

1 HOUSE OF REPRESENTATIVES  
2 COMMONWEALTH OF PENNSYLVANIA

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4 DEPARTMENT OF REVENUE & GAMING

5 House Appropriations Committee

6  
7 Main Capitol Building  
8 House Chamber  
9 Harrisburg, Pennsylvania

10 Tuesday, February 16, 2021

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12 MAJORITY COMMITTEE MEMBERS PRESENT:

13 Honorable Stanley Saylor, Majority Chairman  
14 Honorable Rosemary Brown  
15 Honorable Lynda Schlegel-Culver  
16 Honorable Torren Ecker  
17 Honorable Jonathan Fritz  
18 Honorable Keith Greiner  
19 Honorable Doyle Heffley  
20 Honorable Johnathan Hershey  
21 Honorable Lee James  
22 Honorable John Lawrence  
23 Honorable Zach Mako  
24 Honorable Natalie Mihalek  
25 Honorable Tim O'Neal  
Honorable Clint Owlett  
Honorable Chris Quinn  
Honorable Greg Rothman  
Honorable Meghan Schroeder  
Honorable James Struzzi  
Honorable Jesse Topper  
Honorable Ryan Warner  
Honorable Dave Zimmerman

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## 1 MINORITY COMMITTEE MEMBERS PRESENT:

2 Honorable Matt Bradford, Minority Chairman  
3 Honorable Donna Bullock  
4 Honorable Morgan Cephas  
5 Honorable Austin Davis  
6 Honorable Elizabeth Fiedler  
7 Honorable Marty Flynn  
8 Honorable Patty Kim  
9 Honorable Emily Kinkead  
10 Honorable Leanne Krueger  
11 Honorable Benjamin Sanchez (virtual)  
12 Honorable Peter Schweyer  
13 Honorable Joe Webster

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NON-COMMITTEE MEMBERS:

Honorable Gary Day  
Honorable Rob Mercuri  
Honorable Mark Gillen  
Honorable Carrie DelRosso  
Honorable Steve Samuelson

1 STAFF MEMBERS PRESENT:

2 David Donley  
3 Majority Executive Director

4 Ritchie LaFaver  
5 Deputy Executive Director

6 Ann Baloga  
7 Minority Executive Director

8 Tara Trees, Esquire  
9 Minority Chief Counsel

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INDEX TO TESTIFIERS

DEPARTMENT OF REVENUE

Secretary C. Daniel Hassell

Amy Gill  
Deputy Secretary for Tax Policy

Christin Heidingsfelder  
Deputy Secretary for Administration

Drew Svitko  
Executive Director of Pennsylvania Lottery

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1 MAJORITY CHAIRMAN SAYLOR: We are  
2 conducting these hearings on the floor of the House  
3 of Representatives, which will allow us to spread  
4 out and follow the appropriate COVID-19 safety  
5 restrictions. Our hearings this year will also  
6 include a mix of in-person and virtual testimony.

7 I personally want to thank Brent  
8 McClintock who -- him and his staff. Clint, or  
9 Brent, I should say, is the Executive Director of  
10 the Legislative Data Processing Center, and his  
11 team of Kye Kwon, Shane Bortner, Mike Fox, Cole  
12 Cuomo, Joe Siebert.

13 Also I want to thank Dave Arendt, who is  
14 the Broadcaster Director for the House of  
15 Representatives and his team. Hopefully, I haven't  
16 screwed up all these names. But, Tim Portzline,  
17 Peter AuFiero, Ryan Shorb. And, of course, I want  
18 to thank our great Chief Clerk, Dave Reddecliff.

19 I know that all of the work -- hard work  
20 that they've been putting in to get this House  
21 floor ready, not only for these hearings, but also  
22 for us when we come back into session so that  
23 people can participate virtually, and I really do  
24 appreciate all of their efforts.

25 A few more housekeeping items I wanted

1 to mention. As a reminder, masks are to be worn by  
2 members of the committee and the staff. The Chief  
3 Clerk has arranged for the Chamber to be sanitized  
4 every evening. So, we ask that members take their  
5 papers and any personal items with them as they  
6 leave the floor at the end of the day.

7           When you're asking questions, if you  
8 choose to leave your mask on when asking questions,  
9 and that's your option, please speak loudly so that  
10 the stenographer and those viewing and the  
11 individuals who are virtual can hear your questions  
12 clearly.

13           The House floor is reserved for the  
14 House members, the committee, staff, and  
15 testifiers. We ask that the guests, the press, and  
16 the members who are not on the Appropriations  
17 Committee watch from the gallery.

18           As usual, after opening remarks, members  
19 will have five minutes for questions. If the timer  
20 goes off, I will prompt you to finish up. We will  
21 start with questions from members in the  
22 attendance, and then we will recognize members who  
23 are participating remotely at the end to ask their  
24 questions. We may have a second round of  
25 questions, if time allows for that.

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1 I will ask all members, when you go to  
2 your microphones -- And the microphones are marked  
3 with white tape, except for Chairman Bradford's and  
4 my's mike. There are two mikes on the Democratic  
5 side of the floor and two on this side of the floor  
6 that are marked with white tape. Those are the two  
7 microphones that are active and can be utilized by  
8 members to ask questions.

9 But, when you go to those microphones, I  
10 ask you to take your name plate or name tent with  
11 you so that the stenographer can see for the record  
12 who is asking questions for the record. So, with  
13 that, we'll move on.

14 I want to take -- Representative  
15 Bradford, any comment before I move to Secretary  
16 Hassell?

17 MINORITY CHAIRMAN BRADFORD: If I could,  
18 real quick. Thank you, Chairman Saylor.

19 I want to also just echo the words you  
20 said for the amazing task that LDBC -- LBPC, as  
21 well as Republican staff has gone to make this  
22 happen today in a safe way. You guys have gone  
23 above and beyond, and it is very much appreciated  
24 by members on both sides of the aisle. I also want  
25 to thank our fearless Chief Clerk who has always

1 done an amazing job with his team. So, thank you  
2 all so much.

3 And again, I do want to thank you,  
4 Chairman Saylor. You have been a true gentleman,  
5 and understanding that leadership means that making  
6 sure that all of us are safe and comfortable and  
7 doing this in a responsible way, and you've gone  
8 above and beyond to make this year's hearings just  
9 that. You deserve kudos for that. So, thank you.

10 MAJORITY CHAIRMAN SAYLOR: Thank you,  
11 Chairman Bradford.

12 With that, I want to recognize our  
13 Secretary of the Department of Revenue, Dan  
14 Hassell. Mr. Secretary, before I swear you in and  
15 your team, would you mind introducing the members  
16 of your team who are here virtually. Then I'll ask  
17 all of them to raise their right hand, as well as  
18 you, to be sworn in. Secretary Hassell.

19 SECRETARY HASSELL: Thank you, Mr.  
20 Chairman. I'd be happy to do so.

21 With me today are Amy Gill, who is the  
22 Deputy Secretary for Tax Policy. Kristin  
23 Heidingsfelder, who is the Deputy Secretary for  
24 Administration, and Drew Svitko, who is the  
25 Executive Director of the Lottery.



1 MAJORITY CHAIRMAN SAYLOR: Very good.

2 If you would, as well as your staff,  
3 raise your right hand and take the oath.

4 (All testifiers were duly sworn by  
5 Majority Chairman Saylor).

6 MAJORITY CHAIRMAN SAYLOR: Mr.  
7 Secretary, do you have any opening comments?

8 SECRETARY HASSELL: Mr. Chairman, I have  
9 submitted testimony for the record that contains a  
10 great deal of information that I'd be happy to go  
11 over. But, I'll just mention a few things.

12 Obviously, as you've mentioned, over the  
13 past year, our agency, just like the General  
14 Assembly, just like everyone has been dealing with  
15 the COVID-19 pandemic. It has been an experience  
16 of reacting and reorganizing our efforts in order  
17 to still be able to operate the department and  
18 still be able to succeed in the mission that we are  
19 given.

20 And I'm pleased to say that, at this  
21 point we are back to the place where our staff is  
22 working, mostly working from home. Approximately  
23 85 percent of our staff are working from home at  
24 this point. Another 15 percent are on site either  
25 handling mail, depositing checks or other things,

1     cashing Lottery tickets; other things that can't be  
2     done remotely. But, we're happy to provide  
3     testimony to this Committee today and discuss the  
4     Governor's budget.

5             As you know, there are two main tax  
6     proposals contained in the budget this year. One  
7     concerns the personal income tax, and the other  
8     concerns the corporate income tax. In both cases  
9     the proposal has raised additional revenue, and  
10    that is largely dedicated to funding education in  
11    the Commonwealth and allows the state to be able to  
12    fully fund the Fair Funding Formula for public  
13    schools.

14            The personal income tax proposal raises  
15    the rate from 3.07 percent to 4.49 percent, but it  
16    also significantly expands the tax forgiveness  
17    program in order to include many more people in the  
18    tax forgiveness program that reduces the burden of  
19    the tax on people who have lower incomes.

20            The net result is that, many people will  
21    see a reduction in the tax burden. Many people who  
22    are business owners of small businesses will see a  
23    reduction in their tax burden. And, overall, it's  
24    designed to not just raise additional revenue but  
25    to distribute (video difficulty).

1           So let me stop there, Mr. Chairman, and  
2 I'd be happy to take any questions the Committee  
3 has.

4           MAJORITY CHAIRMAN SAYLOR: Very good.  
5 We'll start off with Representative Lawrence.

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

8           And thank you, Mr. Secretary, for  
9 appearing remotely before the Committee today. Mr.  
10 Secretary, I'd like to ask you a couple questions  
11 about the Governor's proposal to increase the  
12 personal income tax.

13           As you mentioned, Pennsylvania currently  
14 has 3.07 percent personal income tax rate. And as  
15 we know, constitutionally, taxes have to be  
16 uniform. But there's a poverty exception in the  
17 Constitution. And currently, under existing law, a  
18 family of four making less than \$34,250 receives  
19 partial income tax forgiveness.

20           The Governor's proposal increases the  
21 personal income tax rate, as you mentioned, from  
22 3.07 percent to 4.49 percent. It increases the  
23 threshold for the poverty exception and sets up a  
24 system by which each additional \$500 in income  
25 reduces the percentage of tax forgiveness.

1           Now, that's a mouthful, but kind of  
2 working it all out, under the Governor's plan, a  
3 family of four making over a hundred thousand  
4 dollars would see the full effect of the new  
5 4.49 percent tax rate, and a family of four making  
6 \$99,500 or less would see some tax rate less than  
7 that due to the tax forgiveness proposal. Under  
8 the Governor's plan, we end up with really lots of  
9 different effective tax rates.

10           Could you answer, Mr. Secretary, yes or  
11 no, am I correct that the Governor's plan relies on  
12 the poverty exception in the Pennsylvania  
13 Constitution to justify an exception to the uniform  
14 taxation clause?

15           SECRETARY HASSELL: Yes. And let me  
16 just add to that, that, just like under current  
17 law, there would still be one tax rate that applies  
18 to everyone. But the tax forgiveness program  
19 calculates a tax credit that offsets the burden of  
20 the tax for people who had lower income levels.

21           The effective tax rate calculation is  
22 one that, of course, we can do to understand the  
23 burden of the tax, but it's not a concept that's in  
24 the tax law.

25           REPRESENTATIVE LAWRENCE: So, Mr.

1 Secretary, under the Governor's plan, a family of  
2 four making \$99,000 falls into the poverty bucket,  
3 so that doesn't seem to reflect the real picture of  
4 poverty. The federal poverty line is, for a family  
5 of four, is around \$26,500. If the Governor's plan  
6 was implemented, don't we run the risk that the  
7 courts will find someone making \$95,000 a year is  
8 not, in fact, in poverty, and then strike down the  
9 entire poverty forgiveness provision?

10 SECRETARY HASSELL: Let me say several  
11 things about that.

12 One is that, the current system of tax  
13 forgiveness has been the law since 1971, so this  
14 year it turns 50 years old. And so, it really has  
15 stood the test of time. In those 50 years I'm not  
16 aware of the tax forgiveness program ever being  
17 subject to a challenge, and it seems to have been  
18 accepted by the General Assembly and by the public  
19 over a very long period of time.

20 The proposal that you have before you is  
21 one that really has two components. The base  
22 program that, as you mentioned, for a family of  
23 four provides full tax forgiveness -- 100 percent  
24 tax forgiveness for a family of four up to \$32,000,  
25 and that limit is being expanded to \$50,000. That

1 change is not much more than the effective  
2 inflation over the years since the last change was  
3 made. So I hope that there's not a great deal of  
4 concern about that.

5 REPRESENTATIVE LAWRENCE: Mr. Secretary,  
6 I am concerned about it.

7 SECRETARY HASSELL: Yes.

8 REPRESENTATIVE LAWRENCE: The reason I  
9 would say that I'm concerned is that, Section 301  
10 of the tax reform code here in Pennsylvania defines  
11 the term poverty. It's defined as an economic  
12 condition, wherein, the total amount of poverty  
13 income is insufficient to adequately provide the  
14 claimant, his or her spouse and dependent child  
15 with the necessities of life. That's the  
16 definition.

17 So, someone making \$95,000 a year, I  
18 don't see how they fall under that definition in  
19 the law. I mean, we would have members of the  
20 legislature who fall under the definition of  
21 poverty, if that's the case. And again, the  
22 Governor's tax proposal, as you have already  
23 acknowledged, relies upon this poverty concept for  
24 folks up to \$99,500 for a family of four. How do  
25 you square that?

1           SECRETARY HASSELL: So, let me just  
2 finish what I started a minute ago.

3           And that is, that the second component  
4 of the proposal extends the phase-out period. In  
5 current statute, the tax credit calculation drops  
6 from 100 percent to zero over relatively narrow  
7 income range of \$2,250. And what we find is that,  
8 just like in many government benefit programs,  
9 those kinds of sudden drops in eligibility can have  
10 a real impact on people.

11           If you are a person who is earning  
12 income at the edge of that \$32,000, you might have  
13 to think hard about, do I want to earn a few more  
14 dollars, another hour or two of work that will pay  
15 a few extra dollars might result in the sudden loss  
16 of a hundred dollars in additional tax liability.  
17 Those are called benefit clips. And this proposal  
18 stretches out that phase-out period to be much  
19 longer to --

20           MAJORITY CHAIRMAN SAYLOR: Mr.  
21 Secretary, I have to interrupt you. I don't think  
22 you answered his question. You went back to doing  
23 -- saying what you were saying earlier. You have  
24 to answer the question that was asked. I get the  
25 idea you wanted do a more explanation. But the

1 purpose for members to ask questions is to get  
2 answers to the questions.

3 Democrats and Republicans are going to  
4 ask you questions, and we need the Secretaries to  
5 answer those questions. And you were going on and  
6 explaining what you wanted to explain; not what the  
7 member had asked you. So I'm gonna to ask you to  
8 go back and answer. I'm gonna ask Representative  
9 Lawrence to repeat the question one more time and  
10 ask you to answer it.

11 His time has run out. But, the bottom  
12 line is, you didn't answer his question so I'm  
13 going to give him that additional time to get an  
14 answer for his question.

15 Representative Lawrence.

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

18 Mr. Secretary, the real nub of my  
19 question here, and I respect the argument you were  
20 making with regard to benefit clips, and that's a  
21 legitimate argument.

22 The real nub of the question is that, we  
23 have the term poverty defined in law. The term is  
24 defined as an individual who cannot afford the  
25 basic necessities of life. We need to be helping



1 these people. We need to be doing everything we  
2 can to assist them.

3 The Governor's plan relies upon this  
4 poverty exception and extends it in some way up to  
5 folks who make a hundred thousand dollars a year,  
6 and that strains credulity of the entire concept of  
7 what poverty is under the law. So my fear is that,  
8 if we were to do that, a court could find, look,  
9 these people aren't in poverty and strike the whole  
10 thing down.

11 So again, my question to you is that,  
12 how do you square somebody making 99,000 some odd  
13 dollars a year, falling into the poverty bucket? I  
14 don't see how that's -- I don't see how that's  
15 legitimate on its face. How do you square that?

16 SECRETARY HASSELL: All right.

17 So, the constitutional language that  
18 you're referring to says, the General Assembly may  
19 establish a class of subjects of taxation, who,  
20 because of age disability, infirmity or poverty or  
21 determined to be in need of exemption or a special  
22 tax provision.

23 And so, the way I understand it is that,  
24 that provides -- that allows the General Assembly  
25 to define the terms of the Constitution. And the

1 Governor's proposal is that, we define that more  
2 broadly than is currently defined in the tax reform  
3 code in the language that you quoted from the law.

4           The other thing I would like to say  
5 quickly is simply that, the definition of what  
6 consists of poverty is not something that is  
7 defined consistently in -- across various programs.  
8 And I think the General Assembly has the latitude  
9 to define the concept of poverty in a way that  
10 makes sense and based on the understanding of who  
11 is -- who is in need of a special tax provision.

12           The final thing I'd like to be able to  
13 say is, I mentioned this extended phase-out period.  
14 The people who are at the upper end of that phase-  
15 out range are going to be getting really a few  
16 dollars of benefit. When you get to those upper  
17 income ranges, you're talking about someone who is  
18 down 1 percent or 2 percent tax forgiveness before  
19 the program phases out entirely. Those dollars are  
20 a very small percentage of the overall cost of the  
21 proposal.

22           REPRESENTATIVE LAWRENCE: Thank you,  
23 Mr. Secretary.

24           And thank you, Mr. Chairman, for your  
25 indulgence.

1 MAJORITY CHAIRMAN SAYLOR:

2 Representative Bullock. Representative Bullock,  
3 will you take your name plate with you so the  
4 stenographer can see who is asking the questions.  
5 Thank you.

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

8 Mr. Secretary, usually every year I ask  
9 our department secretaries to talk about your  
10 diversity and inclusion practices for hiring and  
11 promotions. I would like for you to share that  
12 information.

13 But I'd also like to dig a little deeper  
14 into your investments in racial equity throughout  
15 your department, and both your management of staff  
16 and serving the Commonwealth of Pennsylvania and  
17 our residents.

18 The Department of Human Services  
19 recently released a racial equity report, and I  
20 would like to know if you have taken any similar  
21 steps?

22 My second question for you, Mr.  
23 Secretary, is in regards to income disparity. The  
24 median household income for black families in 2019  
25 was about \$46,000, while the median income for

1 white families was about \$76,000. Those numbers  
2 were from Census Data and the Report by the  
3 Economic Policy Institute.

4 How does the Governor's budget help to  
5 mitigate systemic racial disparity in wages?

6 SECRETARY HASSELL: Thank you for that  
7 question.

8 Racial equity is something we take very  
9 seriously in our department, both in terms of our  
10 staffing of positions to get the job done, as well  
11 as in the way that we treat individuals that we  
12 deal with.

13 But I'd like to turn the question over  
14 to Christin Heidingsfelder for the specifics about  
15 the breakdown of our workforce.

16 DEPUTY SECRETARY HEIDINGSFELDER: Thank  
17 you. Thank you for the question.

18 The department has been monitoring our  
19 diversity in hiring and in promotions for the last  
20 several years. We're proud to see that in the  
21 Governor's annual workforce report for the  
22 Department of Revenue, our minorities are at 24  
23 percent of our workforce and the Commonwealth's  
24 total is 15 percent. So we're well represented in  
25 terms of our diverse workforce, but we haven't

1 stopped there in total.

2 We've been looking by job class to make  
3 sure that we're providing adequate opportunities  
4 for our employees to move up within the ranks of  
5 the Department of Revenue.

6 For rank-and-file employees, the  
7 Department of Revenue is at 28.91 percent  
8 minorities compared to an availability for those  
9 types of job classes in the market of 15 percent,  
10 so we're well represented at the rank and file.

11 Supervisory employees, the Department of  
12 Revenue is at 23 percent, and the market shows an  
13 availability of 22 percent. That's something --  
14 That's an area that we have improved in over the  
15 last few years. We were below market about two or  
16 three years ago, and we've improved in supervisory  
17 since then.

18 Where we fall off is as you get up into  
19 management employees. Department of Revenue is at  
20 12.89 percent for management employees minorities,  
21 and the availability is at 22 percent. So that's  
22 an area that we've been looking at for the last few  
23 years in developing programs to help our employees  
24 have the opportunity to be stronger candidates to  
25 be promoted into management-level positions.

1           We've done things such as, used our tax  
2 season -- used some of our rank-and-file employees  
3 as temporary tax season supervisors so that they  
4 have a temporary opportunity to try being a  
5 supervisor, making them a stronger candidate when  
6 those permanent positions are open.

7           We have a mentoring program that we're  
8 forming a committee right now to be -- to make a  
9 stronger program and make sure we can offer that to  
10 more employees. And we have a strong leadership  
11 development program going on right now where we  
12 have podcast and discussions, relationship building  
13 and some mentoring.

14           We've also been very engaged with our  
15 lien program where rank-and-file employees work on  
16 lien projects, and they're pairing with an  
17 experienced mentor to work on that project. So  
18 that gives them some experience as well.

19           In terms of just really taking a harder  
20 look at how we can improve, we recently, in  
21 November, kicked off a Department of Revenue Human  
22 Diversity, Equity, and Inclusion Committee. We're  
23 looking at four different categories for that  
24 committee. Customer treatment and impact, how we  
25 can ensure fair and equal treatment of all of our

1 customers.

2 Second one is compliance tax policy  
3 impact; to see if the tax laws of policies and  
4 compliance strategies are creating any systemic  
5 racism or economic inequality.

6 In diversity and hiring, in hiring and  
7 promotions, we're looking at how can we do a better  
8 job of encouraging and preparing employees for  
9 promotional opportunities within the Department of  
10 Revenue. And in there we're looking at, are there  
11 any diversity differences by bureau or by  
12 classification that might cause that drop-off as we  
13 get up into management positions.

14 And the fourth category is internal  
15 human centered mind-set and culture. We want to  
16 make sure that we're addressing any unconscious  
17 bias, encouraging all employees to share and  
18 celebrate cultures so that, once we -- Being a  
19 diverse organization is one thing, but making sure  
20 that our employees feel included and part of the  
21 culture, in that -- that impacts retention.

22 So we're looking at those four  
23 categories and developing a DEI, diversity, equity,  
24 inclusion, strategic plan that will answer the  
25 questions, who do we want to be, where are we now,

1     what are the gaps, how do we close the gaps, and  
2     how do we measure.

3             We're also partnering with universities  
4     via Capstone Project programs. We currently have  
5     one Capstone student engaged from the University of  
6     Penn, and we're negotiating with two other  
7     universities to give us some university assistance  
8     with this, to pull data and help look at, for  
9     example, as university students are looking to  
10    graduate, how does the Commonwealth appear as a  
11    potential employer for university students in those  
12    management positions?

13            We've recently joined the diversity and  
14    inclusion professionals of central Pennsylvania, as  
15    well as participating in calls with the Governor's  
16    Office, the Office of Administration, and other  
17    agencies who are working on DEI initiatives so we  
18    can all share ideas and really make a difference in  
19    this area.

20            Thank you.

21            MAJORITY CHAIRMAN SAYLOR: All righty.  
22            Our next questioner is Representative  
23    Topper.

24            Yes. You didn't feel your question was  
25    answered?



1                   REPRESENTATIVE BULLOCK: I had a second  
2 question that wasn't answered about income  
3 disparity.

4                   MAJORITY CHAIRMAN SAYLOR: She ran out  
5 the time on you on the first question. If you  
6 want, because of earlier, I will let you ask that  
7 question. But, ask one question at a time so we  
8 make sure that the questions get answered, if you  
9 would, in the future.

10                  Representative Bullock, I'll recognize  
11 you for -- to ask her the next question.

12                  REPRESENTATIVE BULLOCK: Mr. Secretary,  
13 do you need me to repeat the second question?

14                  SECRETARY HASSELL: That would be  
15 helpful if you wouldn't mind.

16                  REPRESENTATIVE BULLOCK: Yes. I was  
17 referring to income disparity between black and  
18 white families as stated specific, and I was  
19 wondering how does the Governor's budget address  
20 systemic racism when it comes to income disparity  
21 between different families?

22                  SECRETARY HASSELL: Sure. So, the  
23 Governor's budget contains two aspects that are  
24 relevant to reducing that kind of disparity. One  
25 is the proposal to increase the state minimum wage

1 from its current 7.25 to, first, \$12 and then a  
2 path to \$15 per hour. And the second one concerns  
3 the tax forgiveness program that I already  
4 discussed.

5 In both cases, these are helpful to  
6 people who are of low income and especially to  
7 working families. And as we know, in our society,  
8 there is disparity in the way that people of  
9 different backgrounds fall in the income scale. It  
10 seems clear that people of color tend to be  
11 concentrated in lower-income brackets, and so, both  
12 of those proposals should be helpful to people of  
13 color, in particular, and will help to reduce the  
14 disparity in our society among income groups.

15 REPRESENTATIVE BULLOCK: Thank you very  
16 much, Mr. Secretary.

17 Thank you, Mr. Chairman.

18 MAJORITY CHAIRMAN SAYLOR: You're  
19 welcome.

20 I want to remind the Secretary, and I'll  
21 remind other testifiers in the future, you can't  
22 see but the members have a timer here in front of  
23 them. And so, I will remind the Secretary, or  
24 whoever is speaking at the time, when it's  
25 30 seconds left to keep your answers, Mr.

1 Secretary, or whoever, as short as possible. I  
2 will ask members to ask one question at a time  
3 simply so --

4 And again, Mr. Secretary, not to be  
5 rude, I have allowed the members on both sides of  
6 the aisle to cut you off if they feel you're going  
7 a little astray and not getting to your question.  
8 I'm not trying to be rude, but members want to use  
9 their five minutes. It's the best way possible for  
10 both sides of the aisle.

11 With that, I'll recognize Representative  
12 Topper.

13 REPRESENTATIVE TOPPER: Thank you, Mr.  
14 Chairman. And, Mr. Secretary, good morning.

15 SECRETARY HASSELL: Good morning.

16 REPRESENTATIVE TOPPER: I'd like to talk  
17 a little about the difference, and somewhat dynamic  
18 difference, in the revenue estimates between the  
19 Administration and the Independent Fiscal Office.

20 Going back to fiscal year 2021, there  
21 was almost a 1.5 billion-dollar difference in the  
22 estimate. Now, the Administration's revised  
23 estimate has your original estimate up by over 500  
24 million. Do you still feel comfortable with that?

25 I mean, we are seeing even at this time

1 a January year-to-date really should be, we're over  
2 600 million already. Do you see that trend  
3 continuing, or what do you feel your current  
4 estimate is, how we're gonna finish out 2021?

5 SECRETARY HASSELL: Let me just say that  
6 I am comfortable where we are right now. It's true  
7 that there has been a quick bounce-back in the  
8 economy throughout the fall, and that resulted in  
9 recovering a significant amount of revenue compared  
10 to where we were in the spring, in the summer.

11 But, you know, we want to be somewhat  
12 cautious, in that, there have been changes in tax  
13 law that may have an impact on revenues going  
14 forward, both at the federal level and the state  
15 level, addressing how PPP loan proceeds are taxable  
16 and those kinds of things.

17 So, I think it's reasonable to be -- to  
18 exercise a little bit of caution going forward.  
19 Let me see if Amy Gill would like to add anything  
20 to that answer.

21 DEPUTY SECRETARY GILL: Yes.

22 So, when we certified in May, we were  
23 using the May economic data. When we recertified  
24 in November, we added 3.2 billion, and that is  
25 because the May data was at a low point. Since

1 then we have been running a surplus, which is  
2 great, but as the Secretary pointed out, there  
3 could be reasons that federal and state law could  
4 chip away at those estimates.

5 On the other side, since we put out the  
6 budget estimate with December data, the economic  
7 data has improved somewhat. So, you have two  
8 opposite effects, and I think we'll simply have to  
9 wait the next few months to see how it bears out.

10 REPRESENTATIVE TOPPER: Sure. Although  
11 the IFO seems to have had -- seems to have been on  
12 the mark with their estimates from what we're  
13 seeing.

14 There was also a difference in January  
15 into February. January, it initially looked like  
16 we were down by about 162 million, but by the time  
17 it was revised, over \$300 million were delayed.  
18 What was the cause of that delay in getting the  
19 January into February?

20 SECRETARY HASSELL: The primary reason  
21 for that delay was that the mail-processing  
22 facility that the department runs, the building on  
23 Brookwood Street, had a number of cases of  
24 COVID-19, and we were concerned about that outbreak  
25 and decided to close the building for a 10-day

1 period and did a deep cleaning of the building.

2 The timing of that was unfortunate, in  
3 that, it came near the end of January, which would  
4 have been a peak time of depositing personal income  
5 checks. And so, we are now beyond that period.  
6 They're back up to working full strength, and so,  
7 those checks are now --

8 REPRESENTATIVE TOPPER: Do you feel --

9 SECRETARY HASSELL: -- deposited.

10 REPRESENTATIVE TOPPER: -- comfortable  
11 we're back, we're caught up? We're moving --  
12 That's obviously something that could also happen  
13 in the future, but you feel like the numbers are  
14 accurate that we have now?

15 SECRETARY HASSELL: Yes, I believe so.

16 REPRESENTATIVE TOPPER: And if there are  
17 issues, you mentioned PPP. What are the other  
18 taxes that you could see -- that give you concern  
19 now coming in, whether it be sales, corporate,  
20 income that would be your concern for still being  
21 somewhat reserved in your revenue estimates as  
22 compared to the IFO?

23 SECRETARY HASSELL: So, the federal and  
24 state law changes concerning the PPP loans affect  
25 both personal income tax and corporate income tax,

1 so that's what -- we'd like to see what happens  
2 there.

3 I also need to say, though, over the  
4 course -- there are still events happening in  
5 Washington D.C., that's a consideration of another  
6 economic (video difficulty) result in another  
7 payment, economic recovery payments to individual  
8 businesses and maybe even state governments.

9 REPRESENTATIVE TOPPER: Those would  
10 actually raise -- Those would actually raise  
11 revenues, correct?

12 SECRETARY HASSELL: That is correct. We  
13 don't know exactly what the shape that will be, of  
14 course, at this point. I just want to point out,  
15 it's also possible there will be further strength  
16 in revenues that aren't taken into account yet.

17 REPRESENTATIVE TOPPER: Listen, actually  
18 I'm appreciative, most of the time, with  
19 conservative estimates. I think we have pushed for  
20 that. It's not been the, shall we say the modius  
21 operandi of this Administration in the past several  
22 terms to be conservative with some of those  
23 estimates. I know that there is some ask for  
24 additional revenue. But I believe that the IFO  
25 numbers that revenue might not actually be

1 necessary.

2 So, thank you, Mr. Chairman.

3 MAJORITY CHAIRMAN SAYLOR:

4 Representative Schweyer.

5 REPRESENTATIVE SCHWEYER: Thank you, Mr.  
6 Chairman.

7 A couple things. Two distinct  
8 questions, Mr. Secretary, that are going to be from  
9 two parts of your department. I want to start,  
10 however, from looking at things from a 10,000-foot  
11 perspective.

12 In the Governor's proposed budget,  
13 there's a question about new revenues from  
14 recreational marijuana, from a minimum wage  
15 increase and the dollar figures that would come  
16 along with that, the proposed Shale tax, and the  
17 PIT increase, and certainly, that PIT increase  
18 really, at least to me, looks more like a tax shift  
19 because we're asking different people to pay a  
20 higher rate and letting folks that are more at risk  
21 and people at the lower end of the socioeconomic  
22 spectrum to be able to take -- to save a couple of  
23 dollars, and it's pretty significant dollars in  
24 certain cases.

25 But the big reason for doing this is



1 that, if we do nothing, it appears that we will  
2 still be facing a pretty significant financial  
3 hole.

4 And so, Mr. Secretary, I was wondering  
5 if you could talk about the impact of us doing  
6 nothing; of us not looking at new revenues. What  
7 kind of deficit would we be looking at for the  
8 upcoming budget year if we were to do nothing?

9 SECRETARY HASSELL: This kind of  
10 question might be better directed to the Budget  
11 Secretary. But, just in general, my understanding  
12 is that, that the structural deficit, the ongoing  
13 gap between revenues and the spending, is in the  
14 neighborhood of \$3 million and will grow over time.

15 And so, the Governor's budget is -- is  
16 funneling significant new dollars, \$1.3 billion to  
17 education funding, but, in addition, it closes the  
18 gap between revenues and expenditures going  
19 forward.

20 REPRESENTATIVE SCHWEYER: Right. We  
21 will certainly have plenty of time over the course  
22 of the next three weeks to discuss its impact on  
23 education spending in other areas, criminal justice  
24 reform, and those sorts of things. I'm sure that a  
25 number of members, at least on our side of the

1 aisle, are excited to talk about that.

2 But I really wanted to drive home the  
3 point, that if we do nothing and if the federal  
4 government does nothing, we are going to be facing  
5 a 3 to 3.5 billion-dollar deficit in the upcoming  
6 budget year. And that's -- that's your -- that's  
7 your best understanding, that's our best  
8 understanding as --

9 SECRETARY HASSELL: Yes.

10 REPRESENTATIVE SCHWEYER: Okay.

11 So, if we do nothing, the results of us  
12 doing nothing or hoping for a life line from the  
13 federal government is about a 10 percent cut in our  
14 overall spending which will impact everything that  
15 all of us are doing.

16 SECRETARY HASSELL: Yes, that is my  
17 understanding.

18 REPRESENTATIVE SCHWEYER: Okay. Thank  
19 you, sir.

20 I also want to point out that even  
21 though a bunch of us are certainly optimistic and,  
22 perhaps, hopeful that the new Administration in  
23 Washington D.C. will provide us with a significant  
24 windfall of stimulus money, even if they do that,  
25 that's still gonna be one-time money just like we

1 experienced during the Great Recession a few years  
2 back. So, there still will be a fiscal cliff that,  
3 at some point in time, we're still going to have to  
4 account for and fund, correct?

5 SECRETARY HASSELL: Yes.

6 REPRESENTATIVE SCHWEYER: So, the bottom  
7 line of all this is, even if -- And I've heard from  
8 a number of colleagues on both sides of the aisle,  
9 even if the federal government is quick to act and  
10 even if the federal government is quick to act in a  
11 mean -- in a manner that will provide a significant  
12 funding, ultimately, we are still going to be  
13 facing the effect of the pandemic -- the economic  
14 effect of the pandemic for some time, and we're  
15 going to have to account for that. So, thank you.  
16 Thank you, Mr. Secretary.

17 If I may change gears very quickly, I  
18 want to discuss some good news with your  
19 department. Full disclosure, my wife is an  
20 employee of the Lottery. So, I do have some  
21 questions about the Lottery, and I just want to  
22 highlight a success story over the last year or  
23 two.

24 And so, did I see correctly that we --  
25 we got past \$5 billion of sales? Did I see that

1 correctly?

2 SECRETARY HASSELL: Drew, would you  
3 handle that question?

4 MR. SVITKO: Yes. Thanks.

5 We have not yet surpassed \$5 billion.  
6 We never have in our history. But, we're having a  
7 great year, and we are currently projecting that we  
8 will end this fiscal year somewhere north of  
9 \$5 billion in traditional sales.

10 REPRESENTATIVE SCHWEYER: That's  
11 remarkable. And so, when I looked at the breakdown  
12 of the first 32 weeks, it looks like instant sales  
13 were up almost 22 percent. The draw sales were up  
14 20, and iLottery is up over 51 percent. What do  
15 you attribute this growth to?

16 MR. SVITKO: So, thanks for the  
17 question.

18 Yeah. So there's a whole bunch of  
19 reasons. About 275 of them would be that the team  
20 of professionals we have that are absolutely laser  
21 focused on driving sales and profits rolls to  
22 Pennsylvanians.

23 We've had some jackpot luck this year.  
24 So we had Powerball and Mega Millions jackpots  
25 approaching a billion dollars, and that absolutely

1 helped sales. Before that, Scrath-Off sales were  
2 incredibly strong. And, you know, I think it's due  
3 to great execution of our product plan out in the  
4 field. I think it's due to the relationships we  
5 have with our retailers, and the fact that many of  
6 our retailers were doing quite well during the  
7 pandemic, have been doing quite well, in that, they  
8 are essential businesses and selling lots of  
9 grocery products, right, for example.

10 So we, generally, the Lottery sales and  
11 profits rise and fall with the fate of retail, and  
12 the sectors in which we have the greatest  
13 penetration, grocery, and convenience are doing  
14 quite well these days, and so, we're, you know,  
15 benefiting from that.

16 REPRESENTATIVE SCHWEYER: Very good.  
17 Thank you, sir.

18 Mr. Chairperson, I see my time is up.  
19 So thank you, sir.

20 MAJORITY CHAIRMAN SAYLOR: Okay.  
21 Recognize Representative Struzzi.

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

24 Good morning, Mr. Secretary. I'd like  
25 to continue the line of questioning from

1 Representative Topper on revenue estimates, job  
2 growth, job creation, et cetera, as we look at the  
3 '21-22 fiscal year.

4           Within your testimony there was no  
5 mention of the Regional Greenhouse Gas Initiative  
6 which the Governor continues to move forward with,  
7 along with the DEP even in this time of pandemic,  
8 job losses and lost revenues. The Regional  
9 Greenhouse Gas Initiative, as I'm sure you know,  
10 will create a carbon tax on emissions. And if it  
11 does move forward, it will be implemented in early  
12 2022.

13           My concern, as we look at revenues,  
14 projected revenues, economic impacts are what RGGI  
15 will do to our economy here in Pennsylvania. And  
16 as I said, there was no mention of that in your  
17 testimony. Can you speak to that? Are you looking  
18 at the impacts of entering into RGGI on the overall  
19 economy of this state?

20           SECRETARY HASSELL: I don't think that  
21 we have looked at that. My understanding was that,  
22 the RGGI arrangement is based on fees and that  
23 there's no tax component of it.

24           REPRESENTATIVE STRUZZI: Good. It is  
25 known that, and even the Governor admitted this in

1 his budget presentation, by creating the Energy  
2 Communities Trust Fund, he said specifically this  
3 will shut down our coal-fired electric generation  
4 plants and seriously harm the energy industry,  
5 which employs thousands of people in Pennsylvania;  
6 creating millions in tax dollars in revenue for  
7 this state.

8           So, I think it's very short-sighted to  
9 not consider the impacts of those job losses, those  
10 lost tax dollars when you're looking at revenue  
11 projections for the upcoming fiscal year. I would  
12 urge you to reconsider that and take into account  
13 these job losses, because it is widely known that  
14 more than 8,000 jobs will be lost if RGGI is  
15 implemented.

16           I think that's something that really  
17 needs to be considered as we continue to move  
18 forward with these types of initiatives. I am  
19 extremely concerned with the impact on  
20 Pennsylvania.

21           We look at Texas right now with the  
22 outages that they're having. And, you know, what  
23 happens here if we move forward with RGGI and we  
24 become an energy exporter, that's gonna impact your  
25 budget. That's gonna impact the state budget

1 because those revenues are going to go elsewhere.

2 So, I urge you to reconsider, to take a  
3 look at the impacts of RGGI. I would love to see a  
4 report that says, here is the economic impact of  
5 RGGI. I have not seen that to date.

6 I believe I asked this question last  
7 year and I'm gonna ask it this afternoon to the  
8 Independent Fiscal Office, what are the economic  
9 impacts of entering into RGGI? No one has provided  
10 that information. So, I would ask you to consider  
11 that. I would love to see a report showing what  
12 would happen if we enter into RGGI.

13 So, I will give back the rest of my  
14 time. Thank you, Mr. Chairman.

15 MAJORITY CHAIRMAN SAYLOR:  
16 Representative Fiedler.

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

19 Thank you for joining us. While we can  
20 debate the actual threshold for tax forgiveness, I  
21 think it's clear that we need to raise that  
22 threshold to help working families across the  
23 Commonwealth. As was stated, the income limits  
24 have not been increased since 2003. And if those  
25 limits were indexed to inflation, a family earning



1 \$48,000 would qualify for tax forgiveness this  
2 year.

3 But, obviously, all of us have heard  
4 from our constituents, many who were struggling  
5 before the pandemic, about the financial challenges  
6 that they face. And I believe that called those  
7 lawmakers to do more than just continue the status  
8 quo and keep up with inflation, and we should do  
9 extra to ensure that we are supporting working  
10 families and making sure that they can pay their  
11 bills. By extra, I mean more than the status quo.

12 Could you talk for us a little bit about  
13 Pennsylvania's regressive tax system? I understand  
14 Pennsylvania ranks among the 10 worst states for  
15 the regressive nature of our tax system. If you  
16 could talk about that, and also, how we could  
17 address that problem to make our tax system more  
18 fair for our state's many working-class and middle-  
19 class families.

20 SECRETARY HASSELL: Sure. Thank you.

21 Yes, it's true there have been some  
22 studies released looking at the distribution of the  
23 burden of state and local taxes state by state.

24 Pennsylvania routinely ranks as one of  
25 the states with the most regressive system;

1 meaning, simply that, the bottom income strata of  
2 our Commonwealth tends to pay much more as the  
3 percentage of income in state and local taxes than  
4 people at the highest income levels. Those numbers  
5 are, for the lowest, 20 percent. Those folks are  
6 paying roughly 13 percent in state and local tax,  
7 and the top one percent is approximately 5 percent.

8 REPRESENTATIVE FIEDLER: And can you  
9 talk about the actual impact that has on families  
10 across the Commonwealth and, obviously, also from a  
11 revenue perspective?

12 SECRETARY HASSELL: Sure. There's no  
13 question that that tax burden is going to be an  
14 impediment for people who are trying to get  
15 started; people who are struggling. Maybe they  
16 have been laid off from a job or, you know, having  
17 some sort of difficulties, and having a very high  
18 tax burden is just not helpful.

19 The Governor's plan, as I already  
20 mentioned, is designed (video difficulty) the  
21 expansion of tax forgiveness, but also with the  
22 higher minimum wage to \$12 initially and then  
23 rising to \$15.00.

24 REPRESENTATIVE FIEDLER: Thank you for  
25 that.

1           If I could ask you about a separate  
2 matter that I hear a lot about in my district in  
3 South Philly, which is the property tax and rent  
4 rebate. Every year fewer and fewer senior citizens  
5 are receiving these rebates.

6           Could you explain to us how we can  
7 ensure that this program is being fully utilized by  
8 the people in our districts and is benefiting  
9 people who need the assistance most?

10           SECRETARY HASSELL: Sure. Yes, it is  
11 true that each year that goes by, the numbers  
12 decline a little bit. This year has been no  
13 exception, and I think it's typically because of  
14 (video difficulty) then more people are sort of  
15 forced out of the program and, ah -- and so, our  
16 numbers are in decline.

17           The -- The tax forgive -- excuse me --  
18 The property tax rebate program hasn't been  
19 expanded for some time. And so, the -- the issue  
20 will be, is there money available in order to  
21 expand the program? But, for our part we have been  
22 doing everything we can to make sure that people  
23 who are eligible take advantage of the program.

24           Last year, the General Assembly provided  
25 for issuing property tax rebates early. We took

1 advantage of that, working with the Treasurer, to  
2 get over 300,000 checks out prior to July 1st.

3 This year, one important change that's  
4 being made is that, property tax rebate program is  
5 now in our PATH program and, therefore, people are  
6 able to file that claim online, so they won't have  
7 to go out of their homes if they're concerned about  
8 the pandemic. They'll be able to go online and  
9 fill out the claim form and interact with us  
10 electronically.

11 We're hoping that people will take  
12 advantage of that, and that more people will come  
13 in and be able to file the claim and get the rebate  
14 that they deserve.

15 REPRESENTATIVE FIEDLER: Thank you.

16 MAJORITY CHAIRMAN SAYLOR:  
17 Representative Torren Ecker.

18 REPRESENTATIVE ECKER: Thank you, Mr.  
19 Chairman.

20 And thank you, Mr. Secretary, for having  
21 our questions today. I'm gonna circle back around  
22 to the actual forms and, really, the mechanisms  
23 with which we're going to achieve the proposed tax  
24 forgiveness program.

25 First and foremost, is there any

1 language being -- I have not seen language yet.  
2 I'm not sure if you've worked on language, how this  
3 bill or amendment, or however you're intending to  
4 propose the tax forgiveness expansion. Is there  
5 any language out there, or has the Governor  
6 proposed any?

7 SECRETARY HASSELL: We are working on  
8 language, and we'll get that to you as soon as we  
9 can.

10 REPRESENTATIVE ECKER: Okay.

11 So, I think this comes down to a  
12 substance versus form argument. So, the Governor  
13 is trying to say this is a -- is arguing that this  
14 is an expansion of the tax forgiveness --  
15 forgiveness program. However, his own language,  
16 his own words are kind of concerning to me in what  
17 his real achievement here is.

18 So, for example, in his budget address  
19 he said, the first big change we're gonna stop  
20 asking working families to pay the same tax the  
21 rate my family does. Okay.

22 In his letter to the people of  
23 Pennsylvania in the front of his executive budget  
24 book he says, this budget, folks, is on making our  
25 tax system more progressive. That doesn't sound

1 like an expansion of -- of the forgiveness program.

2 And then finally, in his executive  
3 budget, includes statements like, it invests in  
4 Pennsylvanians from all walks of life by making the  
5 state tax system more progressive. The new PIT  
6 rate will be -- The new PIT rate will be  
7 4.49 percent. This change will reduce the burden  
8 on those with less ability to pay, and make the  
9 overall tax system more progressive.

10 So, Mr. Secretary, I know earlier  
11 Representative Lawrence asked the question, is this  
12 a graduated tax plan, progressive tax plan, or is  
13 this an expansion of the -- of the tax forgiveness  
14 program? By the Governor's own words, it sure  
15 seems like this is a roundabout way of a  
16 progressive tax system.

17 Wouldn't you agree by his own words,  
18 this is a sense to set up a progressive tax?

19 SECRETARY HASSELL: No, I don't agree.  
20 He mentioned, um, an all-calculated effective tax  
21 rate on the current system or on any tax system.  
22 I've just been discussing the effective tax rate  
23 across income classes on the previous question.

24 And those are concepts that allow us to  
25 talk about the impact of taxation on individuals.

1 But the effective tax rate is not something that  
2 appears in the law. I think that that's -- The  
3 Governor, as he makes those statements, he's  
4 talking about the impact of the tax system on  
5 individuals.

6 As I already mentioned, that plan is  
7 implemented with a higher 4.49 percent tax rate  
8 that applies to everyone, but with an expanded tax  
9 forgiveness tax credit, that reduces the burden of  
10 the tax on people with lower income levels. One is  
11 -- One is how it's implemented. The other is how  
12 it impacts individuals.

13 REPRESENTATIVE ECKER: But,  
14 Mr. Secretary, then why would the Governor  
15 characterize it himself as a progressive tax? I  
16 mean, if something looks like a duck, quacks like a  
17 duck, it's a duck. So why is -- You know, why is  
18 the Governor working around here?

19 I mean, there's -- He has a mechanism to  
20 pass a constitutional amendment, propose a  
21 constitutional amendment. He never has as it  
22 pertains to a graduated tax program. Why now  
23 trying to re-characterize as, what I think case law  
24 has already defined as an unconstitutional  
25 expansion here?

1                   SECRETARY HASSELL: I think I've already  
2 answered the question, though, honestly. There is  
3 no progressive rate proposed here, and there will  
4 only be one tax rate that applies to everyone.

5                   But, the Governor, again, sees it as a  
6 system that, overall, will be more fair to  
7 individuals by reducing the burden of the tax on  
8 people at lower income levels. And that is true.  
9 That is a fair way to characterize it.

10                  REPRESENTATIVE ECKER: Well, one final  
11 -- Just kind of following up here, one final  
12 question here.

13                  You could really break this into how it  
14 affects three different, we'll call them classes  
15 here. There's gonna be about 43 percent of  
16 taxpayers who will be paying more taxes under this  
17 program; about 5 percent will stay the same, and  
18 52 percent will pay less. So, it seems to me, just  
19 by those numbers alone, we're creating three  
20 separate classes of people paying three different  
21 types of tax rates; whether we want to call it  
22 forgiveness, where they get a check at the end of  
23 the year, or they end up paying more money.

24                  It seems to me, just based on that  
25 alone, wouldn't you agree that there's three



1 separate people -- three separate classes of  
2 individuals paying three separate types of taxes?

3 SECRETARY HASSELL: No. I will say  
4 this. That going back to the language of the  
5 Constitution, it says in black and white that the  
6 General Assembly may establish a class of subjects  
7 of taxation. So it clearly contemplates that this  
8 is an exception to uniformity that allows the  
9 General Assembly to treat some people differently  
10 than others.

11 That is -- That is how the current tax  
12 forgiveness program works, and the Governor's  
13 proposal expands upon that, but it's not  
14 fundamentally different on how it would work.

15 REPRESENTATIVE ECKER: Thank you, Mr.  
16 Secretary.

17 Thank you, Mr. Chairman.

18 MAJORITY CHAIRMAN SAYLOR: With that,  
19 we'll move to Representative Cephas.

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

22 And thank you, Secretary, for your  
23 testimony today. I want to continue on the  
24 conversation of equity. As you know, states and  
25 cities across the Commonwealth of Pennsylvania,

1 pretty much across the country, are putting  
2 together their budgets for this upcoming fiscal  
3 year, and a lot of conversation has been centered  
4 around preparing budgets with an equity lens.

5           The equity lens essentially will be  
6 based on where their investments lie, what type of  
7 tax policy strategy they will have moving on this  
8 fiscal year. And rightly so, as we come out of  
9 this pandemic, it's critical that everyone across  
10 the country feels the impact of investments and how  
11 we'll move forward again with tax policy.

12           A lot of times we talk about equity as  
13 it relates to racial disparities, but I want you to  
14 talk today about the Governor's proposal as it  
15 relates to gender equity. One of the things that  
16 we've seen throughout this pandemic is that, not  
17 only have black and brown communities been  
18 impacted, but women in general have been impacted  
19 throughout this time as well.

20           You had the National Women's Law Project  
21 recently released a report stating that close to  
22 2.2 million women have left the workforce either  
23 to, ahh, leave the industry they worked in, or  
24 child care requirements, or additional caregiver  
25 needs. This is something I want you to speak to as

1 to how the Governor's budget reflects how it will  
2 impact women across the Commonwealth of  
3 Pennsylvania.

4 SECRETARY HASSELL: Thank you.

5 So, the minimum wage proposal, in  
6 particular, I think is one that seems to benefit  
7 women heads of households, in particular. I think  
8 the statistics that I saw was that, that 62 percent  
9 of the beneficiaries are female, and that's -- I  
10 think that that's entirely appropriate to make sure  
11 that those workers are able to support their  
12 families.

13 And when -- when we are -- when we are  
14 working and putting in time at a job, it ought to  
15 be something that fairly compensates us for our  
16 time and allows us to support our families. That's  
17 what that minimum wage proposal is designed to do.  
18 It will have the effect of raising many people out  
19 of poverty, and that especially applies to women in  
20 the workforce who are supporting a family.

21 REPRESENTATIVE CEPHAS: Additionally,  
22 to the minimum wage, can you also speak to the PIT?  
23 According to the IFO, a significant number of  
24 low-wage workers will be impacted by this proposal.  
25 And we know that women make up a good majority of

1 the hospitality industry.

2 So, could you speak to how the PIT will  
3 impact women across the Commonwealth?

4 SECRETARY HASSELL: I think the same  
5 principle applies to the expansion of tax  
6 forgiveness; that people who are supporting family,  
7 women heads of household, in particular, are going  
8 to be beneficiaries of it.

9 I have to say, I don't know that we have  
10 data from the tax system about exactly who the --  
11 which beneficiaries are female. But I think, in  
12 general, the same principle applies; that these are  
13 both things that assist people who are at a  
14 low-income level, those are disproportionately  
15 female heads of households.

16 REPRESENTATIVE CEPHAS: Thank you for  
17 that. Again, as I stated earlier, as we climb out  
18 of COVID-19, we have to take into account what our  
19 policies, how it will impact that 2.2 million  
20 amount of women that have left our workforce and  
21 how they will be incorporated as we move forward,  
22 and as we rebuild our economy.

23 I think my last question, I just want to  
24 shift a little bit. Throughout this pandemic,  
25 we've also heard about small businesses being

1 extremely impacted throughout this time period, as  
2 well as not being able to access the financial  
3 tools that the federal government has offered.

4 My question to that is, what is this --  
5 What is the Governor's proposal doing to help  
6 benefit small mom-and-pop businesses across the  
7 Commonwealth of Pennsylvania?

8 SECRETARY HASSELL: Sure.

9 So, according to the data that we have,  
10 about 400,000 business owners will benefit from the  
11 expanded tax forgiveness. And that's simply  
12 because there are many small businesses that  
13 produce relatively low income and their owners are  
14 not well off.

15 And so, the tax forgiveness (video  
16 difficulty) they're earning a wage or whether they  
17 own a small business. If they fall within the  
18 income perimeters for tax forgiveness, they will  
19 benefit from that.

20 REPRESENTATIVE CEPHAS: Thank you, Mr.  
21 Chairman. Thank you, Secretary.

22 MAJORITY CHAIRMAN SAYLOR:  
23 Representative Natalie Mihalek.

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

1           Thank you, Mr. Secretary, for being with  
2 us today, although virtually. I'm gonna revisit  
3 the very popular discussion today about the special  
4 poverty provision.

5           Just looking at the current thresholds  
6 and they have not been raised in nearly 20 years,  
7 it does give me cause for some concern. I believe  
8 this is somewhere that the General Assembly needs  
9 to examine. Adjusting those thresholds could  
10 provide real relief to struggling families across  
11 the Commonwealth, but I think we need to be very  
12 careful in that examination.

13           I want to go back to something you said  
14 earlier in your testimony, and that was that the  
15 General Assembly has the authority to define  
16 poverty, which we did in Section 301 of the tax  
17 reform code. So I'm curious, how do you define it?  
18 Or is there something in this lengthy budget  
19 proposal that I could find a proposed expansion of  
20 the definition or something that would otherwise  
21 justify a 400 percent increase of that poverty  
22 level to raise these thresholds?

23           SECRETARY HASSELL: I don't think that  
24 we have written a new definition of poverty. It's  
25 simply that the Governor's proposal expands the

1 income parameters in a way that we think honestly  
2 is a reasonable expansion of the way the terms are  
3 defined now. So, I'm not aware that there's a --  
4 that there's a definition of poverty that's revised  
5 that's in the budget book at this point.

6 REPRESENTATIVE CEPHAS: So, you said  
7 this is a reasonable expansion of the definition of  
8 poverty. How were the thresholds chosen? Was  
9 there a method in place if they are not tied to any  
10 existing poverty rates; whether it be, you know,  
11 from the Commonwealth or from the federal  
12 government? How were those thresholds actually  
13 chosen?

14 SECRETARY HASSELL: It came about  
15 through discussion with the Governor's Office and  
16 the Office of the Budget, looking at options for  
17 how to -- how to expand the tax forgiveness program  
18 in order to benefit more people.

19 Because, as I said, the proposal on the  
20 personal income tax has two purposes, obviously.  
21 One is to raise additional revenue, which it does,  
22 and the second one is to reach -- meet the burden  
23 of the tax in a way that's more equitable and  
24 reduce the burden on low-income families.

25 And so, the parameters that are proposed

1 here came out of that discussion about how to do  
2 that in a way that maximizes the benefits for --  
3 for families -- working families in the  
4 Commonwealth.

5 REPRESENTATIVE CEPHAS: So you mentioned  
6 the revenue impact. What is the overall revenue  
7 impact of this tax forgiveness proposal?

8 SECRETARY HASSELL: The tax forgiveness  
9 proposal separately from the other changes, is that  
10 your question?

11 REPRESENTATIVE CEPHAS: Yes.

12 SECRETARY HASSELL: Yes. So, our  
13 estimate is that the tax forgiveness proposal  
14 reduces revenue by 2.78 billion in its initial year  
15 (video difficulty) lower 2.1 billion going forward.

16 REPRESENTATIVE CEPHAS: Thank you.

17 Just quickly. Are you aware of any  
18 existing case law where the courts have defined  
19 poverty for purposes of an exception to the  
20 uniformity clause?

21 SECRETARY HASSELL: No. As I mentioned,  
22 in all the years that the program has existed, I'm  
23 not aware of any case that's challenged it, and  
24 that means that there is no case law out there.  
25 The court has never given us guidance on what you



1 can do or what you can't do with the uniformity  
2 clause in this way.

3 REPRESENTATIVE CEPHAS: Thank you, Mr.  
4 Secretary.

5 MAJORITY CHAIRMAN SAYLOR:  
6 Representative Krueger.

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

9 And thank you, Secretary, for joining us  
10 here today. I have a follow-up question.

11 I, like many of my colleagues, are  
12 trying to understand the impact of the Governor's  
13 tax proposal and who the winners will be in  
14 Pennsylvania and who the losers will be in  
15 Pennsylvania, if this were to be enacted.

16 So, in your testimony you referred to  
17 the 400,000 business owners who will pay less tax  
18 under this proposal. And in a point to one of my  
19 colleagues you just said, if they fall within the  
20 parameters for tax forgiveness, then they will  
21 benefit.

22 Can you explain to us, Mr. Secretary,  
23 what are the parameters and what percentages of  
24 small businesses would receive a tax cut under this  
25 plan?

1                   SECRETARY HASSELL: So the proposed  
2 parameters are \$15,000 of income per claimant; so,  
3 therefore, 30,000 for a married couple; \$10,000 per  
4 dependent, phasing down with a one percent decrease  
5 for every \$500 of additional income beyond those  
6 limits. So those are the parameters I was  
7 referring to.

8                   I'm gonna ask Amy Gill if she could fill  
9 in the additional detail about the overall impact  
10 on business owners.

11                   DEPUTY SECRETARY GILL: Yes. Thank you,  
12 Dan.

13                   So, overall, business owners can benefit  
14 under this plan. The statistics we have indicate  
15 that a majority will benefit from this plan, and it  
16 is broken down by sole proprietorship versus other  
17 types.

18                   So, over 400,000 business owners will  
19 pay less tax under this proposal, and they will  
20 receive a total tax cut of almost 239 million.  
21 Over 291,000 sole props, which are often the  
22 smallest of businesses, pay less tax under this  
23 proposal. They have a total tax cut of nearly 174  
24 million. And 62 percent of sole props will pay  
25 less or the same amount of tax under this proposal.

1                   REPRESENTATIVE KRUEGER: I'm sorry.  
2 Just to clarify. How many small businesses do we  
3 currently have in Pennsylvania?

4                   DEPUTY SECRETARY GILL: There are  
5 roughly 752,000 sole props.

6                   REPRESENTATIVE KRUEGER: So 291,000 out  
7 of 750,000 would benefit?

8                   DEPUTY SECRETARY GILL: 62 percent will  
9 pay less or the same. 291,000 will pay less.

10                  REPRESENTATIVE KRUEGER: And then, what  
11 about for other kinds of businesses? I know sole  
12 proprietors are not the only kind of small  
13 businesses we have here in Pennsylvania.

14                  DEPUTY SECRETARY GILL: Yes. Those are  
15 -- The business profits flow through from S Corps  
16 and Partnerships. For Partnerships, they could  
17 flow through to corporate owners, or they can flow  
18 through to personal -- to individuals. So, there  
19 will be businesses that pay less under this, and  
20 there will be businesses that pay more.

21                  So, if the numbers are a little bit  
22 different than the sole prop, that is because the  
23 average income of a partnership or an S Corp can be  
24 higher. So there are 540,000 returns -- with  
25 incomes from S Corps or Partnerships. 47 percent

1 are better off or neutral. So that means there are  
2 288,600 returns that pay more.

3 The average taxable income of the return  
4 with a S Corp or a Partnership income that pay  
5 more, that average taxable income is \$366,000.

6 REPRESENTATIVE KRUEGER: Thank you.

7 And I want to look at the flip side of  
8 this proposal, because I know the Governor is again  
9 proposing combined reporting, which is essentially  
10 about tax fairness.

11 Right now, small businesses who are  
12 headquartered in Pennsylvania pay a larger percent  
13 of the tax revenue because out-of-state  
14 corporations pay less. So, can you talk about the  
15 combined reporting proposal?

16 And I know this is something that we  
17 have come up against over multiple years of budget  
18 hearings. What are the barriers to actually  
19 enacting combined reporting this year?

20 SECRETARY HASSELL: So, the proposal is  
21 to enact combined reporting, and it's the method of  
22 calculating corporate profits in the corporate and  
23 income tax, and also to reduce the rate the  
24 Governor's goal has been.

25 As you mentioned, though, over multiple

1 years he's made similar proposals, and continues to  
2 be to reduce the rate down to 5.9 -- 5.99 percent  
3 over a period of time.

4           The reason why combined reporting raises  
5 additional revenue is that, it eliminates the  
6 ability of corporations to shift profits out  
7 entities that do business in Pennsylvania. When a  
8 business is an entity that is part of a corporate  
9 group and has multiple subsidiaries that operate in  
10 public places, then they have the ability to have  
11 transactions between those related entities in  
12 order to make sure profits don't occur in  
13 Pennsylvania-related entity. It's really that  
14 simple.

15           The combined reporting asks each  
16 corporate group to combine the operations of all  
17 the separate subsidiaries into one calculation of  
18 profit and then portions that profit to  
19 Pennsylvania, so we can tax a fair share. That  
20 puts everyone on a level-playing field.

21           Obviously, the biggest businesses have  
22 the greater ability to do that as compared to a  
23 small entity that only has one corporation rather  
24 than being part of a group. And what we have now  
25 is that those small corporations are paying the

1 full rate of 9.99 percent; whereas, many of the  
2 large groups are able to avoid the full impact of  
3 that rate.

4 So the Governor's plan is to -- is to  
5 make sure that everyone, all the corporations are  
6 treated the same and to spread the benefits of  
7 that, that new tax compliance, broadly across all  
8 taxpayers.

9 You asked what are the barriers? I  
10 think it boils down to the willingness of the  
11 General Assembly to tackle that issue.

12 REPRESENTATIVE KRUEGER: Thank you, Mr.  
13 Secretary.

14 Thank you, Mr. Chairman.

15 MAJORITY CHAIRMAN SAYLOR:  
16 Representative Fritz.

17 REPRESENTATIVE FRITZ: Thank you,  
18 Chairman Saylor.

19 Good morning, Secretary. Thank you for  
20 joining us --

21 SECRETARY HASSELL: Good morning.

22 REPRESENTATIVE FRITZ: -- albeit  
23 virtually.

24 Mr. Secretary, I'm from the 111th. I  
25 proudly represent Wayne and Pike counties,

1       comprised largely of blue-collar folks. We're  
2       talking farmers, bluestone industry, timberers,  
3       folks that swing a hammer to make a living. These  
4       people deserve and earn and work hard for every  
5       dollar and every cent that they see in their  
6       paycheck.

7                       With the proposed personal income tax  
8       increase, Pennsylvanians will see 46.3 percent  
9       more, more in taxes taken out of their paychecks.  
10      Now, the Administration attempts to soften the blow  
11      of that reality by expanding the segment of  
12      Pennsylvanians that qualify for a decreased  
13      withholding. Mr. Secretary, Pennsylvania has a  
14      population of 12.8 million. We have 6.4 million  
15      folks that file taxes, and 1.5 of those that  
16      qualify for 100 percent forgiveness.

17                      Mr. Secretary, please share with us how  
18      many Pennsylvanians will see a rate that is below  
19      or less than that proposed rate of 4.49 percent.

20                      SECRETARY HASSELL: So, as I mentioned  
21      before, everyone is subject to the same rate, the  
22      4.49 percent under the proposal. And the breakout  
23      of individuals by income level, as we've already  
24      talked about, the number of returns that receive  
25      full tax forgiveness, the 100 percent, is

1 2.2 million people under the proposal.

2 REPRESENTATIVE FRITZ: Okay. Thank you.  
3 We're driving home what I'm trying to get at.  
4 Those folks, unless they file a Form REV-419,  
5 which, based on my experience and broader  
6 understanding, many do not, those folks will see a  
7 full-scale withholding from their paycheck. They  
8 will see less money.

9 And, Mr. Secretary, what I'm really  
10 trying to highlight is that, Pennsylvanians,  
11 especially during a pandemic, are hamstrung. They  
12 need every single dollar and every single penny  
13 that comes from that. I'm even going to touch on  
14 real quickly, from a macro standpoint, that is the  
15 tax policy like this, increases like this that  
16 leads to out-migration of Pennsylvania. Frankly,  
17 folks vote with their feet. They up and move to  
18 places where there are less taxes, and it's easier  
19 to make a living and survive and provide for their  
20 family.

21 Mr. Chairman, I have no further  
22 questions.

23 Thank you, Mr. Secretary.

24 SECRETARY HASSELL: May I respond to  
25 that, Mr. Chairman?



1 MAJORITY CHAIRMAN SAYLOR: No,  
2 Mr. Secretary. He ended it with a statement.

3 Next is Representative -- Representative  
4 Austin Davis.

5 REPRESENTATIVE DAVIS: -- to the new  
6 system here. Thank you, Mr. Secretary.

7 MAJORITY CHAIRMAN SAYLOR: Austin, if I  
8 may, your name plate, would you please? We won't  
9 start the time until you get your name plate for  
10 the stenographer's purposes. Thank you, Austin.

11 REPRESENTATIVE DAVIS: Somebody's got to  
12 be that guy, right? So, of course, it would be me.

13 Thank you, Mr. Chairman.

14 And thank you, Mr. Secretary, for  
15 joining us today. My question is really around our  
16 overall tax system. I represent the Mon Valley  
17 portion of Allegheny County, which is a significant  
18 portion of working-class Pennsylvanians who work in  
19 our steel mill systems and just blue-collar  
20 workers. But Pennsylvania ranks among the worst --  
21 the worst 10 states for our regressive nature of  
22 our tax system.

23 Can you explain -- Can you explain how  
24 Pennsylvania compares to other states in terms of  
25 how our regressive tax system is?

1                   SECRETARY HASSELL: Sure. I can start  
2 and then maybe Amy can -- can jump in.

3                   But, overall, we rely on a flat rate  
4 personal income tax currently, 3.078 percent. We  
5 have a sales tax that applies to many things that  
6 we all buy, of course. We rely on on a combined  
7 state and local calculation, on property taxes that  
8 also tend to be regressive. And we also rely  
9 significantly on revenue from excise taxes, things  
10 like cigarette tax that tend to be heavily  
11 concentrated in their impact on people at the  
12 lowest income levels.

13                   Pennsylvania does not and cannot adopt a  
14 progressive rate tax structure. It would be  
15 similar to what other states have to increase  
16 progressivity. And so, the result is that we have  
17 a number of features in our statute that results in  
18 a concentration of tax liability toward the lower  
19 income levels.

20                   Amy, do you want to add anything to  
21 that?

22                   DEPUTY SECRETARY GILL: Yes.

23                   So as noted before, we are in the top 10  
24 of the most terrible regressive states. Dan  
25 outlined the reasons why.

1           I would note that of the other states in  
2 the 10 most regressive, seven of them have little  
3 to no income tax. So, we are somewhat unique, in  
4 that, we have an income tax, but it is a flat rate.  
5 The proposal will keep the flat rate, but will  
6 increase the tax forgiveness which has not been  
7 increased since 2003.

8           In addition to that, the income  
9 inequality is well-known, as has been mentioned  
10 before. The median income of Hispanic and black  
11 families should benefit from the SP expansion due  
12 to the concentration and the lower income level.  
13 So, our thinking is that this tax forgiveness  
14 expansion would help to reduce some of the  
15 inequality among income.

16           REPRESENTATIVE FRITZ: Thank you. And  
17 just a follow-up question. There's been a lot of  
18 attention paid to the proposed increase in the  
19 Governor's budget. But, can you just lay out for  
20 me pretty clearly how many Pennsylvanians will  
21 receive a tax cut under Governor's Wolf's current  
22 budget proposal?

23           SECRETARY HASSELL: Amy, why don't you  
24 keep going.

25           DEPUTY SECRETARY GILL: Yes.

1 Under the tax proposal, 2.6 million  
2 returns, that's 40 percent, will receive a tax cut.  
3 1.7 million will remain neutral, and 33 percent  
4 will pay more. The average income of those paying  
5 more is considerably higher than those paying less.  
6 The average current taxable income for those that  
7 would pay more under this proposal is 157,000. So,  
8 altogether, 67 percent of taxpayers will see a tax  
9 cut or remain neutral.

10 I would also point out, in both Wayne  
11 and Pike County, that the majority of people either  
12 do better or are no worse off, since those counties  
13 had been mentioned before.

14 REPRESENTATIVE FRITZ: Thank you. Thank  
15 you, Secretary, and thank you, Deputy Secretary,  
16 for being with us today.

17 And thank you, Mr. Chairman. I yield  
18 back my time.

19 MAJORITY CHAIRMAN SAYLOR:  
20 Representative Meghan Schroeder.

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

23 Secretary Hassell, thank you for being  
24 here. Your testimony that we have here states that  
25 more than 80 percent of your workforce is working

1 remotely; is that correct?

2 SECRETARY HASSELL: Yes. It's closer to  
3 85 percent, yes.

4 REPRESENTATIVE SCHROEDER: Okay. So for  
5 our constituents that are watching at home today,  
6 how are we ensuring taxpayers' identity and private  
7 information are being protected while 85 percent of  
8 your workforce is working at home remotely? How  
9 are you managing that protection?

10 SECRETARY HASSELL: In several ways.  
11 (Video difficulty) are working at home are done  
12 through a virtual private network, BPN, as it's  
13 known, which is an encrypted method of  
14 communication to make sure that our communications  
15 between a laptop in their home and the main office  
16 cannot be intercepted by anyone.

17 Beyond that, we -- we take a number of  
18 steps in order to make sure that employees, for  
19 example, can't print out anything that they -- that  
20 they're looking at from the office system. They're  
21 all under (video difficulty) the need to maintain  
22 the confidentiality of tax system information.  
23 They all have been educated in the requirement, not  
24 only of state law, but also (video difficulty)  
25 taxpayer information is paramount, and whenever we

1 learn of anyone who has -- has broken those rules,  
2 then we take disciplinary action. So we take the  
3 confidentiality of taxpayer information very  
4 seriously.

5 REPRESENTATIVE SCHROEDER: How --

6 SECRETARY HASSELL: And that applies  
7 whether the person is working at home or in the  
8 office.

9 REPRESENTATIVE SCHROEDER: Okay. Sorry.

10 So how exactly are you, if somebody  
11 breaks that or printing from, like, a home computer  
12 or breaches that, how are you even realizing that?

13 SECRETARY HASSELL: As I said, you can't  
14 print from a state laptop to a local computer --  
15 local printer. And in those rare instances where  
16 people do have some kind of paperwork that is  
17 related to their job, then we provided a locked  
18 filing cabinet in order to allow them to keep that  
19 material confidential.

20 But, in general, there shouldn't be  
21 paperwork sitting around in a home office that  
22 relates to any Department of Revenue work.

23 REPRESENTATIVE SCHROEDER: Okay. I just  
24 think it's really important as we go through this.  
25 I know it's the first time for everyone going

1 through a pandemic. But, I think our taxpayers'  
2 private information really needs to be kept secret  
3 and private.

4 And if you're saying that you were  
5 enforcing certain rules, I just didn't know how you  
6 were managing that if you're not there physically  
7 with them.

8 And with that, what are our savings that  
9 the department has realized with having people not  
10 physically working in the workplace that your  
11 department has seen?

12 SECRETARY HASSELL: Yes. We have --  
13 There are some savings that are recognized in our  
14 budget this year.

15 As part of the process of dealing with  
16 the pandemic throughout 2020, we weren't able to  
17 get everyone back to work immediately because we  
18 didn't have enough laptops to distribute to  
19 employees. And, as a result, we loaned over a  
20 hundred employees to other agencies to, for  
21 example, to help the Department of Labor and  
22 Industry to deal with their influx of calls about  
23 the unemployment compensation system. And the  
24 result of that is that there's a short-term benefit  
25 in our budget where another agency is effectively

1 paying our employees for that time period.

2           Going beyond that, we've also started to  
3 look at our footprint statewide in regional  
4 offices, and we've taken a few steps to either  
5 close an office or to consolidate offices that are  
6 nearby, and that has resulted in significant  
7 savings, in some cases, by eliminating unnecessary  
8 office space. The most recent figure that I have  
9 is that the total cost avoidance on reducing our  
10 footprint is about \$300,000.

11           REPRESENTATIVE SCHROEDER: Okay. So,  
12 when you said you consolidated, is that any jobs  
13 lost of employees that --

14           SECRETARY HASSELL: No.

15           REPRESENTATIVE SCHROEDER: -- you had or  
16 just consolidating those satellite offices?

17           SECRETARY HASSELL: No. It's  
18 consolidating and asking more people to telework so  
19 that they're not in the office all the time.

20           REPRESENTATIVE SCHROEDER: And then, I  
21 guess just to follow up with that real quick, is  
22 that, we work with the liaison office through our  
23 offices or constituents. And so, when you're doing  
24 that, is the process gotten any different? Has  
25 time changed with getting back to constituents



1 through your office for us to relay messages back?  
2 That time frame, has that changed?

3 SECRETARY HASSELL: So the -- It has for  
4 a long time been a challenge for the department to  
5 be able to respond to incoming phone calls. So, I  
6 don't want to mislead anyone to thinking that that  
7 problem is solved, but I do think it has improved  
8 over time. We have tried to make best use of the  
9 Commonwealth's new phone call distribution system.  
10 It's called Genesis.

11 REPRESENTATIVE SCHROEDER: Thank you.

12 SECRETARY HASSELL: In our transition to  
13 telework, we have been able to extend the Genesis  
14 system to individuals who are working at home so  
15 that they're directly in this encrypted environment  
16 to answer phone calls while they're at home.

17 And we have (video difficulty) at home  
18 taking phone calls, assisting taxpayers. And a  
19 couple years ago, we were dealing with an issue  
20 where many people would call and get a busy signal  
21 because they couldn't even get into queue. Now I  
22 think we're at the point where people are calling,  
23 we are getting into queue. There may be times when  
24 the wait times are longer than I'd like them to be,  
25 but that's a work in progress we're continuing to

1 emphasize; the importance of customer service and  
2 putting additional people on the phones when we  
3 can.

4 REPRESENTATIVE SCHROEDER: Well, thank  
5 you so much.

6 Thank you. Mr. Chairman.

7 MAJORITY CHAIRMAN SAYLOR:  
8 Representative Kim, would you move your tent over  
9 to the microphone as well. And with that, I'll  
10 recognize Representative Patty Kim for questioning.

11 REPRESENTATIVE KIM: Thank you, Mr.  
12 Chairman.

13 This is more just a comment for  
14 Secretary Hassell. I'm really grateful that the  
15 higher minimum wage is back in the budget. It's  
16 important that we raise the wage floor. About  
17 1 million Pennsylvanians would see a higher  
18 earnings if the wage is raised to \$12 per hour. I  
19 want to note that 61 percent will help working  
20 women. Many stayed at home while the kids went  
21 online for school. And we'd like to bring back a  
22 robust workforce. Let's not go back to the pre-  
23 COVID status quo of 7.25 an hour.

24 The Administration projects that with  
25 the additional sales and income taxes of higher

1 incomes that we'll see an additional \$116 million  
2 in revenue.

3 Now, I have a question for the executive  
4 director of PA Lottery. It looks like tech  
5 companies and the Lottery did very well during the  
6 pandemic. Unfortunately, I don't foresee the  
7 Lottery exceeding projections post-COVID.

8 In the IFO report it show, once again,  
9 that the population for senior citizens is growing  
10 and a percentage is living longer. On the  
11 demographic chart, I've never seen this before.  
12 Maybe I just missed it. But there's a category for  
13 people over 100 years old. It shows, every five  
14 years it projects the population will grow by a 100  
15 people. I thought that was remarkable.

16 Now, Lottery funds support older  
17 Pennsylvanians. But we're seeing increased  
18 competition, a minimum profit margin requirement  
19 that will expire in a couple of years.

20 Executive Director, what would you like  
21 to see within the Lottery system to help fund these  
22 important programs for senior citizens?

23 MR. SVITKO: Thanks for the question.  
24 That's a great question.

25 I think, in general, the Lottery exists

1 to benefit older Pennsylvanians. We are striving  
2 every day to generate more sales and profits for  
3 those programs. So, what I'd like to see is just  
4 the continued ability for the Lottery to function  
5 very much as it does today, which is, you know,  
6 it's an unusual role for a government agency.  
7 We're selling consumer packaged goods at retail.  
8 And so, I'd love it if we could just continue to do  
9 that and continue to work with our retail partners  
10 to continue to sell an entertaining and engaging  
11 product to generate more money for those important  
12 senior programs.

13 REPRESENTATIVE KIM: Director, is there  
14 any specific legislation that you saw last session  
15 that you would like to see again passed for the  
16 '21-22 fiscal year?

17 MR. SVITKO: I haven't. No, I don't  
18 think there's any specific legislation proposed  
19 that we're looking to pass. I think this has been,  
20 you know -- Probably the majority of any ask that I  
21 have is related to the Games of Skill. These are  
22 legal gaming machines that are all throughout  
23 Pennsylvania. About 28 percent of our retailers  
24 have at least one of those machines. These illegal  
25 machines, you know, are competition to us, and our

1 mission to generate money for older Pennsylvanians.

2 I think the increase of gaming in the  
3 marketplace is dangerous and risky. Again, I'm,  
4 you know, harmful in the long run to us and our  
5 mission of generating money for those important  
6 programs.

7 REPRESENTATIVE KIM: All right. Thank  
8 you, Director.

9 Mr. Chairman, thank you very much.

10 MAJORITY CHAIRMAN SAYLOR:  
11 Representative Linda Culver.

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

14 Secretary Hassell, I just have a few  
15 questions that I'm going to touch back on what one  
16 of my colleagues did talk about. I think it's been  
17 confirmed about 85 percent of the employees with  
18 the department are now working from home.

19 Were there additional costs incurred to  
20 set them up with equipment to be able to do that?

21 SECRETARY HASSELL: The answer to that  
22 is yes. Kristin, would you answer that question?

23 DEPUTY SECRETARY HEIDINGSFELDER: Yes.  
24 Sorry. I had trouble un-muting.

25 Yes, the department purchased a

1 significant number of laptops in order to enable  
2 employees to work from home, and the cost of that  
3 was \$1.6 million to purchase the laptops and  
4 related equipment.

5 REPRESENTATIVE CULVER: Okay. So, to  
6 dovetail on that, I have a district in which the  
7 revenue office was closed. How many across the  
8 Commonwealth were closed?

9 SECRETARY HASSELL: There were three  
10 offices that were closed; one in Sunbury, one in  
11 Brookhaven, and one in Pittsburgh for the  
12 inheritance tax collections unit.

13 REPRESENTATIVE CULVER: So the employees  
14 that were at those offices, are they still doing  
15 the same job, or did you have to reallocate what  
16 they were doing?

17 SECRETARY HASSELL: In general, they  
18 have been doing the same job, to the extent that  
19 COVID-19, the pandemic, hasn't changed all of our  
20 jobs to some extent.

21 And what I mean by that, is that, during  
22 the last year, we have really emphasized customer  
23 service in our field offices as opposed to doing  
24 the traditional collection work, going out and  
25 knocking on doors and asking people, you know,

1 where's your payment? That kind of thing has been  
2 greatly reduced, and many of our field staff have  
3 shifted more toward answering phone calls and  
4 providing service.

5 But, aside from that, yes, people are  
6 still acting within their job descriptions at this  
7 point.

8 REPRESENTATIVE CULVER: So did you plan  
9 for or account for the senior citizens or the  
10 people that needed their state taxes done or had  
11 questions or tax clearances, are there arrangements  
12 made or was there a plan to address the people that  
13 have needs?

14 SECRETARY HASSELL: Yes. So, in all of  
15 our offices, we continue to offer the ability for  
16 people to call, make an appointment, and come in  
17 and they can (video difficulty) following the  
18 social distancing guidelines. And the reason for  
19 making the appointment is simply that it avoids  
20 having people standing in line in an office and  
21 being too close to one another.

22 REPRESENTATIVE CULVER: I hate to  
23 interrupt you, but you're saying the people in  
24 Sunbury can make a phone call and get an  
25 appointment with somebody from the Department of

1 Revenue?

2 SECRETARY HASSELL: I'm sorry. The  
3 audio dropped out there for a minute, so I didn't  
4 hear your question.

5 REPRESENTATIVE CULVER: I was referring  
6 to the closed offices. Are you saying that the  
7 constituents in those districts can call the  
8 Department of Revenue and get an appointment with  
9 them and meet with them in person?

10 SECRETARY HASSELL: I'm not certain  
11 about the situation in Sunbury. I don't know,  
12 Kristin, if you're familiar with that?

13 My understanding is that we are still  
14 assisting in person and over the phone.

15 REPRESENTATIVE CULVER: So, if you are,  
16 I can tell you that it's a very little known fact,  
17 because our offices have seen in the valley a  
18 significant uptick in constituents that don't know  
19 where to go to get help.

20 And when the offices were closed, we  
21 were told that there would be open houses at places  
22 like libraries and public locations. I haven't  
23 seen that happen. So, in my office, we call this  
24 property tax rebate season. I'm sure we all do.  
25 And with the change in technology, that has seniors



1 even more concerned about, you know, will they get  
2 the rebate; how is this going to work. Any time  
3 you do any kind of new technology, there's always  
4 unintended consequences.

5 So I guess my question is, not only are  
6 my folks feeling as though they're not getting the  
7 help they used to receive or aren't able to get  
8 forms, can you assure us that there won't be any  
9 glitches, and that these will be processed and  
10 administered in a timely fashion?

11 SECRETARY HASSELL: I probably shouldn't  
12 make hard promises that there won't be glitches.  
13 But I can tell you that we're working very hard to  
14 make sure that it all (video difficulty) --

15 REPRESENTATIVE CULVER: Last year we  
16 passed Act 20 of 2020, which allowed you to  
17 disburse them roughly six weeks early. Are you  
18 anticipating doing that again this year?

19 SECRETARY HASSELL: Not unless the  
20 statute is changed again. That was a one-time  
21 event.

22 REPRESENTATIVE CULVER: All right.  
23 Thank you so much for your time.

24 Thank you, Mr. Chairman.

25 MAJORITY CHAIRMAN SAYLOR:

1 Representative Webster.

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

4 Good morning, Mr. Secretary.

5 SECRETARY HASSELL: Good morning.

6 REPRESENTATIVE WEBSTER: As a new member  
7 to this committee, I'm learning a lot through the  
8 first budget cycle and any annual revenue that  
9 we're discussing here today. I have a couple of, I  
10 think they're technical questions, but they lead to  
11 major implications in Pennsylvania budgeting.

12 So, we've talked about some of the  
13 policy issues that have longer-term impacts, and I  
14 think we've maybe worn out a little bit the  
15 discussion on our regressive tax structure, but  
16 that's a major policy impact that becomes  
17 structural, becomes systematic over time.

18 There's a couple other policy proposals  
19 in this -- in the new budget, and I'll list at  
20 least three of those. One is the minimum wage  
21 increase. One is the legalization of marijuana,  
22 and the third one being the Regional Greenhouse Gas  
23 Initiative.

24 Can you talk to us about, for the  
25 timeline, for when those policy changes actually

1 provide benefits and impacts to the revenue stream?

2 Thank you.

3 SECRETARY HASSELL: Sure.

4 So, for minimum wage, the proposal is  
5 July 1st start date with the 12-dollar-per-hour  
6 minimum and then raising by \$0.50 per hour each  
7 July 1st thereafter until you get to \$15.00. So,  
8 the change in the minimum wage is taken into  
9 account in the revenue estimates that we've  
10 provided.

11 It does add some revenue to the outlook  
12 because, very simply, people would have more money  
13 to spend. They'll be buying additional things  
14 subject to sales tax, earning additional income  
15 that may be subject to income tax.

16 You mentioned recreational marijuana. I  
17 believe there is a discussion of recreational  
18 marijuana in the budget book, but there is no  
19 specific proposal that relates to how it would be  
20 taxed. I think the main thrust of (video  
21 difficulty) is saying that he believes that  
22 recreational marijuana should be legalized. So  
23 it's more a question of the effect on the criminal  
24 justice system than revenue per se. There is no  
25 revenue assumed in the budget outlook for -- for

1 recreational marijuana.

2 And the third one was RGGI, which I  
3 think we've already discussed. I'm not that  
4 familiar, honestly, with RGGI. It's not a tax  
5 issue, but I understand that there is fee income  
6 that's associated with that.

7 REPRESENTATIVE WEBSTER: Okay. Thank  
8 you.

9 I guess my interest in that is,  
10 obviously, where -- where we face longer-term  
11 issues in the budget. It's not only the impact  
12 across our quality of life for these policy issues,  
13 but the revenue that is generated longer term. So,  
14 thank you.

15 Thanks, Mr. Chairman.

16 MAJORITY CHAIRMAN SAYLOR:  
17 Representative Keith Greiner.

18 REPRESENTATIVE GREINER: Thank you,  
19 Mr. Chairman.

20 And thank you, Mr. Secretary, for being  
21 here today via remotely. I want to follow up, a  
22 couple colleagues have mentioned the Governor's PIT  
23 proposal and the impact on small business. And  
24 being somebody who's worked for a small business  
25 for many years, I did have some questions.

1           It's estimated, you have this data, that  
2   17 percent of the current personal income tax  
3   collections are paid by small business, and that  
4   would be -- that generates about \$15 billion  
5   annually, which means -- Excuse me. The personal  
6   income tax in this state generates \$15 billion  
7   annually, which means that 2.55 billion of that is  
8   paid by, as we mentioned before and was testified,  
9   S Corporation shareholders, sole proprietors,  
10   Partnerships.

11           Assuming that small business owners  
12   currently pay that 2.55 billion of the personal tax  
13   collections, this proposed tax increase rate will  
14   result in small business owners paying an  
15   additional \$1.2 billion here in the Commonwealth.  
16   I think everybody knows that small business is the  
17   economic driver.

18           Then piggy-backing on what you said  
19   before, you said there's an estimate that more than  
20   400,000 small business owners will pay \$240 million  
21   less in that proposal.

22           So I guess my question is, Mr.  
23   Secretary, what is the estimated amount of taxes,  
24   additional taxes under this proposal that will be  
25   paid by the remaining 54 percent of the small

1 business owners who realize a tax increase? What  
2 will that amount be?

3 SECRETARY HASSELL: Amy, do you want to  
4 address that question?

5 DEPUTY SECRETARY GILL: Yes. Sorry.

6 So, as we talked about before, there are  
7 752,000 Schedule C sole props. Sixty-one percent  
8 will be better or neutral. When we move into the  
9 non-Schedule C business owners, which would be the  
10 partnerships and the S Corps, there are 540,000.  
11 So, 46 percent will pay less, and then the  
12 additional 288,000 will pay more. They will pay  
13 about 1.4 billion more. Their average taxable  
14 income is \$367,000 a year.

15 REPRESENTATIVE GREINER: Just as a  
16 follow-up on that, because I know we had talked  
17 about this, and maybe you could let me know then,  
18 how many small business owners that over a hundred  
19 thousand dollars will see the full --

20 This is a 46.3 percent tax increase on  
21 small business. I guess what I want to know is,  
22 what percentage of them are going to see the full  
23 -- the full tax increase on their -- on their  
24 entities, on their partnerships, S Corps sole  
25 proprietorships.

1           SECRETARY HASSELL:  So, if I could jump  
2           in there and just clarify.  That we often talk  
3           about the impact of the personal income tax on  
4           small businesses, and it's an important question.  
5           But we all need to keep in mind that the personal  
6           income tax only applies to individuals.

7           When we are counting tax returns and  
8           saying what percentage of individuals benefit or  
9           don't benefit, we're talking about individuals and  
10          not the entities that they may own.

11          A person who shows business income on  
12          their personal income tax return, they may have an  
13          ownership interest in one business or many  
14          businesses, and it's difficult to -- to pin down  
15          exactly what we're talking about in terms of the  
16          size of any particular small business.  What we  
17          know from looking at a PA-40 is, do they report  
18          business income on their return or not.  And when  
19          we are citing these numbers, we're counting  
20          individuals who file a personal income tax return;  
21          not any businesses that they may own.

22          But, Amy, do you want to address the  
23          question?

24          DEPUTY SECRETARY GILL:  So, yes.  Dan is  
25          exactly right that we're referring to returns with

1 business income.

2 REPRESENTATIVE GREINER: Hold it. Can I  
3 -- Let me -- Let me just because my time -- I just  
4 wanna -- I just wanna clarify.

5 S Corporation income, our small business  
6 owners -- most of our small business are not  
7 C Corps in the state. They're S Corporations, and  
8 that income does flow through to the individual  
9 return. I think that's pretty direct. So, at some  
10 point maybe we need to have a discussion to further  
11 clarify that, because I was a little bit confused  
12 with that answer because, in this state those  
13 flow-throughs do go to the individual return.

14 But, I see my time is up. I do  
15 appreciate the answers, but we may need to double  
16 check. I'd like to maybe clarify that with you at  
17 some point; maybe via a phone call.

18 Thank you.

19 MAJORITY CHAIRMAN SAYLOR:  
20 Representative Samuelson.

21 REPRESENTATIVE SAMUELSON: Thank you,  
22 Representative Saylor.

23 My question is about the property tax  
24 rent rebate, one of the most successful programs  
25 that's run by the Department of Revenue,



1 administered by the Department of Revenue. I want  
2 to follow up on a question that was asked by  
3 Representative Fiedler earlier.

4 This program has been around since 1972.  
5 It's been expanded, and income limits have been  
6 increased over the years. However, the last time  
7 the legislature increased the income limits was  
8 2007. So that has now been 14 years.

9 When that law was passed, I remember the  
10 number of Pennsylvanians who were eligible  
11 increased from about 300,000 to about 600,000, and  
12 we did have a budget hearing a few years ago where  
13 the actual number of people receiving this property  
14 tax rent rebate was 605,000.

15 I want to ask the Secretary, I know the  
16 number of people receiving this has gone down in  
17 recent years. And I just wanted to ask the  
18 Secretary what the number is for the last year and  
19 the year before that. What level are we at for  
20 people receiving property tax rent rebate?

21 SECRETARY HASSELL: Yes. Thank you,  
22 Representative.

23 So, for the 2019 claim year that was the  
24 last cycle, we issued about 485,000 rebates,  
25 totally 217.9 million, and the year before that was

1 505,000 for 242 million. So, as you indicated,  
2 those numbers are continuing to go down as they  
3 have year by year.

4 REPRESENTATIVE SAMUELSON: Thank you.  
5 That is a significant decrease from the 605,000  
6 level that he had a few years ago in Pennsylvania.  
7 And I do know there's some bracket creep involved  
8 here that as, with the income not changing in  
9 14 years, as costs go up, as new participants,  
10 newly-eligible folks in this program retire within  
11 slightly larger income, and they find themselves  
12 not eligible, or somebody gets a Social Security  
13 increase, and one year they're eligible and the  
14 next year they're not.

15 I think my view is that it's time for  
16 the legislature to address this program going from  
17 605,000 a few years ago to 485,000. That's more  
18 than a 20 percent -- That's about a 20 percent  
19 decrease.

20 And so, 2007 is a long time ago. It's  
21 been 14 years, and I appreciate the statistics. I  
22 appreciate the straightforward information, but I  
23 believe that it's long overdue for the legislature  
24 to adjust the income limits, account for inflation,  
25 and build upon this highly successful program so

1 that more seniors can benefit from the property tax  
2 rent rebate.

3 Thank you, Representative Saylor.

4 MAJORITY CHAIRMAN SAYLOR:

5 Representative Greg Rothman.

6 REPRESENTATIVE ROTHMAN: Thank you.

7 I've heard several times you used the  
8 term tax burden, and I appreciate that, and you  
9 recognizing that taxes in Pennsylvania are a burden  
10 to our families and our businesses.

11 Under the Governor's current law, the  
12 personal income tax generates about \$15 billion.  
13 Using this estimate as the base and isolating the  
14 rate increase, how much additional revenue will be  
15 generated annually if the Governor's proposal to  
16 raise the tax to 4.49 percent is implemented,  
17 annually?

18 SECRETARY HASSELL: As I mentioned, the  
19 total increase in revenue is projected to be  
20 \$3 billion in the current fiscal year, and then  
21 with a full fiscal year impact of about 4 billion  
22 going forward. And, of that, I mentioned the  
23 increase in tax forgiveness reducing revenue by  
24 about 2.7 billion. The rate change by itself would  
25 increase 5.7 billion, so those things net out.

1           The Governor's proposal, obviously, is  
2 not isolating the rate increase. He has proposed  
3 both things together with the tax forgiveness  
4 expansion as well as the rate change, and they work  
5 together.

6           REPRESENTATIVE ROTHMAN: So, currently,  
7 how much is -- how much in tax forgiveness is --  
8 what's the total in tax forgiveness every year? I  
9 understand it's going to go to 2.1 or 2.7 billion,  
10 but what's the total in tax forgiveness?

11           (Pause).

12           And while they're doing that, by my  
13 math, if you're increasing the rate by about  
14 50 percent, on about 50 percent of the owners,  
15 wouldn't that generate closer to \$7 billion in  
16 taxes?

17           (Pause).

18           SECRETARY HASSELL: So, current number  
19 of returns receiving 100 percent tax forgiveness is  
20 a little less than a million, 964,000. Tax  
21 forgiveness on those returns is 219 million;  
22 roughly 220 million.

23           REPRESENTATIVE ROTHMAN: So, the average  
24 taxpayer who earns \$30,000 a year pays what? Less  
25 than a thousand dollars in state income taxes?

1                   SECRETARY HASSELL: At the maximum,  
2                   32,000 for a family of four, it's around a thousand  
3                   dollars.

4                   REPRESENTATIVE ROTHMAN: And we're gonna  
5                   to increase tax revenues, do we figure out we're  
6                   going to increase the forgiveness by about 10  
7                   times. Did you look at the numbers, what it's  
8                   going to generate? And we're doing this to  
9                   generate revenue, right? I mean, this is --

10                  SECRETARY HASSELL: Yep. In March, yes.

11                  REPRESENTATIVE ROTHMAN: So we're going  
12                  to increase revenue by, by my calculation, about  
13                  7 billion, and then we're going to forgive for  
14                  people who aren't being forgiven the taxes now  
15                  about 2 billion. Is that where you get your net,  
16                  about 5 billion?

17                  SECRETARY HASSELL: The net turns out to  
18                  be around \$3 billion.

19                  REPRESENTATIVE ROTHMAN: Our seniors,  
20                  we've talked about that a little bit, those people  
21                  who receive government pensions now, they don't pay  
22                  any state income tax, right?

23                  SECRETARY HASSELL: Yeah, but that's  
24                  their only source of income, that's right. Many --

25                  REPRESENTATIVE ROTHMAN: How --

1                   SECRETARY HASSELL: Excuse me. They  
2 would be subject to -- There is a complete  
3 exemption from the personal income tax for  
4 retirement income, so that removes that source from  
5 taxation altogether.

6                   Many seniors, though, have other sources  
7 of incomes, a little bit of interest, a little bit  
8 of dividends from savings, or those kinds of  
9 things, maybe things that would normally be taxable  
10 and they are able to file a tax return and claim  
11 tax forgiveness. And those additional sources of  
12 income would then also be exempt on their tax  
13 forgiveness.

14                   REPRESENTATIVE ROTHMAN: So a senior --  
15 Mr. Secretary, so a senior who receives a hundred  
16 thousand dollars or several hundred thousand  
17 dollars in retirement income will still be forgiven  
18 the first 30 or 32,000 of other income, dividends,  
19 or profits or --

20                   SECRETARY HASSELL: Yes.

21                   REPRESENTATIVE ROTHMAN: Does that seem  
22 fair to you, Mr. Secretary?

23                   SECRETARY HASSELL: I think that, if  
24 there's interest in going down this road and making  
25 modifications to exactly what types of income are

1 subject to tax, I think that's a conversation we  
2 can have. Those nuances are not covered in the  
3 proposal that's before you.

4 REPRESENTATIVE ROTHMAN: Does it seem  
5 responsible to generate another -- it's gonna cost  
6 the state \$2.1 billion in your program to expand  
7 the forgiveness from 240 million to 2.1 or  
8 2.7 billion?

9 SECRETARY HASSELL: As I said, the two  
10 aspects of this proposal work together. There's no  
11 question it raises additional revenue. A good deal  
12 of that revenue goes to fund education, to help  
13 school districts, and should help to prevent  
14 property tax increases at the local level. I think  
15 that's the thinking that drives some of this.

16 But it also has to be said that the  
17 proposal deals with the overhang of a deficit that  
18 hasn't been dealt with in any comprehensive way in  
19 the past. The proposal fully funds programs and  
20 deals with the structural deficit that's been a  
21 reality for quite a while.

22 REPRESENTATIVE ROTHMAN: Thank you.

23 MAJORITY CHAIRMAN SAYLOR:

24 Representative Chris Quinn.

25 REPRESENTATIVE QUINN: Thank you,

1 Mr. Chairman.

2 Mr. Secretary, I want to first thank you  
3 for being here today, although it's a -- Thank you.  
4 Mr. Secretary, although it's a very unique  
5 situation that we find ourselves in, I want to  
6 thank you for attending.

7 I want to follow up on my colleague,  
8 Representative Schroeder. You touched on this idea  
9 that you are putting some systems in place that you  
10 recognize that there is a cyber security issue  
11 having people work from home.

12 In light of the SolarWinds cyber breach  
13 at the federal level, what we're seeing -- I have  
14 had a number of constituents reach out to my  
15 district office to try to find out what steps we're  
16 taking to make our current systems here in  
17 Pennsylvania more robust.

18 Can you speak to that?

19 SECRETARY HASSELL: Sure. Thank you for  
20 that question.

21 It is a great concern, should be a  
22 concern to all of us. Many of us now at this point  
23 are very dependent on our ability to communicate  
24 over the Internet, and it's very disturbing to read  
25 those kind of reports like the SolarWinds hack that



1 I think affected a number of major federal  
2 agencies.

3 But when that news broke, I very quickly  
4 asked our security staff at the -- at the Office of  
5 Administration, you know, have we been affected by  
6 this breach on the SolarWinds software? And their  
7 answer was no, the Commonwealth doesn't use that  
8 system. So, for that specific hack, it doesn't  
9 seem as though the Commonwealth has been affected.

10 But, of course, every day there is news  
11 of additional breaches that have happened. And I  
12 know that the OA staff, who is in charge of  
13 security, they work very hard and continuously  
14 making sure that we're applying the best -- the  
15 best technology that's available to secure all of  
16 our systems and to keep our information safe.

17 It would be a huge concern if we were to  
18 -- if the Department of Revenue were to be subject  
19 to some sort of hack in some way. I'm very pleased  
20 to be able to say that that has not happened, but,  
21 obviously, it's something that needs continual  
22 attention and something that we need to continue to  
23 plan for going forward. It's not a problem that's  
24 gonna go away any time soon.

25 REPRESENTATIVE QUINN: Thank you. I

1 appreciate that. I like the idea that I can go  
2 back and assure my constituents that their  
3 information is secure. Thank you, Mr. Secretary.

4 MAJORITY CHAIRMAN SAYLOR:

5 Representative Clint Owlett.

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

8 And thank you, Secretary, for being  
9 here. I just wanted to talk briefly about the wage  
10 conversation. We've engaged in that over the years  
11 and again here today.

12 This past weekend my wife and I were  
13 able to help out at a food pantry, and we were able  
14 to help 400 families, put six boxes of food in  
15 their car. It was a ton of fun, and we really saw  
16 the great need in our communities. What I saw was  
17 job loss and a lot of seniors.

18 So, in the Governor's proposal we see a  
19 copy and paste of the wage increase that we've seen  
20 over the years. But I wanted to highlight the job  
21 loss and the impact this would have on our seniors.

22 The Department of Revenue has finally  
23 stated that they do believe that here in  
24 Pennsylvania we could lose close to 10,000 jobs and  
25 sending more folks into a failed unemployment

1 system. The IFO estimate is closer to 27,000 jobs.

2 And just this past month, the  
3 Congressional Budget Office released a report that  
4 they -- that I'd like to highlight here. It says,  
5 the higher wages would increase cost of production  
6 of goods and services. Businesses would pass this  
7 cost onto consumers in higher prices. Businesses  
8 would produce fewer goods and services, and  
9 customers would purchase fewer goods and services.  
10 And really, the ceiling would go up on a lot of  
11 wages. But I want to talk a little bit about the  
12 Congressional Budget Office.

13 Do you, Mr. Secretary, agree with the  
14 analysis that the Congressional Budget Office came  
15 out with this month?

16 SECRETARY HASSELL: We have seen that  
17 study and taken a look at it. The fact is that,  
18 there have been many studies on this issue over the  
19 years. CBO is the most recent one that I have  
20 seen. But, many of them don't find that kind of  
21 significant job loss that the CBO reported on.

22 And in our work, in an abundance of  
23 caution, just as we did with this proposal before,  
24 again this year, we allowed for a change in total  
25 employment growth in order to take account of that.

1 It still seems unlikely to me that there's any  
2 significant change in employment. But, regardless,  
3 just in order to -- to, as I said, in an abundance  
4 of caution, we have made that adjustment.

5 REPRESENTATIVE OWLETT: You did come out  
6 and say a little over -- or a little under 10,000  
7 jobs probably would be lost. That's what your  
8 report says.

9 SECRETARY HASSELL: Yes.

10 REPRESENTATIVE OWLETT: So would you --  
11 I'll break it down for ya. Higher wages would  
12 increase cost of production of goods and services.  
13 Do you agree with that?

14 SECRETARY HASSELL: I think that's a  
15 possibility.

16 REPRESENTATIVE OWLETT: Businesses would  
17 pass this along to their customers?

18 REPRESENTATIVE OWLETT: If it affects  
19 prices, then yes.

20 REPRESENTATIVE OWLETT: Okay. Do you  
21 believe that businesses would produce less product?

22 SECRETARY HASSELL: I don't think that's  
23 clear at all. One of the things, if I could just  
24 interject here.

25 REPRESENTATIVE OWLETT: I'll jump in

1 here real quick.

2 SECRETARY HASSELL: Okay.

3 REPRESENTATIVE OWLETT: I just want to  
4 hone in -- I really only have a limited amount of  
5 time. Sorry. I really want to hone on what this  
6 does to our seniors. So, if cost of living goes  
7 up, our seniors on fixed income -- I mean, we  
8 talked a little bit about some seniors that may  
9 have additional income. But, in the district I  
10 serve, that's probably not -- that would be rare.

11 So, would it be safe to say that in my  
12 newsletter, I should probably put out there that  
13 the Governor's proposal would increase the cost of  
14 living for seniors in the 68th District? Would  
15 that be an accurate statement?

16 SECRETARY HASSELL: So, I think it's  
17 difficult to pin down exactly how this will play  
18 out through the economy. Obviously, we -- we -- we  
19 live in a very dynamic economy where things adjust,  
20 and --

21 REPRESENTATIVE OWLETT: But our senior  
22 citizens don't have the ability to adjust their  
23 income, right? I mean, should I tell them to go  
24 and get a job? Go to Walmart and see if they can  
25 be a greeter. Is that what we should do?

1 I mean, because I have some serious  
2 concerns about how this really affects senior  
3 citizens in my community, and I saw it this weekend  
4 working at that food pantry, and I saw it on their  
5 faces.

6 So, the reality of a lot of this  
7 proposal--I'm just gonna highlight it--the  
8 increased -- There's going to be increased cost to  
9 seniors for sure. We all can say that. We know  
10 you said, if we're going to increase the cost of  
11 living in the production of goods and services,  
12 it's gonna go up for our seniors. It's gonna  
13 increase the amount of money that's taken out of  
14 everybody's paycheck with the personal income tax.  
15 It's gonna increase taxes for state police coverage  
16 in rural communities, especially.

17 It's gonna decrease jobs according to  
18 your report, little over 9,000, 9,700 jobs, it's  
19 gonna put more weed on the streets in the midst of  
20 a recovery effort of a pandemic. Is that accurate?

21 SECRETARY HASSELL: No, I don't think  
22 so. And again, my concern is mostly about the  
23 personal income tax change. I disagree that  
24 everyone will pay more.

25 As we've already indicated, there will

1 be 2.8 million Pennsylvanians who will pay less  
2 under the Governor's proposal. Many of those  
3 individuals are seniors. (Video difficulty)  
4 benefit overall from the change that's being  
5 proposed.

6 REPRESENTATIVE OWLETT: Thank you,  
7 Mr. Chairman. And I just want to make note that  
8 this is just a proposal. We'll take a look at it.  
9 But I want the seniors to know that we'll continue  
10 to make sure they have the income that they need.

11 And I appreciate it, Mr. Chairman.

12 MAJORITY CHAIRMAN SAYLOR:

13 Representative Heffley.

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

16 Just a couple of quick questions on the  
17 Lottery revenue up 5 percent. And, with that, we  
18 know that the casinos were shut down, and we had  
19 significant loss in funding in the property tax  
20 relief refund, so much that \$200 million had to be  
21 taken out of the General Fund last year to put into  
22 that fund.

23 Going forward, these type of unilateral  
24 shutdowns and the impact on the casinos that are  
25 operating at 25 or 50 percent, people then bought

1 more Lottery tickets. What consideration is the  
2 department taking to make up, you know, to look at  
3 that revenue and say, how can we make sure that  
4 next year we don't have another \$200 million  
5 shortfall in that fund? And, is there something  
6 the Lottery's planning to do to say, is that  
7 5 percent increase sustainable because we just came  
8 off a year where there was a 6.1 percent decrease  
9 in that collection?

10 MR. SVITKO: Well, thanks for your  
11 question.

12 So, the Lottery, our role is to generate  
13 money that goes into a Lottery Fund. We are just  
14 half the equation. Obviously, the input side of  
15 the equation and then the output side of the  
16 equation.

17 What we are charged with at the Lottery  
18 is, is generating as much money as we can in a  
19 responsible way for those senior programs. And our  
20 goal is not constrained by, maybe the prior  
21 performance. It is merely -- our goal is to  
22 generate as much money as we can, again, in a  
23 responsible way. So every year that's our goal.

24 Right now -- So we may have had  
25 5 percent increase, but right now we are up



1 24 percent year over year sales-wise, and roughly  
2 the same in profit, and almost 14 percent over  
3 budget right now, so we're having a fantastic year.  
4 But that just -- that just is evidence that we  
5 don't shoot for that minimum 5 percent. We project  
6 conservatively because, real people are planning on  
7 those dollars being where they need to be.

8           So, our goal is -- Again, we project  
9 conservatively. Our goal is to generate as much  
10 money as we can.

11           REPRESENTATIVE QUINN: So, do you have a  
12 plan? I mean, obviously, next year we would think  
13 that casinos, hopefully, would be able to operate  
14 if we can get this vaccine out. But is the -- Is  
15 there a plan in place to say, we might lose some of  
16 the revenue?

17           I can tell you, anybody that's been in  
18 the convenient mart throughout the state of  
19 Pennsylvania when everything was unilaterally shut  
20 down, people were going and purchasing more Lottery  
21 tickets. They were also playing the other games  
22 that were there.

23           So just a follow-up with the Secretary  
24 of Revenue, in that, with the casino revenue and  
25 the loss in revenue from the shutdowns to the

1 economy, whether it be through the restaurants,  
2 what are the projections this year if the casinos  
3 are open at 50 percent? Because I don't see any  
4 projection in the Governor's budget to fill that  
5 200-million-dollar void that we had to fill last  
6 year.

7           So, if that revenue is down, where's  
8 that money gonna come from to go into that property  
9 tax relief fund with the Governor proposing such  
10 massive -- \$5 billion, I think that was the number  
11 I got from the good gentleman from Dauphin County,  
12 his interrogation -- not interrogation, but  
13 questioning, increase to go more money for schools  
14 but we're not capping the amount of money that  
15 could be raised at the local district through  
16 property taxes. It's not gonna offset property  
17 taxes. So property taxes could increase, and we  
18 could still see this fund for property tax relief  
19 being shorted if -- if that other gaming money  
20 doesn't come in.

21           Is Revenue taking a look at that and  
22 consulting with the Administration as to what needs  
23 to be to prep if that money comes -- comes in lower  
24 because we could have more shutdowns or 25 or  
25 50 percent capacity?

1                   SECRETARY HASSELL: Right. Kristin,  
2 would you address that, please?

3                   DEPUTY SECRETARY HEIDINGSFELDER: I  
4 think that's something we have to get back to you  
5 on. I don't know what the Administration is  
6 looking to do to supplement any casino loss. I  
7 think that was the question?

8                   REPRESENTATIVE QUINN: Yeah. I mean, is  
9 the Department of Revenue, are you giving --  
10 aiming, obviously, the IFO, but Revenue is  
11 collecting the dollars. Are you looking at --

12                   Last year the collections were low  
13 because of all of these shutdowns and places just  
14 not being open for business, so that's going to  
15 have an impact on those property tax relief  
16 dollars.

17                   I'm glad the Lottery is doing better. I  
18 mean, I love the Pennsylvania Lottery. I play it  
19 every now and then myself. But also, we got to  
20 look at the bigger picture.

21                   DEPUTY SECRETARY HEIDINGSFELDER: And  
22 similar to Drew's answer with the Lottery, the  
23 Department of Revenue's responsibility in the  
24 equation is to collect the taxes. It's really the  
25 Budget Office and the Governor's Office that make

1 the decisions on what to do with that money and how  
2 to fill any funding gaps that may exist. So, I  
3 think that question might be better targeted to the  
4 Office of the Budget.

5 REPRESENTATIVE QUINN: Thank you. I  
6 think my time is up. I just have, the folks in my  
7 district are very concerned about any type of  
8 increases to property taxes or any tax increases  
9 without property tax relief.

10 Thank you.

11 MAJORITY CHAIRMAN SAYLOR: With that, I  
12 will recognize Representative Mako.

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

15 And, Mr. Secretary, thank you for  
16 meeting us virtually today. I have a question  
17 about something you said.

18 September 16th in front of the House  
19 Finance Committee about net operating losses and  
20 the carryovers, your quote was: We have a system  
21 now that allows companies to create accounting,  
22 fiction-type losses. Can you elaborate on your  
23 comment of accounting fiction-type losses?

24 SECRETARY HASSELL: Sure. So, this is  
25 -- this has been a concern for many years, because

1 the corporate income tax is based on a separate  
2 company concept. I was describing a little bit  
3 earlier about how that affects companies that are  
4 part of a larger group of entities, but other  
5 subsidiaries. It allows companies to engage in  
6 accounting practices that have the effect of  
7 shifting profits out of a Pennsylvania entity into  
8 another entity that's located somewhere else, maybe  
9 with a lower tax burden or no tax burden at all.

10 And what we end up with, then, is, a  
11 Pennsylvania-based entity that might have been  
12 accumulating losses that are, to some extent,  
13 fictional, accumulating those losses over many  
14 years. We have a statute now that allows those  
15 losses to be carried over for 20 years, and it can  
16 result in a huge carry-over, potentially, that  
17 could be used against future tax liability of a  
18 tremendous amount of losses from past years.

19 REPRESENTATIVE MAKO: All right.

20 Well, and I guess where I was driving at  
21 with this question was more the small businesses  
22 that are strictly in the Commonwealth and not the  
23 ones that have subsidiaries in other locales where  
24 they can shift that tax burden.

25 For the ones that are still in the

1 Commonwealth, is this something that we are  
2 considering moving forward? Just to continue your  
3 quote at the committee meeting, you also said: The  
4 Governor's proposal to reform the system entirely,  
5 which includes uncapping the net operating loss,  
6 carry-over perspective, that is a far better  
7 solution. I realize, I guess, this proposal this  
8 year does not have it and it still has it at the  
9 40 percent cap.

10 Is this a conversation that you and the  
11 Governor have had about uncapping?

12 SECRETARY HASSELL: So, as has already  
13 been noted, the combined reporting proposal has  
14 been part of several budgets in the past.

15 It is possible to look forward and look  
16 toward greater uncapping of losses that are carried  
17 over prospectively. And as long as that's done  
18 within the -- within a combined reporting system so  
19 that we have greater confidence that those losses  
20 are real, in a sense, then that's something that  
21 could be worked out.

22 As you noted, this proposal that's  
23 before you today maintains that 40 percent cap on  
24 losses. At the time that we were working on this,  
25 that was the -- that was also the federal rule. I

1 think that that has now been expanded beyond that  
2 level.

3 REPRESENTATIVE MAKO: Yeah. I think the  
4 -- I believe the federal level went up to  
5 80 percent from my understanding. And I could be  
6 wrong on that. I'm not an accountant.

7 And then -- So just to kind of follow up  
8 on that, you said that this is something that the  
9 Governor might be willing to sign on a stand-alone  
10 bill moving forward?

11 SECRETARY HASSELL: I'm not making any  
12 predictions about what he would sign on a stand-  
13 alone bill.

14 REPRESENTATIVE MAKO: Or something he'd  
15 be accepting of moving forward?

16 SECRETARY HASSELL: I guess I just want  
17 to say that all things are on the table in a budget  
18 negotiation. And his willingness to make some  
19 movement on this, as long as it's part of a  
20 comprehensive solution to the budget going forward,  
21 then I think that's a conversation we could have.

22 REPRESENTATIVE MAKO: Thank you, Mr.  
23 Secretary. Yeah, I just think that this is a good  
24 accounting tool for businesses in the Commonwealth  
25 right now, especially over the last year when

1 they've been subjected to, at the very least,  
2 mercurial policies and being involuntarily shut  
3 down. I think this is something that we should  
4 look at to definitely help maintain industry in the  
5 Commonwealth.

6 But, that's all I have, Mr. Secretary.  
7 Thank you.

8 SECRETARY HASSELL: Thank you.

9 MAJORITY CHAIRMAN SAYLOR:  
10 Representative Brown.

11 REPRESENTATIVE R. BROWN: Thank you,  
12 Mr. Chairman.

13 And thank you, Mr. Secretary.

14 You know there's been some comments  
15 about winners and losers with this proposal. And  
16 even a few of your comments have stated not  
17 everyone is going to be paid more. I have a very  
18 strong concern when we speak about winners and  
19 losers. Well before I came into office, there's a  
20 lot of formulas that create winners and losers, and  
21 it's something that we have been trying to work on  
22 for many, many years. So that's very frustrating.

23 My question -- I have several questions  
24 for you, and they are pretty simplistic, because I  
25 think that's what the people of Pennsylvania really



1 want from us.

2 Do you believe that the people that will  
3 be paying more with the higher PIT proposal are not  
4 struggling, or they're not on shaky ground right  
5 now or concerned about their jobs or their  
6 employment?

7 SECRETARY HASSELL: No, I don't think I  
8 would make that judgment. All this does is suggest  
9 that at those higher income levels, people have a  
10 greater ability to pay, to contribute to the  
11 overall cost of the Commonwealth.

12 REPRESENTATIVE R. BROWN: Thank you.

13 I think that's an important point to  
14 make. It's very easy to say that people are not  
15 concerned or not struggling or worried about their  
16 future no matter what level that they are on.

17 You did mention earlier to  
18 Representative Rothman that it's difficult to see,  
19 or maybe it was -- sorry, Representative Owlett,  
20 difficult to see how things will play out in  
21 regards to our economy. Is this really the time,  
22 do you think, and from your opinion as a leader, as  
23 Secretary of Revenue, do you believe raising taxes  
24 during a pandemic is good policy?

25 SECRETARY HASSELL: I think, ultimately,

1 the level of taxation has to be driven by the  
2 General Assembly and the Governor working together  
3 to decide what the needs of the Commonwealth are  
4 and how to fund those needs.

5 It's a -- It's a budget question more  
6 than anything else. And the Governor's proposal is  
7 made in good faith and it's designed to, as he  
8 described, more fully fund education at the local  
9 level, but also to eliminate a structural budget  
10 overhang that has been troubling in budget planning  
11 for quite a few years.

12 So, taxes need to be set at a level that  
13 accomplish the goals that are agreed to by the  
14 Governor and the General Assembly going forward.

15 REPRESENTATIVE R. BROWN: Thank you, Mr.  
16 Secretary. And I think that that is one reason why  
17 I'm pointing that out. This is a very difficult  
18 time. These are difficult decisions, and I don't  
19 think they should be made so quickly in these  
20 proposals to tax during a very trying time.

21 One of the things you just mentioned  
22 also was the school tax relief. I live in an area,  
23 Monroe-Pike County, where the school tax level is  
24 one of the highest in the state. And while I  
25 definitely agree, as I mentioned earlier, some of

1 these winners and losers, the funding formula has  
2 created some winners and losers, and I can  
3 appreciate that fact of the Governor looking at  
4 that. But to --

5           You even actually mentioned earlier that  
6 there is no guarantee, basically. You'll say  
7 school taxes should not -- it should prevent  
8 increases for our school taxes. So there's really  
9 no guarantee with this proposal that these school  
10 tax millage reductions would be there; but, yet,  
11 people may be paying higher personal income taxes.  
12 So, that is a great concern as well.

13           Do you have concerns for the  
14 unemployment increases over the next year?  
15 Specifically, I know you spoke with Representative  
16 Rothman a little bit earlier about that, and one of  
17 the reports and the studies.

18           Do you personally believe that we will  
19 have more job losses than what we even had this  
20 past year?

21           SECRETARY HASSELL: No, I don't see  
22 that. Honestly, I think -- I mentioned that it's  
23 difficult to take account of all the changes  
24 together because we live in a dynamic economy.

25           What I mean by that is that, even as we

1 talk about raising the minimum wage for folks at --  
2 from the current 7.25 an hour, that has multiple  
3 impacts across the system, right? It is, there's  
4 no question, that's a cost for people who -- for  
5 employers who are paying their workers more. But,  
6 at the same time, there would be an additional  
7 million people who have more money to spend in  
8 their pockets and, presumably, to some extent,  
9 would patronize those businesses.

10 And how that would work itself out in  
11 terms of the cost to a business being higher, but  
12 also having, potentially, at least, more business,  
13 more customers coming in and more people with money  
14 to spend, I think it's difficult to model that out  
15 to know exactly what the outcome will be. But, I  
16 think we need to take all of those issues into  
17 account.

18 The main thing is that, the proposal  
19 makes it clear that, um, that people who work  
20 should earn a living wage, and they should be able  
21 to provide for their families and not remain in  
22 poverty, even though they are working full time.

23 REPRESENTATIVE R. BROWN: Thank you,  
24 Mr. Secretary.

25 Do I have more time, Mr. Chairman? I'm

1 out.

2 MAJORITY CHAIRMAN SAYLOR: You're out of  
3 time. You've been out of time for a little bit.

4 REPRESENTATIVE R. BROWN: I'm out of  
5 time. Thank you, Mr. Secretary. But I will make a  
6 comment that I'm concerned with many small  
7 businesses shutting their doors, as they have this  
8 year, and that will continue, so I have great  
9 concerns as far as this proposal.

10 Thank you.

11 MAJORITY CHAIRMAN SAYLOR: With that,  
12 I'll recognize Representative Gary Day.

13 REPRESENTATIVE DAY: Mr. Chairman, I can  
14 remember, right, the rules of the committee. Thank  
15 you, Mr. Chairman. Mr. Chairman, as Chairman of  
16 the Aging Committee, I really appreciate your  
17 willingness to have my counterpart and I here for  
18 the appropriations.

19 And, Secretary, thank you for being here  
20 today.

21 Mr. Chairman, at the beginning you  
22 thanked everyone, but I want to thank you. This is  
23 an extremely impressive way to show leadership.  
24 And under your leadership, you've overseen a way to  
25 get back to business of the appropriations hearings

1 that I was part for many years, some years with  
2 you, and keep Pennsylvania safe at the same time  
3 through the protocols that you have initiated. So  
4 I just want to thank you for that, and thank you  
5 for allowing me to be here today.

6 I do have a quick question about the  
7 Lottery Fund, and also maybe about operations of  
8 your department. But before I get to that  
9 question, I just want to thank our colleagues.  
10 There were two members on the other side of the  
11 aisle that I heard ask questions of oversight of  
12 the Administration. They asked about income of  
13 minorities, and another person asked about -- a lot  
14 about income of women.

15 The only answer that I heard from the  
16 Secretary, and it's not really the Secretary's  
17 call, but he's the messenger at this part for these  
18 questions of the Administration. The only answer I  
19 heard was raising the minimum wage, which, in my  
20 area, the market has actually raised it beyond what  
21 it is proposed for many workers in our area. The  
22 market has moved it up.

23 And as an economist, I urge members not  
24 to accept that as the answer to those problems.  
25 Those problems that you identify in your districts,

1 in your communities, are legitimate problems, and  
2 many of us have been working for years in policies  
3 that will help lift the people that you're trying  
4 to help through different policies besides merely  
5 pointing out we're going to enforce the bottom, the  
6 floor of the wages to increase. There's so many  
7 more better things to do.

8 You know, my colleagues on both sides of  
9 the aisle, Mr. Chairman, have asked significant  
10 questions that affect seniors, the Lottery Fund  
11 questions and other questions that were asked here  
12 today.

13 And therefore, I'm curious, Mr.  
14 Secretary, do you or the Lottery Fund managers, do  
15 they automatically assess every attempt to try to  
16 take dollars out of the Lottery Fund and inform us,  
17 whether it's legislation or something done by the  
18 Administration through regulation?

19 Do you automatically do that, or do you  
20 have to be requested to give advice and consent --  
21 I should say advice on that? That's my first  
22 question.

23 SECRETARY HASSELL: Just so I  
24 understand, your question is, are we asked for  
25 input on expenditures out of the Lottery Fund?

1 Because, if that's the question, the answer to that  
2 is typically no. There are other --

3 Of course, we do administer the property  
4 tax rent rebate program. That's an expenditure  
5 program out of the Lottery Fund. But there's many  
6 other sources of program dollars that flow out of  
7 the Lottery Fund that we're not involved with.

8 REPRESENTATIVE DAY: I know through our  
9 process in the House that we have a process where  
10 our staff, actually, sometimes have to produce a  
11 fiscal note and they would ask you.

12 My basic question was, do you wait for  
13 that ask, or do you have a system in place there  
14 that automatically injects information and ideas  
15 either into the Administration or the Legislative  
16 Branch of their decisions that might affect the  
17 Lottery Fund?

18 SECRETARY HASSELL: So, in general, the  
19 Department of Revenue does not manage the Lottery  
20 Fund. We are running the Lottery program, which  
21 raises the dollars that go into the fund, but it  
22 would be the Governor's Budget Office that controls  
23 the spending dollars that come out. Again, except  
24 for the property tax rent rebate program which we  
25 do administer.



1           REPRESENTATIVE DAY: Thank you.

2           My second question is, have you found --  
3 Through the COVID times, have you found any expense  
4 savings for the operation of your entire operation  
5 beyond -- I think earlier someone mentioned that  
6 there might be space savings and, therefore, the  
7 expenses that come along with not needing as much  
8 square footage.

9           But, have you found any other savings  
10 through those processes that you can report back to  
11 the legislature here today through the COVID, you  
12 know, imposed or COVID-mandated situation?

13           SECRETARY HASSELL: So, I'm going to say  
14 yes to that. Part of what the department has been  
15 doing over the last several years is rolling out  
16 the new PATH computer system (video difficulty) by  
17 automating processes that used to be manual,  
18 converting our -- some of our paper-based forms to  
19 electronic forms. And those are things that allow  
20 us to absorb the reductions in head count that we  
21 are managing through as part of the budget process.

22           REPRESENTATIVE DAY: Yeah, that's fine.  
23 Thank you so much. I appreciate that. And I  
24 appreciate both Chairmen for their work today and  
25 their time today.

1           Mr. Secretary, if you could just provide  
2 any information that you have from that last  
3 question to our Chairman of Appropriations, I would  
4 appreciate it. Thank you all very much.

5           SECRETARY HASSELL: Thank you.

6           MAJORITY CHAIRMAN SAYLOR: Very good.  
7 We're down to the last two. Democratic Chairman  
8 Matt Bradford.

9           MINORITY CHAIRMAN BRADFORD: Thank you,  
10 Chairman.

11           I just want to sum up a couple points  
12 and respond where I think appropriate. One of the  
13 things I heard a lot about the uniformity clause in  
14 our State Constitution and how the special poverty  
15 exemption would play out.

16           As you know, and you heard a great deal  
17 about what a 4.49 percent rate would look like.  
18 But I think there's need to be an honest discussion  
19 about what a progressive tax program looks like as  
20 opposed to a progressive income tax.

21           What we have at the federal level I  
22 think we all know to be a progressive income tax  
23 with many different rates. This is not that. This  
24 is simply a single rate. And as you know, the  
25 special poverty exemption is somewhat of an

1 arbitrary legislative creation.

2 I would point out that for a family of  
3 four, it is currently 32,000. Under this proposal  
4 it would go to 50,000. I would also point out, as  
5 one of the good gentlemen did, that the federal  
6 poverty level in Pennsylvania is 26,200. And I  
7 believe it was implied by several of those members  
8 that somehow, anyone who made above \$26,200 for a  
9 family of four was not in poverty. I would welcome  
10 you to live in reality for about 30 seconds and try  
11 to live on \$26,221 in Pennsylvania.

12 This budget proposes not just cutting  
13 your taxes, but zeroing your taxes out. This  
14 budget cuts taxes for working Pennsylvanians. No,  
15 it does not cut taxes for the highest wage earners,  
16 but let's be honest. That's not possible because  
17 we have real challenges here in Pennsylvania.

18 We have a pandemic, and it has done  
19 tremendous damage to our economy. But it has also  
20 exposed tremendous inequities; inequities in terms  
21 of women in the workforce, people of color, hourly  
22 employees, service workers, essential workers, the  
23 very minimum-wage workers that we propose giving a  
24 raise to.

25 Now, I say there's some realities that

1 we need to begin with, and they've been talked  
2 about a little bit today. We have a structural  
3 deficit. We passed a budget last year piecemeal  
4 with about \$5 billion of one-time revenue. Five  
5 billion dollars of one-time fix this that will go  
6 away. Now we stand here on the eve of another  
7 budget season where we will have to decide how to  
8 balance this year's budget. And again, by  
9 implication, there was talk about what federal  
10 stimulus money will mean.

11 Well, again, that means we need to get  
12 behind supporting the Biden \$1.9 trillion-dollar  
13 federal stimulus, not just arguing the benefits of  
14 it when it serves our purpose, but recognizing we  
15 have a structural deficit that we need to fill that  
16 hole if we do not get it.

17 So let's begin by advocating in a  
18 bipartisan way for federal stimulus dollars, or  
19 conversely, let's have an honest discussion of how  
20 we fill that budget deficit that we all recognize.  
21 Five billion dollars of payment rolls, which is  
22 just a fancy word, and we'll talk about this with  
23 the IFO, and we'll talk about it with the Budget  
24 Secretary, ways of saying, we paid 11 out of 12  
25 payments last year. Or, aaw, maybe we just

1 underfund DHS by the tone of \$700 million in an  
2 entitlement line and then get shocked when we're  
3 hit by a billion-dollar supplemental year after  
4 year.

5 This budget begins to deal with the  
6 realities of a structural deficit. It recognizes  
7 that federal funding may come, but federal funding  
8 as we learned also hard under the -- during the era  
9 will go away and that structural deficit will come  
10 back with a vengeance.

11 This is a bold proposal, and it does  
12 bold things. It recognizes that \$26,000 is no way  
13 to provide for a family in Pennsylvania. In fact,  
14 it recognizes for people making up to \$85,000, that  
15 you probably shouldn't have any tax liability. And  
16 it recognizes something else. That if we're going  
17 to get real about our budgets, we need to get real  
18 about school funding.

19 Now again, I don't wanna call out any  
20 individual members. But I heard some members get  
21 up and talk about tax rates who would see school  
22 district funding increases in the neighborhood of  
23 123 percent in one case, 41 percent in another, and  
24 11 percent in yet another.

25 Now again, are these transformative? In

1 some cases, absolutely. I think 120 percent  
2 increase in school funding is. And I've heard  
3 conversation, yeah, but there's no back-end talk of  
4 property taxes. Well, here's the thing. This is  
5 where that conversation has to begin. If we're  
6 gonna put money in; if we're going to do these type  
7 of things, then engage on the conversation that the  
8 Governor has opened the door for, or we can  
9 demagogue a tax rate increase that we know that  
10 more Pennsylvanians are not only not going to pay,  
11 but actually are going to see their tax burden  
12 reduced or gone completely.

13 Yes, there is an acknowledgment for  
14 those of us who support the Governor's proposal  
15 that high-wage earners will pay more. They have to  
16 because, otherwise, we'll be back to the same  
17 smoke-and-mirror's budgeting that has gotten us  
18 into this hole, that's underfunded public  
19 education, that's driven property taxes through the  
20 roof and has failed to live up to our  
21 constitutional obligation to provide a fair-funding  
22 form -- fair funding for every one of these kids.

23 Next year, we have a transportation  
24 cliff. We have to come up with money for that. We  
25 can close our eyes and act like in a budget year

1 we're gonna answer that call. But if we don't have  
2 that conversation starting this year, we certainly  
3 won't grow the courage months before an election.  
4 I doubt this building has ever shown that  
5 willingness.

6           And let me say this. There's also a  
7 Supreme Court case challenging the funding of our  
8 school districts. So those school districts under  
9 a fair-funding formula that we all recognize in a  
10 bipartisan way should be the standard, and we  
11 recognize that there are schools that are  
12 130 percent lacking in state funding from what we  
13 should be providing to those kids.

14           Let me also say to those on the other  
15 side of that equation, where, if we don't put new  
16 dollars into education, those districts, by that  
17 formula, would say, those schools are targeted.  
18 They are targeted to lose funding, potentially.

19           The Governor's proposal does the humane  
20 and right thing and holds every one of those school  
21 districts to get not only -- not only not lose  
22 dollars, but to get more dollars.

23           This budget is a blueprint. It is not  
24 perfect, it is not a final project, and it is open  
25 for negotiation. But it begins with the courage to

1 talk about, how do you finally fund education. It  
2 opens the door for those who want to have a  
3 conversation about property taxes. It opens an  
4 opportunity for those who want to deal with our  
5 structural deficit instead of burying their head in  
6 the sand. This is an opportunity for us to talk  
7 about how we introduce equity into our budgeting  
8 and reality.

9           So, I have no question, clearly, but I  
10 do want to say this. I don't want --  
11 Representative Topper said the only thing standing  
12 between him and lunch is this conversation. Well,  
13 I would say this. The only thing standing between  
14 a fair and equitable budget and a minimum wage  
15 increase is this legislature. So let's get out of  
16 Representative Topper's way and give Pennsylvania a  
17 raise.

18           MAJORITY CHAIRMAN SAYLOR: I feel like  
19 I'm in Disney World.

20           Anyway, let me start off.

21           Mr. Secretary, you stated earlier some  
22 ideas on Wayne and Pike counties and who would  
23 benefit. Would you please provide to the committee  
24 a total amount of tax forgiveness by school  
25 district across the state under the Governor's



1 proposal? The Committee would like to have that  
2 since it was stated earlier by one of your  
3 individuals who testified as well.

4 Next, a question I have for you is  
5 something that CPAs, accountants, and taxpayers are  
6 waiting to hear your response to. I have been  
7 contacted not only by members, but CPAs,  
8 accountants, taxpayers across the state who  
9 received -- first of all, they haven't received  
10 their 2019 tax refunds yet, and in some cases the  
11 accountants and CPAs have gotten numerous -- a  
12 number of letters from your department. One starts  
13 off saying, hey, we're gonna be processing your  
14 refund. Look forward to it.

15 And then, several months later they get  
16 one and say, well, you owe X amount of dollars.  
17 When they call the Department of Revenue, they  
18 don't hear back for weeks on end; in some cases  
19 three or four weeks.

20 So, they're getting that notice they owe  
21 money when they were told they're getting a refund,  
22 without an explanation of what changed in their tax  
23 filing. Can you tell what is going on with those  
24 kinds of letters at the Department of Revenue?

25 SECRETARY HASSELL: So, I am aware that

1 there are still some tax year 2019 refund requests  
2 that are still in process, and we're working  
3 diligently to --

4 MAJORITY CHAIRMAN SAYLOR: Mr.  
5 Secretary, there aren't just some. There are a  
6 lot.

7 SECRETARY HASSELL: So, all I'm saying  
8 at this point is that, we're working diligently to  
9 complete all of those.

10 To your question about letters, I'm sure  
11 you're aware that our internal process has been  
12 slower throughout 2020, as we have struggled with  
13 getting our staff back to work and getting caught  
14 up on letters that should be coming out of our  
15 systems, going to taxpayers. We continue to try to  
16 get caught up on all of that work, and we haven't  
17 released all of them in mass, all at once, for the  
18 simple reason that we know it can be difficult to  
19 contact the department. We don't want to overwhelm  
20 the call center by releasing them all at once.

21 So, we have had a gradual process of  
22 releasing those letters, and we're getting now to  
23 the point where we are soon going to be caught up  
24 on them. But that has resulted in some of that  
25 frustration that you mentioned. I am aware of

1 that. I just want you to know we are working  
2 through that diligently and expect to be caught up  
3 soon.

4 MAJORITY CHAIRMAN SAYLOR: Mr.  
5 Secretary, for the business community and  
6 individual taxpayers, what they don't understand  
7 is, grocery stores, numerous stores have been out  
8 there protecting and getting their work down in a  
9 timely fashion across this Commonwealth. Yet, our  
10 agencies that are responsible for answering to the  
11 taxpayers can't seem to get their act together and  
12 do it safely.

13 If our school districts across the  
14 state, many of them are in session and doing a  
15 great job protecting children and teachers, why  
16 can't we at the state government do the same thing  
17 with our state workers and get them back to work?  
18 Some have to work from home, I get it, Mr.  
19 Secretary. But these delays have been tremendously  
20 long.

21 And if business community, individual  
22 taxpayers are able to do that, school districts are  
23 able to protect people, why has the Department of  
24 Revenue failed in that area. Now, that's not a  
25 question. That's a statement.

1                   Next, taxpayers' groups across  
2 Pennsylvania have said, Pennsylvania is the fairest  
3 tax state in the nation when it comes to our P-A-T.  
4 Why? Because there are no big exemptions for  
5 corporations; no big exemptions for individuals to  
6 deduct all kinds of things, that they can on  
7 federal income taxes, and the graduated states like  
8 Maryland and many others, New York, where they can.  
9 So everybody, no matter what income they have, they  
10 pay the same percentage.

11                   So, the only people who seem to not like  
12 the fair system we have in Pennsylvania are those  
13 who like to raise taxes and create little  
14 exceptions for certain people across the  
15 Commonwealth.

16                   I don't see this tax proposal in any  
17 shape or form helping minorities or the poor people  
18 of Pennsylvania. What would have helped is the  
19 Governor's proposal to actually reduce property  
20 taxes or eliminate them, which the taxpayers of  
21 Pennsylvania have been calling on for many, many  
22 years.

23                   Those taxpayers, particularly, small  
24 businesses have been hit, devastated by this  
25 Administration and the way it's managed it. And,

1 yet, they are proposing a 46 percent increase on  
2 small businesses across Pennsylvania. Many of the  
3 women and men who started those small businesses  
4 are now filing for bankruptcy, and we're proposing  
5 a tax increase on them.

6           You know, we have seen, because of these  
7 kind of tax proposals, in New York, Maryland -- I  
8 mean, in Maryland their tax structure has forced  
9 many of their people into my district and southern  
10 Pennsylvania to escape the high taxes of Maryland,  
11 who has a graduated income tax, which is what  
12 you're trying to create here by the way you're  
13 doing it, which is unconstitutional.

14           People from New York escaping to other  
15 states, including Pennsylvania and the Pocono  
16 areas; moving to Florida and South Carolina and  
17 North Carolina to escape the high taxes.

18           This idea of poverty exemption for  
19 somebody who's making \$84,000 a year, and that the  
20 idea of a state legislator making \$90,000 a year is  
21 in poverty, I think the taxpayers would disagree  
22 with this Administration on that, tremendously. So  
23 what's you saying is, legislators should get a pay  
24 raise because they're living in poverty. That's  
25 just unbelievable.

1           So, you know, this proposal is not  
2 realistic. Because I look forward, if it's so  
3 realistic, to somebody introducing it on the other  
4 side of the aisle, and I can ensure you there will  
5 be no Republicans introducing the bill. But, if  
6 there's a sincerity and this is truly a good  
7 proposal, let's see if it gets introduced. I'm  
8 willing to bet it doesn't.

9           Second of all, when we talked about the  
10 loss of jobs in this Commonwealth, and you  
11 questioned the CBO, the IFO on their estimates on  
12 the minimum wage increase. Well, they've been  
13 pretty accurate, Mr. Secretary, compared to you  
14 guys and others. In fact, their analysis is based  
15 upon the states who already increased their minimum  
16 wage, and how many job losses there will be, and  
17 the cost to the economy in those states is what  
18 they're basing their formulas on. So you know  
19 what, I like to base mine on facts. That's the  
20 fact.

21           Next, Mr. Secretary, there was talk  
22 that, oh, well, I don't know if there will be a  
23 real cost increase to your taxpayers. You know,  
24 every time we increase taxes, every time we force a  
25 wage increase in Pennsylvania, you know who gets

1 hurt? People in poverty, because they can't afford  
2 higher gas rates and heating bills. They can't  
3 afford higher electric rates, and they can't afford  
4 higher rates at the grocery stores and at whatever  
5 department store they're going to to pay that.

6 We are creating in government more  
7 people in poverty because we don't understand how  
8 to get people out of poverty, so we just keep  
9 increasing taxes and make it more difficult for  
10 them. It's time we use a little common sense and  
11 really do something to help those who are in  
12 poverty.

13 You know, I looked at York County with  
14 this tax proposal that the Governor has with the  
15 school funding. And I took notice that the three  
16 highest increases in school funding in York County,  
17 some as high as 300 percent increase in state  
18 funding, were my three wealthiest school districts  
19 in the County of York out of 14. Just who needs  
20 it? Three wealthy school districts. And I could  
21 go across the Commonwealth and do it as well, but I  
22 did my research on York County.

23 The truth is, the need for this tax  
24 increase is simply because of the constant  
25 overspending. \$900 million now for two years in a

1 row by the Secretary of Health and Human Services  
2 and the mismanagement by this Administration, the  
3 worst I've seen in 28 years in many departments who  
4 cannot control their spending habits.

5 This tax increase won't be the last even  
6 if we approved it. You know why? We continue to  
7 overspend. Government can't control its desire to  
8 keep spending and telling the taxpayers of  
9 Pennsylvania that every tax increase is going to  
10 benefit them and help the poor. Well, you know  
11 what? We have been talking about helping the poor  
12 for long probably before I was born. Mr.  
13 Secretary, we have more people in poverty today  
14 than we did when I was born.

15 So, I think that it is time to change  
16 the approach from higher taxes to actually getting  
17 out there and doing something that does help those  
18 who are poor, who have children who are living  
19 below the poverty line, and there are a lot of  
20 things we can do, but a tax increase isn't one of  
21 them.

22 So, with that, we are going to adjourn  
23 until 1:45 when we will hear from the IFO. Thank  
24 you.

25 Thank you, Mr. Secretary.



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SECRETARY HASSELL: Thank you,  
Mr. Chairman.

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I, Karen J. Meister, Reporter, Notary Public, duly commissioned and qualified in and for the County of York, Commonwealth of Pennsylvania, hereby certify that the foregoing is a true and accurate transcript, to the best of my ability, of a public hearing taken from a videotape recording and reduced to computer printout under my supervision.

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