALBRIGHT: I've answered the

1 question multiple times.

2 REPRESENTATIVE KELLER: No, you haven't, sir.
3 You have not.

4 MINORITY CHAIRMAN MARKOSEK: The secretary
5 has answered this.

6 REPRESENTATIVE KELLER: No, he says he
7 believes. I want to see the document that tells us the
8 interest rate.

9 SECRETARY ALBRIGHT: We will provide --

10 REPRESENTATIVE KELLER: When?

11 SECRETARY ALBRIGHT: When they complete the
12 final financing of the transaction.

13 REPRESENTATIVE KELLER: When who completes
14 it?

15 SECRETARY ALBRIGHT: Blackford.

16 I have said several times there are two steps
17 to this process. We sequenced this because of the three
18 debt transactions that we were going to market with in this
19 fiscal year.

20 REPRESENTATIVE KELLER: Okay. I'm going to
21 move on because I'm not going to get an answer out of you on
22 that.

23 You mentioned that we didn't give you
24 direction on what to do with, which funds to do, so you
25 created this fund. If we were to pass legislation

1 specifically saying which funds to take it from, would you
2 support that legislation, and then we not have to enter into
3 this agreement and have the citizens of the Commonwealth pay
4 interest?

5 SECRETARY ALBRIGHT: The agreement is
6 complete. So what we're discussing --

7 REPRESENTATIVE KELLER: Okay, the agreement
8 is complete. Then is there a penalty, an early repayment
9 penalty on the interest? If we were to pay that off this
10 year, would we have to pay all the...

11 SECRETARY ALBRIGHT: The agreement, the
12 contractual obligation has already been entered into. The
13 agreement is complete.

14 REPRESENTATIVE KELLER: So if we come up with
15 the money, do we have to pay -- is there a penalty for early
16 payment of the debt?

17 SECRETARY ALBRIGHT: Again, that obligation
18 has already been entered into.

19 REPRESENTATIVE KELLER: Okay. If we repay
20 it, is there a penalty for early repayment, yes or no? It
21 should be in the contract.

22 SECRETARY ALBRIGHT: We can't -- again, that
23 contract, that agreement is already in place. Those are
24 decisions we made to balance this year's budget.

25 REPRESENTATIVE KELLER: Okay.

1 SECRETARY ALBRIGHT: Where we need to focus
2 is --

3 REPRESENTATIVE KELLER: Sir --

4 SECRETARY ALBRIGHT: -- how we're going to
5 balance --

6 REPRESENTATIVE KELLER: Sir, if we repay --
7 if I take out a mortgage, it tells me whether or not I am
8 going to have a penalty if I pay it early. If the
9 Commonwealth pays this debt early, is there a penalty?

10 SECRETARY ALBRIGHT: I don't believe, or I'm
11 not aware that there is a provision in the contract that
12 allows for an early repayment or allows the contract
13 agreement to be rescinded.

14 REPRESENTATIVE KELLER: Is the interest --
15 we're not rescinding it. We're going to pay it early. We
16 entered into the contract. Is the interest guaranteed?

17 SECRETARY ALBRIGHT: It is not a mortgage.
18 It is a contract. And again --

19 REPRESENTATIVE KELLER: So did we guarantee
20 the interest? Did we guarantee them that much money?

21 SECRETARY ALBRIGHT: Yes.

22 REPRESENTATIVE KELLER: Regardless of when we
23 pay it?

24 SECRETARY ALBRIGHT: Yes. They are --

25 REPRESENTATIVE KELLER: So regardless of when

1 we pay that bill, regardless of when we pay the bill, we
2 have to pay the interest?

3 SECRETARY ALBRIGHT: The debt schedule was
4 already provided to you and assumed annual payments for the
5 29-year duration of the contract.

6 REPRESENTATIVE KELLER: So if we pay it
7 early, we're still on the hook for the guaranteed interest?

8 SECRETARY ALBRIGHT: We're on --

9 REPRESENTATIVE KELLER: That's a yes or no.

10 SECRETARY ALBRIGHT: Yes, as any obligation
11 that we enter into.

12 REPRESENTATIVE KELLER: So in other words,
13 the Governor did this because we didn't give him
14 specifically instructions on how to do every part of his
15 job. I don't know how the man ran a business, quite
16 frankly. We told him, "take special funds," and then you go
17 and create one.

18 SECRETARY ALBRIGHT: We did this in lieu of a
19 severance tax.

20 REPRESENTATIVE KELLER: No, that's bull.

21 SECRETARY ALBRIGHT: We would have much
22 preferred to adopt a severance tax.

23 REPRESENTATIVE KELLER: You'd much prefer to
24 increase income tax, you'd much prefer to do everything else
25 rather than manage the resources you already have. We do

1 not have a revenue problem here, we have a spending problem.

2 We have not gotten answers even on a simple
3 contract that you say is in place. You believe there's an
4 interest rate, you can't sit here and tell me. Where's the
5 transparency this Governor campaigned on, is campaigning on
6 now? It's nowhere.

7 Thank you.

8 SECRETARY ALBRIGHT: I would only observe
9 that the general fund budget that we adopted for the current
10 fiscal year was passed in this chamber with an overwhelming
11 majority and an overwhelming majority, I believe, of your
12 caucus.

13 MAJORITY CHAIRMAN SAYLOR: We'll move on to
14 Representative James.

15 REPRESENTATIVE JAMES: Thank you, Mr.
16 Chairman.

17 In response to one of my previous questions,
18 you indicated you didn't want to engage in semantics, which
19 certainly I don't either. And we're trying to get to the
20 bottom of this financing agreement on the Farm Show, or the
21 farm complex.

22 I'd like to read a quote from the
23 Constitution. The State Constitution of Pennsylvania
24 defines debt as "the issued and outstanding obligations of
25 the Commonwealth and shall include obligations of its

1 agencies or authorities to the extent they are to be repaid
2 from lease, rentals, or other charges payable directly or
3 indirectly from revenues of the Commonwealth."

4 So how can it be said at this point that the
5 repayment requirements do not constitute constitutional
6 debt?

7 SECRETARY ALBRIGHT: They constitute a future
8 contractual obligation of the Commonwealth.

9 And I understand we have a disagreement. We
10 may -- or we have different policy views in how we should
11 have paid for and balanced the budget that we all agreed
12 last year with overwhelming majorities in the general
13 assembly was the appropriate amount of money to spend. We
14 would have preferred to adopt a severance tax. That was
15 clearly our preferred alternative. That was not the
16 decision of the general assembly.

17 Alternatively, the general assembly gave to
18 us the unfettered authority to identify transfers, one-time
19 transfers, if you will, from funds and accounts in the
20 Commonwealth to balance fully the budget. And this was one
21 of those steps that, in the end, we took.

22 Reluctantly, we would have much preferred a
23 severance tax, but that was the decision that we then made.

24 REPRESENTATIVE JAMES: I'd like to change the
25 course here just for a moment and move over to an issue that

1 has developed in the last six months with one of our
2 departments, DCNR.

3 There was a -- there were two instances of
4 borrowing through PENNVEST to an outfit called Lyme Timber
5 Management Organization. And it included 67, a little over
6 67,000 acres of Pennsylvania soil. And in a way, Lyme
7 Management is a private enterprise. And that keeps the land
8 on the books tax-wise. However, there's a question about
9 how they will proceed down the road managing their forests.
10 And they received an exceptional interest rate of only
11 one percent to, I believe it was a period of 10 years. So
12 we are paying out four percent on the Farm Show complex, we
13 are charging preferred companies only one percent. I have a
14 little problem with that.

15 But it's unclear at the end of the 10 years
16 what Lyme Timbers' obligations will be. And at this point,
17 it appears that public lands constitute maybe 75 percent of
18 the Commonwealth of Pennsylvania. Agencies of the state
19 already own upwards of about a fourth of our land mass. It
20 seems to me that we ought to be doing the exact opposite.
21 Instead of accumulating land mass, we should be trying to
22 get it back in the hands of the public.

23 Were your budget folks aware of this
24 situation? And do you think that PENNVEST did the
25 appropriate thing?

1 Governor's original budget proposal for 2017-2018, I think
2 he had proposed a, you know, Farm Show lease and a severance
3 tax both, is my recollection. Weren't those both proposed
4 in his original budget?

5 SECRETARY ALBRIGHT: Yes.

6 REPRESENTATIVE ROAE: Okay. So when you say
7 that you would have preferred, you know, not do a Farm Show
8 lease, that's kind of not the same as what the
9 Administration was saying. And when you helped put that
10 proposal together, it sounds like you preferred to do a Farm
11 Show lease and a severance tax. So I'm not sure how that
12 got to, you preferred not to do a Farm Show lease, when that
13 was in the budget proposal that you wrote.

14 But my question -- I have two questions.
15 One, do you think the Governor, Governor Wolf, will either
16 sign the main budget bill this year, the general
17 Appropriations bill, if he agrees with it, or veto the main
18 budget bill, the general Appropriations bill, if he
19 disagrees with it? Because of the enacted budgets since
20 Governor Wolf became Governor, he did not sign or veto the
21 final budget in 2015, he didn't sign or veto the final
22 budget in 2016, and he didn't sign or veto the final budget
23 in 2017. If my recollection is correct, he's never signed
24 the budget.

25 I mean, he says he increased funding for

1 schools, he increased funding for all of these other things,
2 but he's never actually signed a general Appropriations
3 bill. Do you think he'll actually sign it this year if he
4 agrees with it, or do you think he'll just veto it if he
5 disagrees with it or do you think he'll let it sit on his
6 desk for 10 days like he always does?

7 SECRETARY ALBRIGHT: It is our hope that we
8 sign an agreed-to negotiated budget plan. And it is our
9 hope that we even are able to adopt that plan not only on
10 time, but early.

11 You know, we just met earlier this week with
12 the four Appropriations chairs. We've set a course to
13 possibly get a budget done, again, not just on time, but
14 early. And it's our hope to work with the general assembly
15 to accomplish that this year.

16 REPRESENTATIVE ROAE: Well, I hope that
17 happens because, you know, a lot of the public, they expect
18 legislators to vote "yes" on bills we agree with and vote
19 "no" on bills we disagree with. And I think they expect a
20 Governor to sign a general Appropriations bill he agrees
21 with, or if he doesn't agree with the general Appropriations
22 bill, they expect him to veto it. Very, very few people
23 would expect a Governor just to let a bill sit on his desk
24 for 10 days collecting dust.

25 As far as negotiations and agreed-to budgets

1 and things like that, was the Governor involved with the
2 budget negotiations last year?

3 SECRETARY ALBRIGHT: The Governor, for the
4 Administration, the Governor is involved and directs our
5 side of the process.

6 You know, as I've said earlier today and as I
7 try to say often, you know, we often focus on the discord,
8 we focus on the areas that we disagree about. We prefer to
9 focus on what the end product is and the results, positive
10 as they may be, of those actions.

11 REPRESENTATIVE ROAE: Wait, I apologize.
12 They don't give us that much time to ask questions.

13 As far as like the budget negotiations last
14 year, did the Governor go to budget negotiation sessions
15 last year?

16 SECRETARY ALBRIGHT: The final budget
17 agreements and at the key moments of decision, most often it
18 was trips of your leadership to his office and personal
19 conversations with him. Frankly, to divulge all
20 information, those are conversations that sometimes he alone
21 has. But he ultimately, for the Administration, decides
22 budget policy for our Commonwealth.

23 REPRESENTATIVE ROAE: Now, like when there's
24 budget meetings, when people like the speaker is present or
25 the Appropriations chair of the House or the majority leader

1 or people like that, is the Governor usually present at 100
2 percent of those types of meetings or 50 percent or
3 25 percent? How many of those does he actually attend,
4 usually?

5 SECRETARY ALBRIGHT: The Governor, as you
6 might expect the Chief Executive to be, is the closer. So
7 ultimately, when the final decisions are made, when the
8 final agreements, when the handshakes take place, they
9 normally take place in his office.

10 REPRESENTATIVE ROAE: So he skipped most of
11 the other meetings, the high level meetings?

12 SECRETARY ALBRIGHT: The Governor doesn't
13 skip anything.

14 REPRESENTATIVE ROAE: Sounds like he does.

15 SECRETARY ALBRIGHT: He is physically present
16 when that's appropriate. When it's appropriate for staff to
17 do work at his direction, then that's how it's carried out.

18 REPRESENTATIVE ROAE: So in a lot of these
19 budget meetings, if the senior leadership staff from the --
20 not staff, the senior leaders from the House and the senior
21 leaders from the Senate are present, the Governor is not
22 present also, you're present or some other staff person is
23 present?

24 SECRETARY ALBRIGHT: Budget negotiations
25 involve many different interactions, shuttle diplomacy, if

1 you will, conversations that the two Republican Caucuses may
2 have that don't include any Democratic members of the
3 general assembly or the Administration. They may be mix and
4 match, any combination to, throughout the budget season, get
5 to a consensus, find common agreement, conversation meetings
6 are necessary in many different ways through many different
7 theaters. It's tough work. And the Governor often, you
8 know, to his own staff, tells us "compromise particularly in
9 times of divided government is difficult, but it's
10 compromise that we need to engage in to get to a final, and
11 productive, for the Commonwealth, result."

12 REPRESENTATIVE ROAE: All right. Well, thank
13 you for your vague answers, sir.

14 SECRETARY ALBRIGHT: Thank you.

15 MAJORITY CHAIRMAN SAYLOR: Representative
16 Delozier.

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

19 I just have some follow-up questions on two
20 of the issues that you had hit on real quick.

21 We talked a little bit about the work
22 requirement with House Bill 59 that did not go through. But
23 just the issue in and unto itself, you had mentioned that it
24 was, in your opinion, it was bad public policy with the work
25 requirement. But we have the work requirement for SNAP and

1 TANF, as well. And in talking to the DGS Secretary, she had
2 said that there's about 900,000 people in Pennsylvania that
3 are on medical assistance and about half of them work, have
4 a job. And I'm talking about able-bodied, so nothing to do
5 with anybody that has a disability or anything like that.

6 So what I'm just trying to get an
7 understanding of is, you had said that you felt it was bad
8 public policy. Why is that, if we also do a requirement for
9 two other of the services?

10 SECRETARY ALBRIGHT: The couple of things I
11 said, again, to recap, first and foremost, we don't want to
12 take away health care benefits from anyone. In fact, we
13 want to do everything we can to continue to provide quality
14 health care to everyone, all residents of the Commonwealth.
15 So particularly any work search or work requirements
16 attached to the receipt of quality health care is not what
17 we believe to be the appropriate public policy if there
18 would be punitive steps to deny people of that health care.

19 REPRESENTATIVE DELOZIER: Okay. And I
20 understand that. But can I --

21 SECRETARY ALBRIGHT: But --

22 REPRESENTATIVE DELOZIER: I'm sorry, I do
23 have a short time frame.

24 So we understand that you feel it's -- you
25 don't want to take health benefits away and we don't want to

1 do that either because we want a healthy Pennsylvania. But
2 I guess what I'm trying to, public policy-wise, you know,
3 the Governor does support the We Can Movement with the ID,
4 those with intellectual disabilities, and we agree on that.
5 We wholeheartedly want them to have that pride in themselves
6 to be able to be in the workforce.

7 So I guess those two policies to me kind of
8 clash in the sense that we want them and we're encouraging
9 businesses to hire those with disabilities, but then we have
10 also on another side, we have able-bodied individuals that
11 we don't have that push for. So to me, those two public
12 policies are clashing in what our objective is, to have
13 folks in the workplace and have pride in themselves.

14 SECRETARY ALBRIGHT: We already, you know,
15 spend significant dollars and take significant steps each
16 year to work with public assistance recipients to help
17 transition them to the workforce. We certainly want to
18 continue and improve those efforts as we go forward.

19 You were asking, I thought, specifically
20 about the Governor and his veto of the language in
21 legislation that was included last year. And I think I've
22 already explained why we thought that was not appropriate
23 public policy.

24 REPRESENTATIVE DELOZIER: No, absolutely.
25 Like I said, there are two public policies that are proposed

1 by the Administration, but they seem to kind of go in
2 different directions.

3 But -- and one last question I had is, you
4 had mentioned in the conversations with the lease, quickly,
5 just yes or no, will they -- or I guess this isn't a yes or
6 no, but the legal interest that MRE will have, since it's a
7 contract, will they have ownership in the Farm Show?

8 SECRETARY ALBRIGHT: No.

9 REPRESENTATIVE DELOZIER: Okay. Well, there
10 it was. It was a yes or no. Okay. Thank you.

11 So they will not have ownership, but if it's
12 a lease-leaseback, will they be a lessor or lessee in the
13 contract?

14 SECRETARY ALBRIGHT: They will be a
15 contracted -- we have a contractual obligation with them.

16 REPRESENTATIVE DELOZIER: No, no, no, I
17 understand that because it's a contract in and of itself,
18 because we have the 29-year payment. But will they have,
19 will they be leasing space in the Farm Show?

20 SECRETARY ALBRIGHT: They are not leasing
21 space in the Farm Show. We've tried to wall off so that
22 they have no operational control over the operations of the
23 Farm Show.

24 REPRESENTATIVE DELOZIER: Okay.

25 SECRETARY ALBRIGHT: There is a contractual

1 obligation for which they have already paid the Commonwealth
2 a \$200 million payment and we are now, we have a contractual
3 responsibility to --

4 REPRESENTATIVE DELOZIER: To pay that. Okay.

5 SECRETARY ALBRIGHT: -- repay over a period
6 of 29 years.

7 REPRESENTATIVE DELOZIER: Okay. So their
8 only obligation in this contract is simply to receive the
9 interest payment and provide the \$200 million up front,
10 correct? Am I understanding?

11 SECRETARY ALBRIGHT: They have already
12 satisfied their obligation --

13 REPRESENTATIVE DELOZIER: No, I understand
14 that. I totally understand that.

15 SECRETARY ALBRIGHT: -- to transfer the money
16 to us. And now we have the ongoing contractual obligation
17 to, over the course of 29 years, you know, pay, make annual
18 payments to them.

19 REPRESENTATIVE DELOZIER: Okay. So what they
20 get out of it is simply the interest. Okay.

21 Thank you very much.

22 MAJORITY CHAIRMAN SAYLOR: Representative
23 Dunbar.

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

1 Good afternoon.

2 SECRETARY ALBRIGHT: I haven't looked at my
3 watch --

4 REPRESENTATIVE DUNBAR: It's after that.

5 SECRETARY ALBRIGHT: -- but maybe we have
6 gotten there.

7 REPRESENTATIVE DUNBAR: We have.

8 Again, going back to some conversations we've
9 had in the last couple of weeks with Secretary Rivera, we
10 had some discussions about Educational Access programs. And
11 I was kind of curious of a line item that was sitting at
12 about seven, eight million a couple of years ago. And we
13 increased it in '16-'17 to \$23 million to cover a
14 \$14 million payment to Erie.

15 SECRETARY ALBRIGHT: Right.

16 REPRESENTATIVE DUNBAR: I was kind of curious
17 as to why the Governor's proposal had it still at
18 \$23 million if we don't have to pay Erie anymore. I thought
19 it was an area that we could actually look to save some
20 dollars.

21 SECRETARY ALBRIGHT: This is an area, and
22 where that final appropriation lands is probably an unknown
23 at this point as we begin to engage in conversations.

24 The whole issue of distressed school
25 districts and providing additional financial aid to

1 districts beyond what we provide in the normal basic ed,
2 special ed, early learning and other operational
3 appropriations, you know, is an ongoing challenge for us.

4 You know, part of the reason and in large
5 part why we have prioritized with tight budgets as they are,
6 increasing the basic ed and the special ed spend over the
7 last couple of years and why that's been such a priority is
8 because we still do think we need to make significant
9 forward steps to fully provide for an equitable and adequate
10 school funding system. We can't, you know, get there in one
11 fiscal year. It's going to take many more years of
12 sustained increased appropriations.

13 The Education Access Line is, if you will, a
14 band-aid for a small handful of districts that have fiscal
15 challenges, that aren't met just with the increases we've
16 been able to provide. This is the mechanism that we provide
17 that assistance.

18 And you mentioned the Erie School District in
19 particular. There are a couple of other school districts
20 that are on our watch list, so to speak --

21 REPRESENTATIVE DUNBAR: Okay. So you do have
22 some that you feel may be identified? Because I've seen
23 payments out of that line item that weren't solely for
24 distressed school districts.

25 SECRETARY ALBRIGHT: So, again, I want to say

1 "thank you" to the general assembly. I want to be
2 appreciative of the work that you've been willing to do with
3 us to provide targeted aid to some of those districts as
4 they continue to get their fiscal houses in order.

5 Look, we hope to get to a day -- and if we
6 can continue to provide that sustained increased support to
7 local school districts over the course of the next several
8 years, we would hope to get to the moment where that line
9 item is not necessary at all. That would be our goal.

10 REPRESENTATIVE DUNBAR: I would hope that
11 that would be the case. And I'm not certain if I would
12 allocate funds for potentially distressed school districts,
13 if we don't have them identified already. If we are going
14 to increase -- especially because we've reduced the
15 \$14 million payment already, I would rather see that money
16 somewhere else.

17 Shifting gears just briefly. I do agree with
18 you that your goal was to have a severance tax and that
19 would have been something you would have preferred to see.
20 And we did provide you unfettered access to decide what
21 special fund to pull the money from. I agree with you
22 wholeheartedly on that. I just want to know, do you feel
23 that there were no other special funds that you could have
24 transferred the money out of?

25 SECRETARY ALBRIGHT: We did, and in the list

1 that we provided to you already, tentative as it may be, and
2 we'll complete that list, you know, before the end of the
3 fiscal year, as well --

4 REPRESENTATIVE DUNBAR: But there was a
5 \$300 million transfer, and \$200 million is coming from one
6 thing. There were a lot of other funds there. I'm just
7 curious as to, you didn't -- like, even going forward, do
8 you have no interest in looking at these special funds?

9 SECRETARY ALBRIGHT: We will continue to
10 monitor those special funds. You know, we have done, where
11 we think surplus revenue exists, transfers in the past.

12 I think it's also important to make a
13 distinction here between excess or surplus revenue available
14 in those funds beyond the obligations to fully fund the
15 special purposes that were already established for those
16 funds.

17 Now, we can have a conversation about maybe
18 wanting to redirect spend in the future that was intended
19 for that designated purpose and redirect it for the general
20 fund or some other purpose. But that's not what we were
21 talking about here for the current fiscal year. We were
22 talking about actual surplus funds that were available, that
23 were not necessary to maybe meet the obligations of whatever
24 special purpose was already prescribed within those dollars,
25 and the basis for which the revenue was collected to support

1 those special funds.

2 REPRESENTATIVE DUNBAR: Because I do know we
3 spent a great deal of time pouring through all these
4 different special funds. And although I wasn't a huge
5 supporter of the idea of the \$1.2 billion -- we've had that
6 discussion in the past -- I do feel there may have been
7 alternatives other than where we landed, so...

8 SECRETARY ALBRIGHT: You know, I just think
9 from a blanket policy perspective going forward to the
10 extent we can, we want to continue the fiscal progress that
11 we've been making. We want to restore -- or rely, excuse
12 me -- as we go forward to balance each year's budget with
13 real recurring revenue. And that's the real and the right
14 answer. We've made substantial progress towards that goal,
15 and hopefully, that progress continues so in future fiscal
16 years, we don't have to have this kind of conversation.

17 REPRESENTATIVE DUNBAR: And I won't disagree
18 with you, but I will say this, that I believe there's two
19 sides to that equation, that you do need recurring revenues,
20 but also, you could always look at evaluating your cost
21 structure and where you're spending dollars, as well.

22 SECRETARY ALBRIGHT: Absolutely. We agree
23 with that. We want to work with you to, again, continue to
24 make progress in that area. You know, the \$2 billion in the
25 current fiscal year speaks for itself. But look, that's an

1 ongoing effort that we need to be good partners with you to
2 continue to make progress on.

3 REPRESENTATIVE DUNBAR: Thank you, Secretary.

4 SECRETARY ALBRIGHT: Thank you.

5 MAJORITY CHAIRMAN SAYLOR: Representative
6 Heffley.

7 REPRESENTATIVE HEFFLEY: Thank you.

8 And I just want to kind of shift gears and
9 get away from the whole Farm Show sale and just talk a
10 little bit about issues that we can agree on. And I do see
11 in the Governor's budget, some of the funding -- and sitting
12 here all week, I just want to say that this is my first year
13 on Appropriations and it is a fascinating experience going
14 through these hearings and really seeing where the focuses
15 are. And one of the things we heard from early on was DCED
16 and talking about the need for skilled workers and wanting
17 to get more people into the technical and trades. I see
18 there's some money in that. And I would also say that it
19 would be great if we could get some of those Medicaid
20 recipients into those jobs, as well, because there is a
21 need. We are hearing from that. And I think those work
22 requirements, while we can deal with whether somebody should
23 be working or not, but I think when we hear from employers
24 that there is a need for valued employees in the workforce,
25 that we should be looking at those opportunities.

1 And I wanted to just ask a question about the
2 career and technical education, and there was an increase, I
3 believe, of about \$50 million in that line item, which I
4 mean --

5 SECRETARY ALBRIGHT: That's correct.

6 REPRESENTATIVE HEFFLEY: -- one of the things
7 that we've heard is the need for this and I think it needs
8 to be a shifting of looking at, you know, career and
9 technical. But with that \$50 million, and my understanding
10 is how -- the funding formula right now that's in place
11 would not be able to handle driving that money out.

12 What is that money geared towards? Is that
13 all geared towards, you know, K-12 or is this money looking
14 at doing anything else? Because historically, in that line
15 item, it was all geared towards like high school-type
16 education.

17 SECRETARY ALBRIGHT: There is a \$10 million
18 recommended funding increase through the formula to
19 distribute funds to career technology centers throughout the
20 Commonwealth that operate at the secondary level.

21 We certainly agree with some of the targeted
22 audiences, if you will, that we want to direct some of these
23 training resources to. I would add to that list. And
24 again, part of the Governor's listening tour, the middle
25 class task force effort that was completed last fall, you

1 know, would certainly want to target these resources in some
2 ways, too, to assist offenders coming out of state and local
3 institutions to help them find real careers and end the
4 recitivism cycle of returning to prison. But the --

5 REPRESENTATIVE HEFFLEY: I guess I would just
6 ask a question. I mean, so you're saying that taking out
7 the 10 million, that 40 million would be geared towards
8 educating people that were incarcerated, as they come out?

9 SECRETARY ALBRIGHT: Actually --

10 REPRESENTATIVE HEFFLEY: I mean, I'm all for
11 retraining, getting people out there. But I'm just -- I
12 guess my concern is when we see these increases, is that
13 money being driven out through the formulas, that it's going
14 to be impactful and that we're going to see that spread out
15 throughout the Commonwealth and not for one particular
16 program and one particular area? Because I can tell you
17 that, I mean, kids that are coming out of career and tech
18 schools out of high school are getting really good paying
19 jobs, and I'd like to see that emphasis. So I want to see
20 if that money is going in there. I'd like to see exactly
21 how that's focused to be driven out.

22 SECRETARY ALBRIGHT: Well, the \$10 million
23 that's directed through the formula is in addition to the
24 \$50 million that I talked about for PAsmart. It's at all
25 levels, to answer the question, the earlier question, about

1 where those funds would be focused. I talked already, I
2 think, earlier about wanting to target at least \$10 million
3 of these resources to higher education providers,
4 principally our community college network.

5 We want this more than anything to be a work
6 in progress with the general assembly, to work with you to
7 figure out the most advantageous ways to direct these
8 resources, to make sure they're tailored to actual workforce
9 needs, consistent with real jobs and initiatives to grow
10 employment here in the Commonwealth.

11 And I would welcome, you know, particularly
12 given your interest, specific recommendations you would have
13 from you and your caucus and your leadership on the best
14 ways to prioritize these investments.

15 REPRESENTATIVE HEFFLEY: Okay. I guess to
16 follow up on what you had said there, so -- I mean, I'm all
17 for community colleges and I see that in that line item
18 level fund and there was a slight increase in the transfers
19 to the capital fund for community colleges. So why would
20 that 50, why would that money be put in the career and
21 technical education line for -- you're saying that's
22 something that would go towards community colleges?

23 SECRETARY ALBRIGHT: (No response.)

24 REPRESENTATIVE HEFFLEY: I mean, I think
25 there's some collaboration and I'm a huge supporter of the

1 community colleges and the technical schools and
2 collaboration -- and I see my time is almost up, but I would
3 like to kind of expand upon that going forward, so we can
4 direct the resources to where young people are going to be
5 able to get a solid education that's going to provide them
6 with a really good job. So --

7 SECRETARY ALBRIGHT: So to be fair to you and
8 your time, let me just again emphasize, we happily want to
9 work with you to do that.

10 REPRESENTATIVE HEFFLEY: Thank you.

11 MAJORITY CHAIRMAN SAYLOR: Representative
12 Grove.

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

15 Good afternoon, Randy. How are you?

16 SECRETARY ALBRIGHT: Good afternoon,
17 Representative. How are you?

18 REPRESENTATIVE GROVE: Doing well.

19 SECRETARY ALBRIGHT: Rested and ready, I
20 suppose.

21 REPRESENTATIVE GROVE: Yes.

22 Question one, so the Governor closed the
23 Capitol yesterday. What was the total cost of that action,
24 both to taxpayers and the economy? I had a tractor-trailer
25 truck that got grounded, could have made it to northeastern

1 Pennsylvania and back before any inclement weather hit, and
2 they couldn't go because of the Governor's declaration. So
3 do you know the cost?

4 SECRETARY ALBRIGHT: I would have no idea,
5 you know, about incurred costs for the most part. You know,
6 I don't think there are any. But you know, anecdotally
7 you've already provided an example of an instance where that
8 may have been the case. We can go try to take a look at
9 that along with, you know, maybe the cost of snow removal
10 efforts, if you will.

11 REPRESENTATIVE GROVE: Well, I mean, we
12 didn't have any snow here in the Capitol. So there was any
13 cost of snow removal. I'm just curious about the employees
14 not being here. What was that cost?

15 SECRETARY ALBRIGHT: We didn't have snow here
16 in the Capitol. Let's remember we have a workforce that
17 travels.

18 REPRESENTATIVE GROVE: Well, I know, but he
19 closed the Capitol. We were here, but no one else of the
20 executive branch was here and they could have been in. I
21 mean, it was a 12-hour closure without any snow. I mean --
22 but we'll move on.

23 So the plan to sell the Farm Show, when the
24 bill becomes due, what is the total price tag that's going
25 to be incurred by taxpayers for that?

1 SECRETARY ALBRIGHT: Roughly speaking, about
2 13 and a half million in annual payments over the 29-year
3 lease.

4 REPRESENTATIVE GROVE: How do you plan on
5 paying for that?

6 SECRETARY ALBRIGHT: Pardon?

7 REPRESENTATIVE GROVE: How do you plan on
8 paying for that?

9 SECRETARY ALBRIGHT: Well, that will be, that
10 will have to be funded within the -- as proposed --

11 REPRESENTATIVE GROVE: But we didn't do it.
12 You did it. How are you funding that?

13 SECRETARY ALBRIGHT: As the, you know,
14 proposed --

15 REPRESENTATIVE GROVE: Is it coming out of
16 your budget?

17 SECRETARY ALBRIGHT: There is no cost. Those
18 payments begin in the '19-'20 fiscal year, not in the
19 '18-'19 fiscal year.

20 REPRESENTATIVE GROVE: So you're going to pay
21 that out of your budget next year?

22 SECRETARY ALBRIGHT: That will have to be
23 funded on --

24 REPRESENTATIVE GROVE: Are you willing to
25 fund that out of your budget next year?

1 SECRETARY ALBRIGHT: It will have to be
2 funded out of the general fund operating budget.

3 REPRESENTATIVE GROVE: No, no. I don't think
4 the taxpayers should be on the hook for your unilateral
5 actions of selling the Farm Show.

6 SECRETARY ALBRIGHT: Well, we've talked
7 extensively throughout the hearing about the fact that those
8 were not unilateral actions. They were done with statutory
9 authority.

10 REPRESENTATIVE GROVE: I'm pretty sure you
11 did that by yourself. What state law asked you to sell the
12 Farm Show?

13 SECRETARY ALBRIGHT: And let me correct the
14 record, if I may. There was a question earlier about
15 whether we can undo the transaction.

16 REPRESENTATIVE GROVE: Well, you signed a
17 contract. You're doing to get sued now because you
18 unilaterally did it.

19 SECRETARY ALBRIGHT: There is, you know,
20 after 10 years, there is a buyout clause if we want to end,
21 if we want to end the transaction.

22 REPRESENTATIVE GROVE: Are you going to buy
23 it out with your appropriation?

24 SECRETARY ALBRIGHT: That is --

25 REPRESENTATIVE GROVE: How about the

1 Governor's appropriation?

2 SECRETARY ALBRIGHT: That is a decision that
3 the general assembly will have to make.

4 REPRESENTATIVE GROVE: Well, it's your
5 decision. You did it.

6 SECRETARY ALBRIGHT: That's a decision --

7 REPRESENTATIVE GROVE: We didn't do it.

8 SECRETARY ALBRIGHT: That's a decision the
9 general assembly will have to make in 10 years. I'm not --

10 REPRESENTATIVE GROVE: All right. Let's move
11 on. The --

12 SECRETARY ALBRIGHT: I don't want to forecast
13 whether I will be the Budget Secretary at that point, but I
14 think I will not be.

15 REPRESENTATIVE GROVE: Okay. So recently
16 DGS, I think it was January, did a regulation to increase
17 the MCO assessment, correct?

18 SECRETARY ALBRIGHT: Correct.

19 REPRESENTATIVE GROVE: Where is that money
20 being spent? Because that was an increase.

21 SECRETARY ALBRIGHT: That money will offset
22 the cost of our capitation program going forward, so the
23 taxpayers will not have to incur that additional cost.

24 REPRESENTATIVE GROVE: Just MA capitation or
25 throughout all of the capitated line items? Is it --

1 SECRETARY ALBRIGHT: It's a single medical
2 assistance capitation line item.

3 REPRESENTATIVE GROVE: Just that one line
4 item? Okay.

5 And then there's some one-timers you have
6 built in, about 825 million; is that correct, within the DHS
7 budget, a GRT, money sitting there, some other things? Is
8 that correct?

9 SECRETARY ALBRIGHT: There are multiple, a
10 whole array of other, both whether they're federal funds or
11 assessments or other revenue mechanisms, to offset the cost
12 of taxpayers.

13 REPRESENTATIVE GROVE: There's some
14 one-timers in there. There's an MCO, GRT, if I'm not
15 mistaken, some other ones, is that accurate, within DHS?

16 SECRETARY ALBRIGHT: There is a final year of
17 gross receipts tax payments.

18 REPRESENTATIVE GROVE: Okay.

19 SECRETARY ALBRIGHT: We transitioned to a new
20 system for the MCO assessment away from --

21 REPRESENTATIVE GROVE: So there's hangover,
22 but is that going to a specific --

23 SECRETARY ALBRIGHT: Correct. So --

24 REPRESENTATIVE GROVE: My question is, is
25 that going to a specific line item or multiple line items?

1 SECRETARY ALBRIGHT: You are correct in that
2 case that that revenue that we will receive in the '18-'19
3 fiscal year won't recur.

4 REPRESENTATIVE GROVE: Okay. Final question,
5 our House leadership, and many of them are on the record,
6 said, the current fiscal year budget closed out last year's
7 budget, funds this year's budget, and will fund next year's
8 budget without any new revenue. Do you agree with that
9 assessment?

10 SECRETARY ALBRIGHT: Well, I think we've
11 proposed our budget plan for the '18-'19 fiscal year as we
12 believe it should be funded. It does include a proposed
13 severance tax, but that's the only new revenue option beyond
14 the -- if you want to consider it proposed municipal fee for
15 state police services.

16 REPRESENTATIVE GROVE: Okay. Thank you.
17 Thank you, Mr. Chairman.

18 SECRETARY ALBRIGHT: Thank you.

19 MAJORITY CHAIRMAN SAYLOR: Representative
20 Quinn.

21 REPRESENTATIVE QUINN: Hi, over here. Thank
22 you very much.

23 I'm going to go back, well, go back from the
24 other day with regard to IT. You had some consolidations,
25 we've heard about that. In looking at the Governor's budget

1 for the executive offices, Commonwealth technology services,
2 there's an appropriation and then an additional, or in
3 addition to the requested 55.832 million state
4 appropriation, there's two augmentations, the integrated
5 enterprise system augmentation of 38.424 million and the
6 shared service delivery augmentation of 167 million and
7 change.

8 Could you explain the reason for the
9 augmentations and the source of those funds?

10 SECRETARY ALBRIGHT: You know, we have tried
11 to take a step back for a second. Part of the, you know,
12 cost savings efficiency initiatives to, one, make sure that
13 maybe we could even have improved or more focused IT
14 investments and initiatives going forward, as well as real
15 cost savings and some complement reductions, was to
16 consolidate all of our IT functions along with, or among,
17 within six agency hubs across the Commonwealth. That has,
18 in fact, allowed us to reduce complement. We've done the
19 same thing with HR services as part of that initiative.

20 We talked a little bit about transparency
21 earlier, too. It allows now, and we, I think, provided
22 information to the committee to show how all of those IT
23 investments total across all agency programs with oversight
24 now through our Office of Administration.

25 REPRESENTATIVE QUINN: Okay.

1 SECRETARY ALBRIGHT: In the context of that
2 total IT spend that now totals more than a billion dollars
3 annually, we've been able to reduce that total spend
4 annually for each of the last three years below a high in
5 the '14-'15 fiscal year, we hope to continue to manage down
6 those IT costs in the future.

7 But the offsets or augmentations that you
8 allude to are all simply part of that financial management
9 process.

10 REPRESENTATIVE QUINN: The general assembly
11 does not, it does not appear to me that we have a voice in
12 those augmentations. So where do the funds come from?

13 And then in terms of when the augmentations
14 are made -- I just saw you raise your eyebrows, so maybe I'm
15 not being clear.

16 SECRETARY ALBRIGHT: Yeah. I mean, I'm not
17 sure -- I mean, sometimes those are sometimes to account for
18 how we fully fund that spend. Now, while we've consolidated
19 in six agency hubs the operational expenditures, we still
20 bill back to the departments the costs of those services for
21 which the agencies benefit. So that can be part of the
22 explanation.

23 Part of it, obviously, can be other funds
24 that are generated --

25 REPRESENTATIVE QUINN: You just touched on my

1 next question.

2 SECRETARY ALBRIGHT: -- to offset those
3 costs.

4 REPRESENTATIVE QUINN: Thanks. Clairvoyant.
5 I see through the different agencies'
6 budgets, they're still allowing for IT charges, so then,
7 that's what you do? You bill back to them?

8 SECRETARY ALBRIGHT: Yes.

9 REPRESENTATIVE QUINN: Can you provide a list
10 of the agencies and expenses?

11 SECRETARY ALBRIGHT: I believe we already did
12 that. But if there's more information that we can provide
13 and -- we will do so.

14 And let me just say operationally, for your
15 benefit, and maybe to, again, something that we spoke about
16 earlier, to hopefully even get an early resolution to the
17 budget this year, we're going to again, as we did last year,
18 do an early budget, or an early rebudget, excuse me, and ask
19 agencies -- particularly in the IT area, as we're
20 transitioning to, the organizational structure with the six
21 hubs that are providing those services -- make sure that
22 we're consistently apportioning costs and accounting for
23 expenditures across the agencies in the same way. So when
24 we have additional information or clarification to provide,
25 we'll provide it to the committee.

1 REPRESENTATIVE QUINN: Okay. Thanks.

2 And when we get those costs, can you please
3 make sure that it also includes the purpose of the billing,
4 as opposed to just a raw number?

5 SECRETARY ALBRIGHT: Sure.

6 REPRESENTATIVE QUINN: Thank you very much.

7 MAJORITY CHAIRMAN SAYLOR: Representative
8 Kinsey.

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

11 Mr. Secretary, I just want to be clear for
12 folks who may not understand -- some folks may be watching
13 this committee on television and may not necessarily be
14 clear on the process as it relates to the passage of a
15 budget here in the Commonwealth of Pennsylvania.

16 So just so that I'm clear -- and please I'm
17 going to ask you to correct me and/or add to this. The
18 basic outlay is that the Governor proposes a budget plan
19 based on information that he receives from the secretaries
20 of the various departments. Is that how the process starts
21 in most cases?

22 SECRETARY ALBRIGHT: Yeah. We actually start
23 our budget process now in August. We do it with individual
24 meetings with every agency. There are budget instructions
25 and program policy guidelines that are not just provided to

1 the agencies, but we share them publicly and provide them to
2 you in the general assembly. From that process, agencies
3 then prepare proposed spending plans from the agency's
4 perspective, but hopefully, consistent with that policy and
5 program direction. Then we as a Budget Office take those
6 agency requests.

7 As I alluded to earlier, we try to, with each
8 successive year, spend more time reaching out, consulting,
9 sitting down with your chairmen, with your members in the
10 general assembly, to solicit your input and recommendations.
11 And through all of that process, we then formulate the final
12 proposed plans that are part of the Governor's final
13 proposed budget.

14 REPRESENTATIVE KINSEY: Sure. So after you
15 solicit our ideas for the spending plan, then the general
16 assembly basically negotiates -- and I'm just going to use
17 terms as I foresee it -- the general assembly negotiates,
18 debates, and then can alter the Governor's original spending
19 plan. And then we in turn, the general assembly, decides to
20 pass a budget bill; is that correct?

21 SECRETARY ALBRIGHT: That's correct.

22 REPRESENTATIVE KINSEY: Okay. So then after
23 the general assembly does the negotiating, the debates, and
24 the alterations of the Governor's plan, the general assembly
25 votes to pass a budget. And then it's sent back to the

1 Governor after the general assembly goes through that
2 process of the negotiating and so forth; is that correct?
3 Then the Governor, based on what is sent back to the
4 Governor, has the power to either veto, sign, or let it
5 lapse into becoming law; is that correct with the process of
6 how the budget is basically rolled out?

7 SECRETARY ALBRIGHT: That is correct.

8 REPRESENTATIVE KINSEY: All right.

9 I just wanted to have that clearly explained
10 to our listeners, that there's vested interests from all
11 parties involved. It's not just the Governor, but also, we
12 as the general assembly also have input into the process of
13 the spending budget that impacts the constituents of this
14 Commonwealth. So I just wanted you to -- I wanted to make
15 sure that I was clear on that so that way our listeners can
16 understand that this is a process that's a shared process by
17 all of us that have been elected by our constituency to
18 ensure for the health, safety, growth of the constituents of
19 this Commonwealth.

20 So thank you very much, Mr. Secretary.

21 Thank you, Mr. Chairman.

22 SECRETARY ALBRIGHT: Thank you.

23 MAJORITY CHAIRMAN SAYLOR: Representative
24 Santora.

25 REPRESENTATIVE SANTORA: Again, I know it's

1 been a long morning into the afternoon now, and thank you
2 for being here and answering these questions.

3 On the education front, the Governor has a
4 \$100 million in the BEF. The first 14 million of that gets
5 taken out and goes to Erie. There's 86 million left. Is
6 Erie included in that 86 million, as well, under the funding
7 formula?

8 SECRETARY ALBRIGHT: Erie -- the additional
9 14 million provided in the current fiscal year through the
10 education access line will now be rolled up and is in
11 addition to Erie's entitlement under the fair funding
12 formula. It's a one-time adjustment to their base.

13 So, yes. It is included. You know, included
14 in that \$100 million increase is the need to fund a
15 \$14 million base increase for --

16 REPRESENTATIVE SANTORA: That's only one
17 time?

18 SECRETARY ALBRIGHT: -- for the Erie School
19 District. That's a recurring adjustment, then, to their
20 base. So each year --

21 REPRESENTATIVE SANTORA: I got you, but this
22 year, it's coming out of the increase?

23 SECRETARY ALBRIGHT: This year it's coming
24 from the education access pot. In the '18-'19 fiscal year,
25 it will come directly from the basic education subsidy.

1 REPRESENTATIVE SANTORA: And can you explain
2 a little more to me so I have a better understanding, and my
3 constituents, quite frankly, have an understanding of what
4 this \$14 million is for?

5 SECRETARY ALBRIGHT: It literally is
6 necessary to meet the financial obligations for the
7 operations of the school district. They will have to take
8 other steps to, like other distressed school districts,
9 manage their operations effectively in coming years, so that
10 they're able to now, with that one-time adjustment, keep
11 their annual expenditures in balance with available
12 revenues.

13 As you know, or may remember, we had to do
14 the same thing a couple of years ago for the Chester Upland
15 School District. You know, we hope these are the outliers
16 and the exceptions. And again, you know, to us --

17 REPRESENTATIVE SANTORA: I do understand
18 that. And so Erie is going to end up with a 1.2 million
19 increase, as well, on top of the 14 that's their base, as
20 you're calling it.

21 My concern is I have a school district, I
22 have two school districts that struggle themselves, Upper
23 Darby School District and William Penn. William Penn is
24 part of the lawsuit that ended up in the Supreme Court.

25 The issue there is, how do I get \$14 million

1 for those school districts? I'd like to do that. And I'd
2 like to be a part of that. They need it. And I'm not
3 saying it in a joking fashion. I'm saying it in a very
4 serious fashion. My school district feels that they're
5 \$5,000 per pupil underfunded.

6 If I could get them \$14 million this year,
7 and then give that as part of their base every year, they'd
8 no longer have a problem. And I'd even be willing to split
9 it between those school districts and give a little
10 something to the Haverford School District because they get
11 a very low number from the state.

12 SECRETARY ALBRIGHT: We would be right there
13 with you in the hope that we could provide more. We are
14 able to provide in terms of spending increases what we
15 believe our budget can afford. The hundred -- you know,
16 would we, you know, like the hundred million to be
17 significantly higher? Yes. Can we afford with available
18 revenues to fully fund that obligation in the proposed
19 budget year? No.

20 REPRESENTATIVE SANTORA: But we all ran on
21 and sold the fact -- and I know we keep talking about the
22 severance tax. And again, I am a supporter of the severance
23 tax. I've actually gone above and beyond. I've done some
24 things to try to get a severance tax to the floor for a
25 vote. And that was, originally, everybody's campaign ads,

1 "billion dollars for education." Is this severance tax
2 going to education, wholly?

3 SECRETARY ALBRIGHT: Look, you can draw
4 whatever conclusions you want to draw.

5 REPRESENTATIVE SANTORA: I get it's going
6 into the general fund and 100 million increase for
7 education, 14 million is going to Erie. My problem is,
8 again, I've got to worry about William Penn, I've got to
9 worry about Upper Darby, as each of these representatives
10 have to worry about their school districts.

11 I have a unique problem. I've got the city
12 of Philadelphia next to me. I've got residents from
13 Philadelphia that go to school in Upper Darby because of
14 court-ordered placements for homeless and for orphans and
15 for custody orders. And they never sleep a day in Upper
16 Darby School District or William Penn, but the taxpayers of
17 those townships and school districts are funding it.

18 I'll leave it at that. And I know you're
19 putting in an effort to increase education funding, but I
20 really wish we could take a real look at that and put it
21 where it needs to be.

22 Thank you.

23 SECRETARY ALBRIGHT: And I think all I can do
24 to echo your sentiment is to say that the Governor remains
25 committed above all else to a continued sustained investment

1 to increase funds for the 500 school districts that we have
2 here in the Commonwealth over the next several years.

3 MAJORITY CHAIRMAN SAYLOR: Thank you.

4 Representative Briggs is next.

5 REPRESENTATIVE BRIGGS: Thank you, Chairman.

6 And thank you, Secretary.

7 I have a concern regarding the Farm Show --
8 no, I'm just kidding. I think that was discussed a little
9 bit.

10 But Representative Santora actually addressed
11 the topic that I wanted to bring up, because it seems to be,
12 I think, one of the most important things in this year's
13 budget and in Governor Wolf's four years of fighting for
14 education funding.

15 And so during the hearing, a couple of days
16 ago, there was a lot of talk about rankings and percentages.
17 And one of the numbers is the -- I think we're towards the
18 bottom of the 50 states that contribute to education, which
19 was countering from some comments on the other side that we
20 spend way too much on education and we're at the top of the
21 list. I know property taxes foot a huge amount of the bill,
22 and I, for the last nine years, think the state does not do
23 its share towards funding education.

24 Just hopefully in closing, hopefully there's
25 not going to be a third round, but could you discuss a

1 little bit of the challenges that Governor is facing
2 regarding these steps that I applaud him in making? I agree
3 with you, I would hope that it would be much larger steps in
4 addressing the inequity in our education funding. But talk
5 a little bit about what you're attempting to do. You know,
6 I think this is the fourth year there's going to be an
7 increase and the future of that.

8 SECRETARY ALBRIGHT: So we would like to
9 focus on the progress that we've made. In year one, working
10 with the general assembly, we put in place what we believe
11 to be a fair funding formula. So going forward, if we can
12 find the resources to more adequately invest in that
13 formula, we believe over time we will move to a much more
14 equitable and adequate state funding system.

15 You're right. Currently, when you assess the
16 Pennsylvania system and how we provide funds to local school
17 districts, compared to most states, they are overly reliant
18 upon local resources, local property taxes, in particular,
19 and the state's share of those contributions, compared to
20 most states, is lower.

21 Over time, we hope to be able to make
22 sustained continued increased investments. Over time, we
23 hope to make progress toward providing a fairer, more
24 equitable, and adequate funding system. But we don't
25 believe we're there today.

1 Now, the court is going to have to continue
2 to review. I know there was reference to the William Penn
3 case already. We'll see, based on what the court
4 determines, then how we appropriately have to respond to
5 that.

6 But we as an Administration stand committed
7 to, with the resources that we have available -- you know,
8 also recognizing that we have to continue and be committed
9 to providing a stable financial future for the Commonwealth
10 and put our financial house in order. But with the
11 resources that we can identify as appropriately available,
12 we want to continue to make significant sustained
13 investments to increase both the equity and adequacy of our
14 state's support for local school districts and all of their
15 funding needs.

16 REPRESENTATIVE BRIGGS: And an easy solution
17 to that would be revisiting, you know, based on the
18 necessary resources available -- I stood with the Governor
19 when he called to address that in a fairer way for all of
20 the citizens of Pennsylvania. And I think it is a
21 reasonable attempt this year to be a little bit more
22 realistic in what the legislature would be willing to
23 support.

24 So during these divided times, I applaud the
25 Governor and your Administration in trying to address it

1 within what we can do without a broad-based tax, and it's
2 not going to still be an easy step, but I think it's a step
3 that we need to take to continue to move in the right
4 direction.

5 So thank for your time today.

6 And thank you, Chairman, for allowing me to
7 ask a second question.

8 SECRETARY ALBRIGHT: Thank you,
9 Representative.

10 MAJORITY CHAIRMAN SAYLOR: You're welcome.
11 Representative Markosek.

12 MINORITY CHAIRMAN MARKOSEK: I have a
13 question for Anne. Anne sat there quietly and Anne Baloga
14 started her career here in the legislature with the
15 Transportation Committee when I was chairman and moved along
16 with me to Appropriations and then now with the Budget
17 Secretary. So Anne has had a great career and I think has a
18 lot of potential here and will serve the Commonwealth very
19 well, I'm sure, in the future.

20 You know, we talk a lot about debt. I mean,
21 early on in the hearing this morning, it seems like a long
22 time ago now, but I think it was probably about the first
23 half hour, one of the members asked about the potential in
24 debt, and you know, what kind of debt are we looking at
25 here, particularly in their conversations relative to the

1 Farm Show. And I might remind everybody that last summer
2 when we were putting the current fiscal year budget
3 together, the AP, the Associated Press, had an article in
4 July where the majority leader of the Senate, the Republican
5 leader in the Senate, mentioned that the budget would
6 include 1.3 billion in borrowing from the tobacco settlement
7 fund. And that was followed up in September by another AP
8 article where, I'm quoting, "that the Republicans say that
9 the package relies heavily on borrowing one billion against
10 the future revenues from the Pennsylvania share of the
11 multistate settlement of tobacco funds."

12 So the point is, there's already a lot of
13 borrowing going on. It just kind of amazes me, and I
14 understand, we all want transparency. But we're looking at
15 the Farm Show in -- which is 200 million, essentially, of
16 borrowing, that it pales in comparison to the already
17 accepted amounts of upwards of a billion and a half dollars
18 in borrowing to make the current year budget work.

19 I just wanted everybody to be reminded of
20 that, that we've gone down this road, and you know, it's one
21 that we have to be very, very careful with it as we move
22 forward.

23 I would also be remiss if I didn't get on my
24 soap box just a wee little bit about the state police. If
25 you watched the hearing yesterday, you know, I made the

1 comments that the cost of providing state police coverage
2 for areas that do not have their own local police runs north
3 of \$240 per person. That was according to our State Police
4 Commissioner yesterday. They had the figure at 240 and then
5 plus other things that they weren't exact about. But it's
6 north of \$240 per person.

7 The Governor's proposal is for \$25. And I
8 know, coming from an area that every one of my communities
9 has a local police force and struggles to pay for those
10 local police forces. We have budget problems just like
11 everybody else, just like the rural communities do.

12 In fact, my hometown of Monroeville has a
13 local police budget of about \$12 million per year and I
14 might actually be -- it's probably even a little more than
15 that by now. I haven't looked in the last year or so. But
16 it's about 12 million a year, which is about a third of our
17 budget in the municipality.

18 Not more than about 10 or 15 miles away is a
19 large municipality in Westmoreland County that has actually
20 more people than Monroeville, and they get state police
21 coverage and they don't spend anything on local police.
22 That's unfair, that's unfair to any community that struggles
23 to pay for their local police coverage.

24 And I think the fact, and I'll say it again,
25 I said it yesterday, the fact that the Governor has said,

1 "Look, you ought to pay at least \$25 to want that
2 \$240-plus," that's a heck of a deal, that's a heck of a
3 deal, and I think we need to explore that.

4 The chairman indicated he didn't think it
5 would pass this year, and I think he's right. I don't thin
6 it will and I'm not happy about that. But I think reality
7 is reality.

8 Last, let me just make some closing remarks,
9 because we all talked about it earlier, when we started here
10 today, this is my last budget go-round. You know, the
11 legislature is designed for compromise. And when we don't
12 compromise, it doesn't work.

13 And people look at the legislature and look
14 at Congress, more than us probably, and say, "You know, it's
15 not working." Well, of course, it's not working because
16 nobody wants to compromise. We do more so than they do, I
17 think. But hopefully, they're learning their lesson, too.
18 But it doesn't work unless we compromise.

19 We all come down here with needs and wants,
20 but when you're here as long as I've been here, you have to
21 understand that you don't get everything you want and
22 occasionally you have to give a little to get a little. The
23 more that we get back to that and just -- you know, "I want
24 it my way or else I'm not, you know, going to help anybody
25 else," the sooner we get away from that, I think, the better

1 off we're all going to be.

2 You know, we have some other people who are
3 going to be leaving. We have some other members that are
4 going to leave or running for other offices. We have some
5 members on both sides of the aisle that are going to be
6 their own chairman. They have enough seniority to be
7 chairman next session, and they're going to leave the
8 Appropriations Committee. They'll still be in the
9 legislature, perhaps, but we're going to have new people,
10 you know, on the committee. And it is not going to be an
11 easy budget next year.

12 And keep in mind, those that get reelected
13 are here for two years. And if you get reelected to the
14 Senate, it's going to be four years. And my guess is that
15 over those four years, there are going to be some very,
16 very, very tough, difficult budgets. And I think the folks
17 in the room here, most -- I know all of you, you're up to
18 it, but it's going to take some compromise.

19 And I'll look -- I'll be somewhere else
20 looking at this, I think, I hope. And I'll still be a part
21 of it. I'll still try to stay in communications, but you've
22 all been like family and I'm going to miss it all. But it's
23 going to be soon time -- I'll be here until the end of
24 November, so I'm not through yet, but nevertheless, it's
25 been a good run. And I want to just thank, not only the

1 secretary and Anne for being here, but all of the staff,
2 members, certainly the chairman, for a wonderful run that
3 I've had here.

4 So thank you very much.

5 SECRETARY ALBRIGHT: So, Chairman Markosek, I
6 would be remiss if, on behalf of the Governor, I and we
7 didn't, you know, give you, recognize you, and with a huge
8 debt of gratitude, thank you for your service.

9 I personally was someone who grew up with a
10 father who never missed a day of school in his life growing
11 up. I believe you're one who has served this general
12 assembly for several decades and never missed a session day.
13 I think that's a record that we all are wowed by, that we
14 all aspire to emulate whenever possible. Your service has
15 been impeccable and again, let us simply say "thank you."

16 As far as the words of advice going forward,
17 I think they are words that all of us should listen to
18 carefully and try to remember every day when we get up and
19 walk into this building to do our jobs. But most
20 importantly, thank you.

21 MAJORITY CHAIRMAN SAYLOR: Secretary, before
22 we close out, I have a few comments, maybe even some
23 questions, as such.

24 I think that -- I want to start with DGS.
25 The department is, as I expressed to the secretary, there is

1 a hole there that I see coming in the '19-'20 budget, which
2 is right now, currently, going to be filled by about
3 \$825 million of one-time funds. And as I know and you know,
4 in fact everybody knows, it seems like DGS grows by anywhere
5 from four to 600 million, sometimes even higher. And
6 according to the budget book, which your Administration
7 provided us, it shows a jump of about a billion dollars from
8 this year's, that we're proposing, budget, we're talking
9 about now, to the '19-'20 budget.

10 And so, real concerns over filling that hole
11 in that following year. And I think that has concerns for
12 members of at least my caucus because we all remember 1991
13 when the general assembly and the Governor at that time came
14 back here and raised taxes by \$3 billion. So it's something
15 I hope as we move forward we'll have more time to talk
16 about, how we fix that hole going into '19-'20, because I
17 don't think any of us want to come back here and tell our
18 taxpayers after an election, that, "Oh, sorry, we came back
19 with a big deficit."

20 We have a lot of work to do and I know as we
21 move forward with this budget -- that's one of the things I
22 think we have to work on as we go forward.

23 The other thing, and this goes to all
24 administrations that I've been very disappointed in,
25 Republicans and Democrats alike, that we just don't seem to

1 get, we reward school districts. You know, Representative
2 Santora talked about this, I think Representative Briggs.

3 School districts mismanage dollars. They
4 mismanage their school district and we reward them by
5 bailing them out, and there is no consequences to that. You
6 know, I've seen it in York City, Chester Upland, Erie. The
7 incompetence in these school districts and then we at the
8 state bail them out. Like school districts like Upper
9 Darby, which I've actually been in Upper Darby School
10 District and toured it, as well as many other districts with
11 Mayor Nutter and Mayor Kenney in Philadelphia and throughout
12 our Commonwealth over the last several years. School
13 districts who need funding because of any number of things,
14 whether it's due to the fact that we have taken in a lot of
15 Puerto Rican refugees, which is great. We're helping out
16 there as American citizens. We're doing what we can to help
17 everybody from Texas to Florida. And I think that we're not
18 helping the school districts who have done a good job in
19 managing their dollars and who are trying to promote their
20 children.

21 And I hope that as we move forward, we as a
22 general assembly and we in the Governor's office, no matter
23 which party occupies that, will understand that we really
24 need to start focusing on those who are working the hardest
25 to do the best for the children, rather than those -- and

1 let them figure out how to fix their financial school
2 districts. Not that we don't have a part to play in that.
3 Maybe we need to do a better job of monitoring those school
4 districts that are headed in that direction and sending out
5 warning signs ahead of time that we're not going to bail
6 them out. Because \$14 million for Erie after they totally
7 mismanaged that school district -- and the superintendent
8 supervisor leaves that district, the one who mismanaged it
9 left that school district to go to a wealthy school district
10 up in New York. God bless that school district in New York.

11 So I just -- it's very frustrating. You
12 know, I sit there from York County and I see the struggles
13 that third-class cities like York and Lancaster and Reading
14 and Scranton and other cities have, let alone Upper Darby
15 and Lebanon. So it's very frustrating in my years here.
16 Not as long as Representative Markosek, but we don't do
17 enough to help those -- but yet, we help those that are
18 mismanaged.

19 I'll get on to another one of my things, is
20 that I have real concerns about MAXIMUS, as well. As
21 Appropriations chairman, you know, and as somebody who's
22 very much involved with seniors in my region, MAXIMUS just
23 has not done what the triple A's say they are. I am not
24 here advocating we go back to the AAAs, but MAXIMUS seems to
25 think that our seniors can fill out the complicated forms

1 without any help, and that's just incorrect.

2 We know, you know, we in each of our
3 legislative offices every year, we help our fire companies
4 and a number of organizations fill out grant applications to
5 try and make sure that they get state dollars. And MAXIMUS
6 has made it very difficult for our seniors to get the
7 resources they need. So I hope the Administration will take
8 a very close look at how we help seniors.

9 I mean, I think all of us as Democrats and
10 Republicans in our legislative offices are willing to do
11 whatever we can to, but that also means that in a
12 partnership with a contract with MAXIMUS or whoever else
13 takes their place possibly, we need to make sure that they
14 understand, we're here to serve the citizens, not just to
15 make a buck. And it seems to me that is what MAXIMUS'
16 ultimate goal is, is more interested in the almighty dollar
17 than they are in truly helping our seniors.

18 So it sounds like you want to respond to that
19 comment, Mr. Secretary. Did you, as far as -- okay.

20 SECRETARY ALBRIGHT: No. We will certainly,
21 you know, continue to accept that challenge. We will
22 continue to review, manage appropriately that contract. But
23 maybe more generally speaking, you know, share that same
24 commitment for senior programs.

25 I mean, maybe something we haven't talked

1 enough about is the fact that, well, you know, we've talked
2 about, you know, the increased priority in funding for
3 education aid, for example. You know, over the past four
4 years, for seniors and disabled, we've invested or increased
5 our investments by over \$800 million for home and
6 community-based programs, so particularly so our senior
7 citizens can age in place, can receive the quality of care
8 they need at home, in their communities, not in
9 institutions. But it's something we want to continue our
10 commitment for in every way possible to make sure we're
11 serving our senior citizens in the most effective way
12 possible.

13 MAJORITY CHAIRMAN SAYLOR: Well, as I've
14 talked with the Governor about the differences that also we
15 have to strive to do better at the Commonwealth level to
16 make sure we're getting, having the ability for seniors to
17 stay in their home. It's a lot easier for our seniors to go
18 to a nursing home, which costs us at least twice as much as
19 it does to keep someone living in their home. And we all
20 know, going to a nursing home is very detrimental for
21 seniors. It's just a total different way of life. Our
22 seniors stay healthier when they're in their own home. And
23 we need to strive harder in government to make sure that's
24 easier than being able to commit somebody to a nursing home
25 in this Commonwealth, which is costing our state a fortune.

1 As we continue to grow with our senior
2 population, with the baby boomers, which probably Joe and I
3 are in that category, it is important that we recognize
4 that, that we deal with that, and find a way to make it
5 easier because right now, it's not that easy for seniors.

6 SECRETARY ALBRIGHT: Agreed. And our whole
7 community health choices implementation is an attempt to do
8 that, to try to take steps to right size our systems, so to
9 speak, but also introduce private, managed care oversight to
10 our long-term care system and duplicate the success that
11 managed care providers have had and we've enjoyed in our
12 traditional Medicaid population.

13 So again, we share your view and want to see
14 that as a shared goal that we address appropriately going
15 forward.

16 MAJORITY CHAIRMAN SAYLOR: The PlanCon, you
17 and I both serve on that commission. Just a clarification,
18 as chairman, I have no interest in putting additional
19 dollars in the current budget for PlanCon. I thought, I
20 just want to check on the Administration's point of view as
21 far as adding additional dollars for PlanCon.

22 SECRETARY ALBRIGHT: We want to be respectful
23 of the commission's work that has not yet been completed,
24 but we believe that that conversation is not about '18-'19,
25 but rather anything -- and I don't want to get ahead of

1 myself in any way -- but what our appropriate role should be
2 going forward beginning in the '19-'20 fiscal year.

3 MAJORITY CHAIRMAN SAYLOR: So you would agree
4 with me that we need to deal with that issue in '19-'20 and
5 not in the Fiscal Code or the budget of this year?

6 SECRETARY ALBRIGHT: Yes. Our PlanCon
7 commitments, our school funding reimbursements that are part
8 of our proposed budget, deal exclusively with the backlog
9 and fully funding our existing obligations.

10 MAJORITY CHAIRMAN SAYLOR: Okay.

11 Well, in closing, you know, Mr. Secretary,
12 you've heard a lot about the financing agreement that the
13 Administration entered into. And I know there's a
14 disagreement, but I think, speaking on behalf of my caucus,
15 it was, we feel that nowhere in the Fiscal Code did the
16 Administration have the authority.

17 We know, and I've talked, I believe, with you
18 and with the Governor and others, that I didn't think it was
19 a good idea. And I think my caucus has demonstrated today,
20 they agree with me on that.

21 In that, again, I think when we talk about
22 working together in cooperation, it takes both sides. And I
23 believe that the Administration entered into this agreement
24 without a real understanding from the general assembly, at
25 least my caucus anyway, that this was going to take place.

1 And I think when you do that, you raise a lot of questions
2 about the constitutionality of this loan. I know you have a
3 different opinion than many of my colleagues maybe have.
4 But I do believe that the legislative intent of Act 44 was
5 not to have a loan taken out.

6 We had great discussions over the tobacco.
7 Believe me, we all had great reservations for covering that
8 debt of \$1.5 billion by borrowing and taking out bonds to
9 cover that debt. But that was -- we and the general
10 assembly and the Governor, House Democrats and Republicans
11 and Senate and so forth, came to an agreement on how to
12 cover that debt.

13 I don't believe there was a consensus ever
14 that we would do the lease on the Farm Show as such. So,
15 you know, the Administration, I think, acted on its own
16 there. And again, I believe that that is something that in
17 the end, this general assembly, and even future
18 Administrations, will deeply regret doing because a
19 \$200 million loan, and that's the way this chairman sees it,
20 was not agreed to.

21 SECRETARY ALBRIGHT: Well, I will just say
22 for the record, that the -- you know, we agree, that the one
23 and a half billion dollar securitization of the tobacco
24 settlement fund, the \$412 million in PlanCon borrowing, the
25 200 million from the Farm Show transaction, are all one-time

1 end-debt approaches to be meeting what really are general
2 fund obligations.

3 Now, part of that is, or the bulk of that is
4 one-time. I admit or acknowledge that the one and a half
5 billion dollars of the prior year deficit is essentially, if
6 we put our fiscal house in order, a one-time occurrence.
7 And the fact of the matter is that layered on top of the \$2
8 billion in real budget savings that were enacted as part of
9 the current year budget, the combined real recurring revenue
10 from the revenue packages that were put in place in the
11 current year and the prior year, and providing an additional
12 and new recurring \$1 billion annually going forward,
13 cumulatively make that borrowing, we believe, responsible
14 and allow us to have taken major steps to deal with and
15 remove much of the fiscal imbalance, if you will, or
16 structural deficit that we faced.

17 But we agree. In going forward, we would
18 certainly like to get on a track where we fully fund our
19 state's obligations annually with real recurring revenues,
20 if they're necessary.

21 MAJORITY CHAIRMAN SAYLOR: Again, I think
22 that the members of the general assembly felt that the
23 \$300 million in fund transfers would come from existing
24 funds, not from a Farm Show lease.

25 But with that, I would like to thank both

1 Republican and Democratic members of the Appropriations
2 Committee for their three weeks of dedication. It's been
3 interesting. I thank the Administration, as well, for their
4 indulgence and look forward to receiving the Farm Show
5 agreement, or lease, and also the other information that's
6 been requested by the members, and look forward to our
7 budget negotiations as we move forward.

8 I also want to thank Chairman Markosek again
9 for his years of service to our Commonwealth and to his own
10 district. It's been my honor to serve with him, and I look
11 forward to working with him.

12 I surely hope that he will be glued to PCN
13 next year when we're doing budget hearings, and see how
14 we're doing.

15 And with that, this hearing is adjourned.
16 Thank you.

17 (Hearing concluded at 1:10 p.m.)
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C E R T I F I C A T I O N

I hereby certify that the proceedings are contained fully and accurately in the notes taken by me on the within proceedings, and that this copy is a correct transcript of the same.

Summer A. Miller, Court Reporter
Notary Public