

COMMONWEALTH OF PENNSYLVANIA  
HOUSE OF REPRESENTATIVES  
APPROPRIATIONS COMMITTEE HEARING  
BUDGET HEARING

STATE CAPITOL  
MAJORITY CAUCUS ROOM  
HARRISBURG, PENNSYLVANIA

THURSDAY, FEBRUARY 21, 2008, 1:00 P.M.

VOLUME III OF III

PRESENTATION ON  
DEPARTMENT OF REVENUE

BEFORE:

HONORABLE DWIGHT EVANS, CHAIRMAN  
HONORABLE MARIO J. CIVERA, JR., CHAIRMAN  
HONORABLE STEPHEN E. BARRAR  
HONORABLE H. SCOTT CONKLIN  
HONORABLE CRAIG A. DALLY  
HONORABLE BRIAN ELLIS  
HONORABLE DAN B. FRANKEL  
HONORABLE JOHN T. GALLOWAY  
HONORABLE WILLIAM F. KELLER  
HONORABLE THADDEUS KIRKLAND  
HONORABLE TIM MAHONEY  
HONORABLE KATHY M. MANDERINO  
HONORABLE MICHAEL P. MCGEEHAN  
HONORABLE FRED McILHATTAN  
HONORABLE RON MILLER  
HONORABLE JOHN MYERS  
HONORABLE CHERELLE PARKER  
HONORABLE JOSEPH A. PETRARCA  
HONORABLE DAVE REED  
HONORABLE DOUGLAS G. REICHLEY

1 BEFORE (cont.'d):  
2 HONORABLE DANTE SANTONI, JR.  
3 HONORABLE MARIO M. SCAVELLO  
4 HONORABLE JOSHUA D. SHAPIRO  
5 HONORABLE JOHN SIPTROTH  
6 HONORABLE MATTHEW SMITH  
7 HONORABLE GREGORY S. VITALI  
8 HONORABLE DON WALKO  
9 HONORABLE JAKE WHEATLEY, JR.

10 ALSO PRESENT:  
11 MIRIAM FOX  
12 EDWARD NOLAN

13  
14 DEBRA B. MILLER  
15 REPORTER  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

I N D E X  
TESTIFIERS

NAMES	PAGE
SECRETARY THOMAS W. WOLF	4
MR. ED TREES	40
MR. DAN HASSELL	78

1           CHAIRMAN EVANS: I would like to reconvene  
2 the House Appropriations Committee meeting.

3           We have the Secretary of the Department of  
4 Revenue before us, the Appropriations Committee.

5           I would like to thank you, Mr. Secretary,  
6 for coming before this committee. As you know, we  
7 want to ask questions about the Governor's proposed  
8 budget and your thoughts. Members from both sides of  
9 the aisle will ask you questions about what you have  
10 before you, and knowing the committee, they will  
11 probably ask you some other questions, too -- believe  
12 me.

13           I would like to start off with the whole  
14 aspect of the rebate program, that you were before  
15 us, I think it was almost a week ago, along with the  
16 Secretary of the DCED as well as the Secretary of the  
17 Budget.

18           I have here a chart, a chart of a breakdown  
19 in terms of the rebates and the totals by county.

20           SECRETARY WOLF: Yes.

21           CHAIRMAN EVANS: Do you have that  
22 information public?

23           SECRETARY WOLF: Yes.

24           CHAIRMAN EVANS: Does everybody? Do they  
25 have it? Do the members have it? Okay. Maybe

1 somebody can make copies of it and pass it all out to  
2 everybody so that they have that information.

3 I would like to just talk about county  
4 distribution of the rebates and exactly where they  
5 are going, and I see here, I'll start off with  
6 Philadelphia, because the new member from  
7 Philadelphia, Mario Scavello---

8 REPRESENTATIVE SCAVELLO: Was it \$17  
9 million?

10 CHAIRMAN EVANS: ---the new member,  
11 Representative Scavello, I want to, because I know he  
12 is concerned, the rebate says 16.6 percent will go to  
13 the city of Philadelphia, but it is not to city  
14 government, it is to the residents, right?

15 SECRETARY WOLF: That is right.

16 CHAIRMAN EVANS: It is to the residents, not  
17 to the government.

18 And the total rebate would be 90, it looks  
19 like you have here, what is that, 92? Or can you  
20 explain, the rebate totals, \$92 million or -- my  
21 mistake. The amount is \$21 million, the amount of  
22 individuals is 92 million.

23 REPRESENTATIVE SCAVELLO: \$21 million.

24 SECRETARY WOLF: \$21 million going to  
25 Philadelphia.

1           CHAIRMAN EVANS: Do you have that chart?  
2 Can we have that chart? If somebody could make a  
3 copy of it, please.

4           SECRETARY WOLF: The number of people is  
5 92,553 in the city of Philadelphia.

6           CHAIRMAN EVANS: Your mike is not on.  
7 I want to make sure my colleagues have that.  
8 Can someone make a copy of the chart that you have?

9           SECRETARY WOLF: Sure.

10          CHAIRMAN EVANS: Okay. You can give it  
11 to--- Can somebody make a copy of it? I want you to  
12 make a copy of that chart, please.

13          Okay; give me a copy.

14          So in the case of Philadelphia, it is 92,000  
15 individuals and \$21 million.

16          SECRETARY WOLF: That is right.

17          CHAIRMAN EVANS: Right. And that is to  
18 individuals, not to the city government.

19          SECRETARY WOLF: That is right.

20          CHAIRMAN EVANS: Not to the government,  
21 right; to the individuals.

22          SECRETARY WOLF: Right.

23          CHAIRMAN EVANS: Let's look at Monroe.  
24 Let's see what Monroe has here.

25          Monroe County, Monroe County has 5,554

1 individuals. Am I right?

2 SECRETARY WOLF: That is right.

3 CHAIRMAN EVANS: And \$1,600,000-plus, right?

4 SECRETARY WOLF: That is right.

5 CHAIRMAN EVANS: So in other words, to my  
6 new member from Philadelphia who lives in Monroe  
7 County, 5,000 of his residents, his constituents,  
8 will receive \$1.6 million. That is Monroe, right?

9 SECRETARY WOLF: That is right.

10 CHAIRMAN EVANS: Monroe County.

11 To my colleague next to me, the Chairman,  
12 Delaware County, 10,000, right?

13 SECRETARY WOLF: Right.

14 CHAIRMAN EVANS: 10,000. Two-point-four  
15 million dollars will go to 10,000 residents. Am I  
16 reading that right? No, my mistake -- 17,000.

17 SECRETARY WOLF: 17,277.

18 CHAIRMAN EVANS: 17,000 residents of  
19 Delaware County will get \$4.3 million.

20 SECRETARY WOLF: That is right.

21 CHAIRMAN EVANS: \$4.3 million. So 17,000  
22 residents in Delaware County, that is what they will  
23 receive in that particular county. All right.

24 Allegheny County, 37,000 individuals, right?

25 SECRETARY WOLF: Right.

1           CHAIRMAN EVANS:   \$9.7 million will go to  
2 37,000 people.

3           SECRETARY WOLF:   That is right.

4           CHAIRMAN EVANS:   Right?  In that particular  
5 county.

6           Can you---  This is what I would like to do,  
7 because I think this is a very important exercise to  
8 go through, because I think there has been a lot of  
9 misinformation.

10           Before you came here, the gentleman from  
11 Global Insight was here, and he talked about  
12 specifically the aspect of spurring the economy,  
13 putting money back into the economy.

14           SECRETARY WOLF:   Right.

15           CHAIRMAN EVANS:   And I am going to ask you  
16 to go down the counties.

17           Do you have the copies to give out to  
18 people?  Are you going to give them out to everybody,  
19 pass them out?

20           Can you go down the counties?  I hate to be  
21 very elementary, but I want to be very elementary.  I  
22 want you to go down the counties, you know,  
23 actually---

24           SECRETARY WOLF:   Okay.  I would be happy to.

25           CHAIRMAN EVANS:   All right.



1           SECRETARY WOLF: Let me just summarize a  
2 little bit here.

3           There are 67 counties in Pennsylvania, and  
4 one of the ways that I think you might want to look  
5 at this is comparing the percentage of the total  
6 dollars, of that \$130 million coming back to  
7 Pennsylvania citizens in the form of a rebate,  
8 compare that percentage to the percentage that a  
9 county contributes into the personal income tax fund.

10          CHAIRMAN EVANS: Okay.

11          SECRETARY WOLF: And so if you look at it  
12 that way, 48 counties, 48 of the 67 counties in  
13 Pennsylvania, will actually get a higher percentage  
14 of that rebate pool than they put in to the personal  
15 income tax pool.

16          Nineteen counties have a lower percentage of  
17 the 67, so---

18          CHAIRMAN EVANS: Can you give us some  
19 examples? Walk us through some examples.

20          SECRETARY WOLF: Sure.

21          Some of the examples: Armstrong, Beaver,  
22 Bedford, Blair, Bradford, Cambria, Cameron, Carbon,  
23 Clearfield, Clinton, Columbia, Crawford, Elk, Erie,  
24 Fayette, Forest, Franklin, these are all counties  
25 that are getting a bigger share of the rebate pool

1 than they contributed into the personal income tax  
2 pool.

3           Among the counties that are getting less  
4 would be Allegheny County--- If you take  
5 Philadelphia and the metro area, they are getting  
6 less than they are putting into the income tax pool,  
7 and that is Philadelphia and the four surrounding  
8 counties, and I think that makes sense to look at it  
9 that way, because each of the counties or many of the  
10 counties include a city at the heart, and that urban  
11 area is part of the metropolitan area, so we are  
12 counting that to be consistent.

13           But again, Lycoming, McKean, Mercer,  
14 Mifflin, Monroe County, Northumberland, Perry, Pike,  
15 Potter, Schuylkill, Snyder, Somerset. Philadelphia  
16 on its own gets a bigger share than it puts in, but  
17 again, it is part of a bigger metropolitan area.  
18 Susquehanna, Tioga, Venango, Warren, and Wayne are  
19 all counties that get a bigger share of the rebate  
20 pool, that \$130 million, than the percentage, the  
21 share, the proportion that they make up of the total  
22 taxable income in the State.

23           CHAIRMAN EVANS: Okay.

24           The gentleman from Global Insight talked  
25 about this aspect as a short-term measure for the

1 purpose of dealing with what he described as a mild  
2 recession. Can you speak, from your perspective and  
3 the Governor's perspective, of why did you think this  
4 policy was necessary at this particular point?

5 SECRETARY WOLF: We wanted to, the Governor  
6 wanted to do something to actually augment what the  
7 Federal government is doing to try to make sure that  
8 whatever downturn the economy we are going through or  
9 will go through is as mild and as short as possible,  
10 and one of the goals of an economic stimulus package  
11 is to make sure that if you are doing something like  
12 a rebate, you want to spur consumption, spur  
13 aggregate demand, and that you do that in a way that  
14 is, and I think this might have been a quote from  
15 some of the supporters of the Federal stimulus  
16 package, it should be targeted, timely, and  
17 temporary, and that is what the Governor is trying to  
18 do with this tax rebate.

19 It is a \$130 million cost. It is targeted  
20 to about, oh, 476,000 Pennsylvania families, working  
21 Pennsylvania families throughout the State, as we  
22 just showed with the county-by-county breakdown.

23 It is a one-time rebate, and because it is  
24 tied to the tax forgiveness program, a program that  
25 is already in place, we can get it out very quickly.

1 It will be in the hands of the consumers relatively  
2 shortly, no later than, assuming the legislation is  
3 passed, no later than June of 2008, so within the  
4 next 4 months.

5 CHAIRMAN EVANS: Let's talk a little bit  
6 about the Rainy Day Fund. It is estimated that there  
7 is a, what, about \$500-plus million in the Rainy Day  
8 Fund?

9 SECRETARY WOLF: I think there is about  
10 three-quarters of a billion dollars in the Rainy Day  
11 Fund.

12 CHAIRMAN EVANS: Three-quarters of a  
13 billion, right? And under his proposal, under the  
14 Governor's proposal, are you taking the money from  
15 the Rainy Day Fund or are you recommending that a  
16 certain amount of that money now be transferred?  
17 What are you suggesting in this proposal?

18 SECRETARY WOLF: Well, the Governor is  
19 recommending that because this \$130 million is not in  
20 this year's budget, the fiscal year that ends June  
21 30, 2008, but that we really ought to, again, that a  
22 timely stimulus package ought to go out before the  
23 end of the fiscal year, that we make a short-term  
24 borrowing from the Rainy Day Fund, that \$130 million,  
25 and then pay that back at the end of this year or the

1 beginning of next year, the next fiscal year, so  
2 within 4 months.

3 CHAIRMAN EVANS: Okay.

4 Then the capital stock and franchise tax,  
5 tell me, exactly what is the Governor doing with the  
6 capital stock and franchise tax?

7 SECRETARY WOLF: He is continuing the  
8 phaseout of the capital stock and franchise tax.

9 CHAIRMAN EVANS: In other words, the time  
10 that was established from the original time?

11 SECRETARY WOLF: The original time would be  
12 that the last year for paying the capital stock and  
13 franchise tax would be calendar year 2010.

14 CHAIRMAN EVANS: 2010.

15 SECRETARY WOLF: And in 2011, the rate would  
16 be zero. That was the original plan; that is still  
17 his plan.

18 CHAIRMAN EVANS: So he is not, he is not, as  
19 this was started under the Ridge Administration and  
20 now we are continuing it, he is not stopping---

21 SECRETARY WOLF: No, he is actually  
22 reducing, continuing the reduction of the capital  
23 stock and franchise tax. What he is proposing is  
24 that the reduction be four-tenths of a mill rather  
25 than 1 mill, and that is a change.

1           CHAIRMAN EVANS:   And he is doing that for  
2 what purpose?

3           SECRETARY WOLF:   He is doing that to not  
4 have the reduction that would come from a full 1 mill  
5 reduction of the tax.   But I think he also is tying  
6 it in his own mind to the Hazardous Sites Cleanup  
7 Fund, the needs of that fund.

8           CHAIRMAN EVANS:   Let us talk about the  
9 revenue estimates in terms of where we are at this  
10 particular point and where you think--- Obviously  
11 you don't know until, you don't know what is going to  
12 happen April 15 and other kinds of things.   Where are  
13 we in terms of revenue estimates?

14          SECRETARY WOLF:   As of the end of January,  
15 we were running just under \$200 million ahead of  
16 estimate, and in February so far, it looks like  
17 things are going well so that we should be farther  
18 ahead by the end of February.

19          CHAIRMAN EVANS:   Okay.   So if you compare  
20 that, I mean, I know New Jersey is having their  
21 problems, New York is having their problems---

22          SECRETARY WOLF:   Right.

23          CHAIRMAN EVANS:   ---California and  
24 Massachusetts.   I mean, where would you kind of think  
25 Pennsylvania is at this point?

1           SECRETARY WOLF: I think it is an indication  
2 that Pennsylvania, it is a tribute to all of you who  
3 did a good job with the budgeting process last year,  
4 but I also think it suggests that Pennsylvania might  
5 be a little better prepared to weather whatever  
6 economic storm is coming.

7           The economists last week, in last week's  
8 edition, showed a map of the United States and made  
9 the point, which I think is a good point, that  
10 whatever slowdown in the economy is occurring is  
11 affecting different States very differently, and they  
12 actually divided the nation up into three different  
13 sets of sub-economies: States where things were  
14 really going badly, and you mentioned some of them;  
15 States where things are really going well; and then  
16 States where things are going along, maybe not quite  
17 as well as before but certainly disaster has not  
18 struck. Pennsylvania is in that middle category in  
19 their estimation.

20           CHAIRMAN EVANS: There was a question asked  
21 of Global Insight relating to health care in terms of  
22 its impact on our economy, if we do not do something  
23 about health care, and you, the Governor, have a  
24 proposal around cigarettes and other taxed products,  
25 you know, for the purposes of health care.

1           SECRETARY WOLF: Right.

2           CHAIRMAN EVANS: Can you talk a little bit  
3 about why you all think to use that particular method  
4 to deal with health care. You know, tell me what you  
5 are thinking.

6           SECRETARY WOLF: I think the Governor's  
7 thinking on that is that we are the only State not to  
8 tax other tobacco products, not our smokeless tobacco  
9 products, and so he is proposing, as he did last  
10 year, a tax on smokeless tobacco.

11           He is proposing a 10-cents-a-pack increase  
12 in the cigarette tax to help fund it, and I think the  
13 combination of those two taxes would raise an  
14 additional \$100 to \$110 million a year to help  
15 support his health-care proposal.

16           CHAIRMAN EVANS: So what I'm kind of picking  
17 up from this budget so far is that you want to put  
18 money back in people's pockets, working families,  
19 about 475,000. You want to make some investments in  
20 terms of the health care, is what you are trying to  
21 do. You are reducing the tax, you continue to reduce  
22 the tax on the capital stock and franchise.

23           SECRETARY WOLF: Right.

24           CHAIRMAN EVANS: So you are talking about  
25 health care, reduction of tax, maintaining the



1 stability of the Rainy Day Fund, put up to \$400 back  
2 into a working family's pocket, are the things that  
3 you are trying to do. I think it is rather kind of a  
4 fiscally conservative budget then.

5 SECRETARY WOLF: I would agree that it is a  
6 very prudent budget.

7 CHAIRMAN EVANS: Okay.  
8 Chairman Mario Civera.

9 CHAIRMAN CIVERA: Thank you, Mr. Chairman,  
10 and welcome, Secretary Wolf.

11 SECRETARY WOLF: Thank you.

12 CHAIRMAN CIVERA: Before I get into some  
13 other things as far as the lottery is concerned,  
14 Chairman Evans has put us in the direction of this  
15 rebate program, and we had kind of a mini-debate on  
16 PCN the other night as far as the rebate and what the  
17 Republican Party and the Republican Caucus is  
18 indicating.

19 Even though when that bill was taken out of  
20 the committee that the Republican members were  
21 registered as a "no" vote, and the reason why they  
22 were registered as a "no" vote was because the bill  
23 could not be amendable in the type of amendment that  
24 we needed to do to send it to the House floor. We  
25 have amendments prepared that we do not disturb the

1 proposal of the \$400, but we have amendments prepared  
2 that we roll back the personal income tax.

3 Now, I see today that, you know, we have  
4 this chart, and I know that the Chairman had asked  
5 you to hand the chart out, and you weren't prepared  
6 to give it to all the members, but I think we need a  
7 chart that would reflect what the PIT rollback would  
8 be.

9 Now, this is where I'm coming from. We're  
10 not out to sabotage anything and we are not out to  
11 kill any ideas and we are not out to hurt poor people  
12 in any way, but members of both caucuses, Republican  
13 as well as the Democrat Caucus, have concerns about  
14 the rebate.

15 The amendments that we have prepared to the  
16 Chairman's bill does not pull the rebate out but it  
17 reflects that it would bring down the PIT to 2.99, we  
18 would do something with the gross receipts tax, the  
19 NOL, and still remain within what the Governor had  
20 predicted as far as a surplus by June.

21 My understanding the day that the Governor  
22 gave his budget address is that he had said to us  
23 that we would have like a \$531 million surplus, and  
24 your numbers that you just said here were right now  
25 we were at \$200 million and we were pretty good for

1 the month of February, and so maybe what the Governor  
2 predicts, what his projection is, will be correct.

3 So what I think we should be doing, if we  
4 are going to be giving charts, then we should be  
5 looking at what a PIT rollback would be, and then  
6 probably we would have the consensus of all the  
7 caucuses, or the two caucuses in this chamber, that  
8 would be agreeable, okay?

9 I think if we are going to deal with this,  
10 you know, Dwight and I had a program the other night  
11 and we went back and forth, but this has to be said:  
12 In no way is my caucus opposed to this. What my  
13 caucus wants is their fair share, just like they want  
14 their fair share.

15 Now, we mentioned this morning and it was  
16 talked about the Federal government's rebate, and you  
17 mentioned today about the Federal government's  
18 rebate. That rebate that the Federal government is  
19 going to be giving out, what does that do for  
20 Pennsylvania's economy? Do you have any idea what  
21 kinds of numbers?

22 SECRETARY WOLF: The Congressional Budget  
23 Office a few days ago--- The answer is no, I don't  
24 in terms of Pennsylvania, but for the nation as a  
25 whole, they have upped their sense of the real GDP

1 growth as a result of that stimulus package at about  
2 two-tenths of 1 percent.

3 CHAIRMAN CIVERA: Two-tenths---

4 SECRETARY WOLF: Of 1 percent increase in  
5 the real GDP of the nation, and that should have a  
6 flow-through impact on Pennsylvania.

7 CHAIRMAN CIVERA: I'm sorry; I didn't hear  
8 what you said.

9 SECRETARY WOLF: And that should have an  
10 impact on Pennsylvania, probably in that range.

11 CHAIRMAN CIVERA: Okay.

12 Based on what I just described to you, as a  
13 package, what would that do to Pennsylvania's economy  
14 if we were able to do what we are supposed to do with  
15 the rebate, roll back the PIT, the gross receipts?  
16 Give me some kind of an idea what you think, how that  
17 would affect, and we are still in the scope of what  
18 the Governor projected as his revenue estimates. We  
19 are not touching, we are not grabbing something out  
20 of a budget or evaluating programs. We are in that  
21 scope. Could you give me some idea?

22 SECRETARY WOLF: Sure. Again, I really want  
23 to research that. I'm just speaking off the top of  
24 my head here, if that is all right.

25 CHAIRMAN CIVERA: Sure.

1           SECRETARY WOLF: I think, looking at the PIT  
2 reduction, an 8-basis-point reduction would result in  
3 about a \$290 million reduction in receipts. So the  
4 question is, what impact would that have compared to  
5 a one-time \$130 million stimulus package that the  
6 Governor is proposing?

7           In my opinion, the \$130 million would have a  
8 greater impact on moderating whatever downward  
9 pressure we are having in the Pennsylvania economy  
10 over the next 12 months than a phased-in or a tax  
11 reduction that actually goes out to Pennsylvania  
12 consumers over, if it were enacted say by March 1,  
13 over a 10-month period.

14           So it would be more expensive. It would not  
15 be temporary. Presumably once that was in place, and  
16 I don't know what your proposal would be, but if that  
17 were to be in place forever, that would be a \$289,  
18 \$290 million reduction. It would last for a long  
19 time.

20           But I think the biggest problem that I would  
21 see with that proposal is that one of the things, one  
22 of the key things you want to do in a stimulus  
23 package is put money into the hands of people, first  
24 of all, who need it, secondly, who will spend it,  
25 because that is the way that you actually end up

1 benefiting those same taxpayers, the same group of  
2 entrepreneurs and business people, that I think you  
3 want to help with the 8-basis-point reduction in the  
4 personal income tax.

5           So I would argue that that \$130 million  
6 injection, one-time infusion done very quickly,  
7 within the next 3 or 4 months, would have a much  
8 bigger impact even on the people that you are trying  
9 to help with the broad-based and long-term tax  
10 decrease.

11           CHAIRMAN CIVERA: Well, our idea was to  
12 piggyback off the Federal program as far as the  
13 rollback of the PIT.

14           Now, what some of our, well, one of our  
15 proposals is, and one is mine, is that basically  
16 would you say that a person who earns \$50,000 a year  
17 is a big wage earner? I wouldn't say that he was.  
18 Would you say that?

19           SECRETARY WOLF: I agree.

20           CHAIRMAN CIVERA: So if you roll back that  
21 PIT and you are able to give that person a \$50 or \$60  
22 decrease in taxes, I mean, that is something that  
23 that family, because that is a working-class family,  
24 that family is going to be able to use.

25           The other thing is that I want to--- And we

1 keep on referring to this as the Rainy Day Fund. The  
2 actual technical term for it is the "Budget  
3 Stabilization Fund." That is a whole different  
4 perspective than saying that the average constituent  
5 or person in Pennsylvania, well, the Rainy Day Fund,  
6 if they get into trouble, they need the money.  
7 Basically that is what that was put into place for in  
8 '91.

9 But let me say this to you again, and what I  
10 am saying to the Chairman also, we in no way are  
11 objecting or trying to bury something. All we want  
12 to do is be at the table. So if we are going to do  
13 this, and I believe with what the Federal government  
14 is doing, what the rollback with the PIT is doing, it  
15 piggybacks on it, and everybody here then comes out  
16 and they got something back from what they consider  
17 their government.

18 All right. I'm sure that you are going to  
19 get questioned on that from the members. I have  
20 something else that I have to go over with you.

21 Yesterday, the Department of Aging came in,  
22 and this is a crucial issue, and we don't want to  
23 alarm anybody in any way or scare anybody, but there  
24 were some questions that they could not answer and  
25 they kept on saying that you would have to talk to

1 the Department of Revenue when the Secretary comes  
2 in, and it is the results of the lottery accounts,  
3 okay?

4 SECRETARY WOLF: Okay.

5 CHAIRMAN CIVERA: The charts that I have in  
6 front of me reflect that in the year--- Okay; they  
7 are putting them up so I can see what I'm doing here,  
8 too.

9 In the year '06-07, as you can see from the  
10 ending balances, we are probably around \$500 million.  
11 And then in '07 and '08, we drop down to \$300  
12 million. And then in '08 and '09, and these are the  
13 numbers that came out of the budget---

14 SECRETARY WOLF: Right.

15 CHAIRMAN CIVERA: ---we drop down to like  
16 \$34 million. And then in '09 and '10, we go up about  
17 another \$58 million, which is another \$20 million  
18 increase.

19 So let me just take that to a point, if you  
20 could respond to that, and then I have another one on  
21 another part of the lottery, because that brought or  
22 drew a lot of attention, and right away, oh, don't  
23 say that the lottery is running out of money because  
24 we don't want to scare anybody. Nobody is trying to  
25 scare anybody; I just want to know, because the



1 members of my committee have asked me to direct this  
2 question. Could you give me some kind of an answer  
3 here?

4 SECRETARY WOLF: Yeah. Again, the Budget  
5 Office decides how they want to use the different  
6 fund balances that are out there. Our chief  
7 responsibility at Revenue is to make sure that there  
8 is a steady flow of money going into that Lottery  
9 Fund. So I think, you know, asking the Budget  
10 Secretary about why that particular change has taken  
11 place I think might be more appropriate.

12 But it is not something that concerns me at  
13 all either. I think the Lottery Fund has gone up and  
14 down over the years. There is a reserve that I think  
15 back in the Ridge Administration was budgeted, which  
16 does not show up in there, \$100 million, which was  
17 budgeted to be phased out over a period of time.

18 So again, I would urge you not to be too  
19 conservative about the fluctuations in the Lottery  
20 Fund, but it does provide some cushion, and given the  
21 variation year to year of the net profit that the  
22 Lottery puts into that fund, it seems to me that a  
23 reserve that fluctuates between \$40 and \$80  
24 million---

25 CHAIRMAN CIVERA: But there is no money in

1 the reserve, Mr. Secretary.

2 SECRETARY WOLF: No, no, that is what I'm  
3 saying; there is no money in the reserve, but that is  
4 an example. That was done and that was budgeted back  
5 in the late nineties. The fact that the Governor did  
6 not take that out as was originally--- If you look  
7 at a long-term budget, because I had the same  
8 question, and I went back to the late 1990s---

9 CHAIRMAN CIVERA: It is taken out. That is  
10 what we are trying to say.

11 SECRETARY WOLF: You are talking about the  
12 reserve budget?

13 CHAIRMAN CIVERA: Yeah.

14 SECRETARY WOLF: Yeah.

15 CHAIRMAN CIVERA: There is no money in the  
16 reserve. It was removed. It has already been out.

17 SECRETARY WOLF: Right. It was out a number  
18 of years ago also. It was put back in, you know, but  
19 not in that budget.

20 CHAIRMAN CIVERA: Okay.

21 SECRETARY WOLF: Could I show you the---

22 CHAIRMAN CIVERA: In '08 and '09--- is it  
23 '08-09? No; in '07-08 we see a reserve of \$100  
24 million, okay? And it was taken out in '08 and '09.

25 SECRETARY WOLF: Right.

1           CHAIRMAN CIVERA: According to what this  
2 document says, and that leaves the \$34 million.

3           SECRETARY WOLF: Right; right.

4           CHAIRMAN CIVERA: So it is gone.

5           SECRETARY WOLF: But we are talking about  
6 probably two different things.

7           CHAIRMAN CIVERA: Okay.

8           SECRETARY WOLF: Let me talk about the  
9 reserve budget first, which is that \$100 million  
10 piece that has been in there for some time.

11           If you go back, which you can't in that  
12 budget -- in fact, I'll share this with you, because  
13 I think this is useful to see, because I had the same  
14 questions, and I think it is a good question to  
15 reassure people who depend on the Lottery Fund that  
16 this is not a capricious thing that we have done.

17           If you go back to the 2001 budget, which,  
18 again, is not in the Budget Book, but just to give  
19 you some historical perspective, that budget, the  
20 reserve fund which we are talking about now, that  
21 \$100 million, was actually at \$190 million. And in  
22 that budget, the out-years were budgeted to take that  
23 down to \$25 million by year 2003, fiscal year  
24 2003-2004. In the 2001-2002 budget, that was changed  
25 to take that \$190 million down to \$5 million by

1 2003-2004 and eliminate it entirely in 2004-2005, and  
2 that stayed in the budget through budget year  
3 2003-2004. In 2003-2004, the budget put that \$100  
4 million back into the reserve fund but had it being  
5 eliminated in 2007-2008.

6 Now, last year the Budget Office and the  
7 Governor decided not to use that, to keep that in the  
8 Lottery Fund, but did that instead this year. So  
9 really if you go back to past budgets, this was  
10 something that actually, evidently, was thought  
11 about, put in the budget in the out-years a number of  
12 years ago, and what happened was the Governor decided  
13 not to take it out last year and the year before.

14 So this year he is doing something that was  
15 actually, again, as I said, in the 2002-2003 budget,  
16 and I can share this history with you and would be  
17 happy to do that.

18 CHAIRMAN CIVERA: Could we get a copy of  
19 that, please?

20 SECRETARY WOLF: Yes.

21 CHAIRMAN CIVERA: Okay. If somebody  
22 could---

23 CHAIRMAN EVANS: Lisa, can you get that,  
24 please? And Lisa, make some copies of that, please.

25 CHAIRMAN CIVERA: Okay. I have one further

1 question to follow up with this.

2           On the chart that I have, the next chart  
3 that I have, it indicates that net lottery  
4 collections, but actually it is the ticket sales that  
5 are sold in Pennsylvania, and if you see here in '05  
6 and '06 we are up, and then we start to decline in  
7 '06-07, and we don't go back up until 2012 and 2013.

8           My question is that this reflects that,  
9 okay, but the actual dollar amount at the end is \$52  
10 million. I mean, there is something--- I mean, is  
11 there an added cost that is affecting these numbers  
12 that we don't know about with the lottery? Are there  
13 additional games? The commission rate has not been  
14 increased at all, so how does this, because this  
15 comes from, again, from your Budget Book.

16           SECRETARY WOLF: Right. I think, again,  
17 that question as to where the funds are going from  
18 the Lottery Fund is probably best directed to the  
19 Budget Secretary, and my responsibility and our  
20 responsibility is to make sure that we have that  
21 continuing flow of funds into the Lottery Fund to  
22 fund the programs for older Pennsylvanians.

23           Could I--- Go ahead.

24           CHAIRMAN CIVERA: Okay. They are pointing  
25 out to me, on this particular chart in '06-07, we

1 have our negative-negative, and then when we get to  
2 '09 and '10, we jump up all of a sudden.

3 See, it is not giving us a clear signal of  
4 exactly what is going on and why it is affecting the  
5 program the way it is as far as dollars, because we  
6 have, I don't have to tell everybody in this room,  
7 there's a major commitment to this Lottery Fund.

8 SECRETARY WOLF: Right.

9 CHAIRMAN CIVERA: And we are, you know,  
10 very, very concerned about it.

11 Commissions have not been raised in the  
12 State since the lottery was brought into existence.  
13 So what is it that is doing this and making these  
14 numbers reflect in this manner?

15 SECRETARY WOLF: Okay. Let me--- That's a  
16 great set of questions. There are two issues here.  
17 One is, what is the amount of money in the Lottery  
18 Fund, and the other that you asked is, what is  
19 happening to sales and net profit, again, the funds  
20 that we are raising on a yearly basis that go into  
21 the Lottery Fund? Let me take the last question  
22 first.

23 As you point out, in 2006-2007, we had a  
24 4.5-percent decrease in the net profit of the  
25 lottery. Now, that came after a huge increase the

1 year before, and I talked a little bit---

2 CHAIRMAN CIVERA: That came before a huge  
3 what? I'm sorry.

4 SECRETARY WOLF: A huge increase in the net  
5 profit the year before.

6 CHAIRMAN CIVERA: Okay.

7 SECRETARY WOLF: And last year was my first  
8 year as Revenue Secretary. I had been here 3 days  
9 and I got these questions, well, what is happening to  
10 the lottery?

11 In looking at it, again, coming out of a  
12 business background, this is something that concerned  
13 me as well. But I looked at it and looked, first of  
14 all, at what the elements of that big increase in  
15 2005-2006 were. The big issue there was Powerball.  
16 In 2005-2006, we had three jackpots that went over  
17 \$200 million. Two of those jackpots went over \$300  
18 million.

19 Now, if you look at sales of Powerball,  
20 which are just huge for the lottery, they take an  
21 exponential curve. The first, until you get to about  
22 \$200 million, you will bump along at \$10, \$15 million  
23 a drawing in sales, but as soon as you get to \$200  
24 million, something changes in the perception. People  
25 start to get excited about it, more people come to

1 the stores and buy lottery tickets, and so you have a  
2 really sharp uptick in weekly sales figures.

3 In 2005-2006, we had, again, three Powerball  
4 jackpots that went above \$200 million. Two of those  
5 went above \$300 million. The next year 2006-2007, we  
6 only had one jackpot that went above \$200 million,  
7 none that went above \$300 million, and if you look at  
8 the change in lottery sales and net profit, that was  
9 the story; that was the whole story.

10 Everything else was up. Our instant games,  
11 the scratch-off games, we did very well. They had a  
12 dramatic increase in 2006-2007. But that one area,  
13 Powerball, really hurt us.

14 Now, I hate, one, variable explanations, but  
15 in that year, that was the explanation. This year it  
16 is different. This year, something else is working.

17 We started out 2007-2008 with good hopes.  
18 July, August, and I think through September we were  
19 running double digits ahead of the prior year in  
20 terms of sales and net profit. We were doing really  
21 well. The reason? In July and August, we had a  
22 Powerball jackpot that hit \$300 million. But the  
23 last week in that jackpot, the last week, we had \$90  
24 million in sales.

25 I mean, again, right now on Powerball, we



1 just reached a \$115 million jackpot, but we had been  
2 running along at \$10, \$15, \$20, \$15 million per draw  
3 in terms of sales. All of a sudden, that last sales  
4 level went up to \$90 million.

5           So we started off the year very well. We  
6 started declining in October, and it really  
7 accelerated in December and January, and when we  
8 started looking at what was causing that, it turned  
9 out to be the retail environment. Traffic to the  
10 stores was down. We were hearing that from our  
11 retailers. Our surveys to our customers, we were  
12 finding that same thing.

13           So this year is different than last year.  
14 Last year was a Powerball phenomenon. The reason we  
15 were down--- Our sales were actually up last year,  
16 but the net profit was down a little bit. This year,  
17 we are concerned because of the general state of the  
18 economy, especially the retail economy.

19           CHAIRMAN CIVERA: Just one more, and I'm not  
20 going to dwell on it because I know the other members  
21 have almost the same questions.

22           My point, though, is that in '09 and '10 we  
23 go back up again, so, I mean, are you basically  
24 predicting that we are going to sell a lot of  
25 Powerballs in that year?

1 I mean, what concerns me is this: that we  
2 have another source of gaming in Pennsylvania---

3 SECRETARY WOLF: Right.

4 CHAIRMAN CIVERA: ---and the point I'm  
5 trying to make here and go after is, is gaming  
6 affecting the lottery?

7 SECRETARY WOLF: No.

8 CHAIRMAN CIVERA: Because when you look at  
9 charts like that and you see numbers like that,  
10 something is affecting it, and don't know whether it  
11 is really all about the Powerball, and basically you  
12 are saying--- You know, maybe we have to wait for  
13 Secretary Masch, but maybe we should have the both of  
14 you here together, because we need some clear  
15 significant answers here. There is a lot that  
16 depends on that.

17 Thank you, Mr. Secretary.

18 SECRETARY WOLF: Can I just follow up on  
19 that?

20 CHAIRMAN CIVERA: Sure.

21 SECRETARY WOLF: I just want to make sure,  
22 and I'm not trying to pass the buck here on Secretary  
23 Masch. The lottery is mine and our department's  
24 responsibility, and I think we have a good plan for  
25 making sure that the money going into the fund

1 continues to grow, and grows according to the  
2 increases that you see there.

3 CHAIRMAN CIVERA: Right.

4 SECRETARY WOLF: In terms of the fund  
5 itself, the fund balances, again, given the variation  
6 from year to year, I think it is prudent to have, I  
7 don't think we need the amount, and I think Secretary  
8 Masch can answer this question better than I, but I  
9 think he will tell you that we don't need the \$400,  
10 \$500, \$600 million balances in the Lottery Fund as a  
11 cushion. I think we have enough of a cushion,  
12 because even through the thick and thin, our ups and  
13 downs of our net profit has not varied that much.

14 CHAIRMAN CIVERA: Well, I kind of disagree  
15 with that. I mean, I'm not in agreement to what you  
16 are saying there as far as the \$500 and \$600 million  
17 cushion. You would have to explain that more in  
18 detail.

19 But let me just say this real fast and I'm  
20 going to go. We have to get more of a direct answer,  
21 and the reason is this: The Department of Aging was  
22 here yesterday, and they very conveniently passed it  
23 to you. You are here, and now we are hearing about  
24 Secretary Masch. We need to know what we are doing  
25 here. This is a very crucial situation, and I think

1 that we need the answers before we go any further  
2 with this.

3 SECRETARY WOLF: Okay. Let me just again  
4 say that I don't want to pass the buck to Secretary  
5 Masch.

6 On the lottery, the buck stops here, and I  
7 think we have a great plan and a great track record  
8 of delivering increased net profits to the Lottery  
9 Fund.

10 Since Governor Rendell took office, we have  
11 increased sales by \$1 billion, from \$2 to \$3 billion,  
12 or just over \$3 billion a year, and we have added  
13 about \$200 million in net profit that is going into  
14 the Lottery Fund. That is \$200 million per year.

15 And I see no reason why over the long run,  
16 given that there will be ups and downs in the economy  
17 as we are facing this year, that we will continue to  
18 be able to deliver that kind of profitability to the  
19 Lottery Fund, that we have a plan to do it, and I  
20 would be happy to go through that with you now.

21 But this is where the buck stops. We are  
22 the ones making the decisions that will drive those  
23 lottery sales and net profits. And again, that is  
24 where I'm committing to you that we will do a good  
25 job in making sure that money is going into that

1 fund.

2 CHAIRMAN CIVERA: Then why the increase in  
3 '09 and '10?

4 SECRETARY WOLF: Okay. Let me go through  
5 our plan. Here is what we plan to do to create that.

6 If you look at the last 5 years, some of  
7 what we are proposing---

8 CHAIRMAN CIVERA: Is this the sheet you just  
9 gave us, what you are talking about?

10 SECRETARY WOLF: No, that is just the  
11 reserve fund.

12 CHAIRMAN CIVERA: Okay.

13 SECRETARY WOLF: This, again, would be sales  
14 and net profit.

15 CHAIRMAN CIVERA: Okay.

16 SECRETARY WOLF: Okay?

17 If you look at what has driven sales and net  
18 profit really throughout the history of the lottery  
19 but especially over the last 5 years, here is what  
20 they are and this is what we are going to continue to  
21 do.

22 We have broadened the retail base. Over the  
23 last 5 years, when Governor Rendell took office,  
24 there were 7,000 retailers selling lottery products  
25 in the State. Right now, there are about 8,500.

1 That has been one of the linchpins of the growth of  
2 the lottery.

3           The last 2 years, we have actually had sort  
4 of a pause in that rate of growth. We have gotten,  
5 our big market, it is really the convenience store  
6 market, we are looking to expand beyond that now, and  
7 one of the business plans for the future is to  
8 continue expanding that retail base by looking for  
9 new outlets for lottery products. That is the first  
10 thing, new types of retailers.

11           The second thing is, you were saying, you  
12 know, we need to count on Powerball. To a certain  
13 extent, that is part of the strategy, and we can do  
14 that by changing the matrix of certain games like  
15 Powerball. We have already done that with Cash 5,  
16 which is to increase the likelihood that jackpots  
17 will grow and be large. That is what our customers  
18 want, and we are going to respond to that. We  
19 already have done that with Cash 5. In October, we  
20 should be able to deliver that on Powerball.

21           Third, new technology, and that does two  
22 things. The new technology that goes into place, we  
23 just had an RFP that we are working on negotiations,  
24 but we hope to have new machines, a whole new  
25 technology in place by the beginning of calendar year

1 2009, and that will do two things.

2           One, it will freshen up the image we have  
3 out in our stores and create new opportunities for  
4 automated selling, but it will also reduce our costs  
5 by \$25 million, we think \$25 million a year. That is  
6 \$25 million a year in expense reduction that should  
7 show up on the bottom line. That is three.

8           Fourth, new instant games. Instant games is  
9 where we have grown over the last 5 years. If you  
10 look at the growth we have had, one-billion-or-so  
11 dollars in new sales, about \$200 million in new net  
12 profit, that has all been with instant games. The  
13 extra \$200 million that has been going into the  
14 Lottery Fund, that has been going out for programs  
15 for senior citizens, has come really with those  
16 instant games.

17           We intend to continue to look for new  
18 instant games and promote those, which takes us to  
19 the final point, which is, those instant games, if  
20 you look at that incremental growth, \$1 billion of  
21 sales, \$200 million of net profit, those extra \$200  
22 million that are coming into the lottery every year  
23 are at about a 20-percent net profit margin.

24           Now, we have been moving in that direction  
25 where our customers have been buying instant games,

1 and those instant games run at about, a 22-percent  
2 margin? Is that right, Ed?

3 MR. TREES: That's correct.

4 SECRETARY WOLF: About a 22-percent net  
5 profit margin.

6 Unfortunately, Pennsylvania is one of six  
7 States that has a floor, a requirement that the net  
8 profit percentage margin never go below 30 percent.  
9 If we want to continue to grow, and the assumption we  
10 have made in taking our sales growth and net profit  
11 growth back up, one of the five pillars of this  
12 business plan is that we get relief from that  
13 30-percent floor, which, again, that most of the  
14 other States with lotteries, all but six, have done.

15 If we do that, I think we are going to  
16 increase, we are going to continue to get back on the  
17 road of increasing sales, as we have in the past, and  
18 in conjunction with all these other things. That is  
19 how we intend, when we worked out the budget for  
20 those out-years, that is how we intend to increase  
21 sales and net profit in the lottery.

22 CHAIRMAN CIVERA: Well, okay, I hear what  
23 you are saying, and I hope that what your prediction  
24 is is correct as far as that.

25 I just don't want to see anything that we



1 have implemented, and my concern was the gambling in  
2 Pennsylvania, because that was one of the questions  
3 that this committee has asked over and over and over  
4 in heavy debate that was done on the House floor.

5 Thank you, Mr. Chairman.

6 CHAIRMAN EVANS: Mr. Chairman, remember, I  
7 said yesterday, you and I got to go buy lottery  
8 tickets. That will help.

9 Representative Jake Wheatley.

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

12 Good afternoon, Mr. Secretary.

13 SECRETARY WOLF: Good afternoon,  
14 Representative.

15 REPRESENTATIVE WHEATLEY: First, I think I  
16 heard you mention a little bit about the budget  
17 request for your advances in your technology. I  
18 think as we talk about the department and the  
19 department needs and where we should invest money, we  
20 certainly want your department to be capable and  
21 equipped with the latest and greatest technology to  
22 help us recoup the money that is owed to the  
23 Commonwealth.

24 So to me, that seems like a very easy  
25 support, but could you tell me a little bit more

1 about that, what you are trying to do with that, what  
2 that will do for you and your ability to be more  
3 efficient and effective in making sure we collect the  
4 revenues that are owed to the Commonwealth?

5 SECRETARY WOLF: Yes. Thank you.

6 I think you are referring to the \$10 million  
7 appropriations item in our modernization program.

8 Last year when I came before this panel, in  
9 the appropriations, in our budget, was a \$1 million  
10 line item for a roadmap to establish or create a plan  
11 for transforming and modernizing the processes, the  
12 technologies, in the Department of Revenue.

13 We have been using that \$1 million to  
14 develop this plan, and by the end of this year, we  
15 should have that plan in place and ready to implement  
16 these changes in technology.

17 Last year, I appealed to you to allow us to  
18 use that \$1 million, and I said we needed it and I  
19 illustrated that by saying that the systems--- I had  
20 been here 3 days. I got here, and one of the first  
21 things I found that really astounded me was that the  
22 systems at the Department of Revenue were a \$27  
23 billion, or if you include the lottery a \$30 billion  
24 organization. If we were a private company, we would  
25 be one of the biggest companies in the world.

1           We are running on systems that are still  
2 written and programs that are not taught anywhere, in  
3 any school, in this country -- Cobalt. We have lots  
4 of old Cobalt programs, lots of old systems, and when  
5 I said that last year, I think I got surprised looks  
6 on the part of some of you.

7           Well, we have done the study, and we will be  
8 ready as of early next fiscal year to implement that  
9 study, and I would hope that I could count on your  
10 support, as you gave it last year with that \$1  
11 million study, to actually implement the findings of  
12 that study, which is that we do need to upgrade our  
13 technology. And the \$10 million is a down payment on  
14 bringing our technology up to speed, to really the  
15 21st century, and allow us to have integrated  
16 systems. Information in one place allows us to do  
17 our jobs more productively, more efficiently, and  
18 actually with a lot more convenience to the taxpayers  
19 of Pennsylvania.

20           So that is what we are trying to do with  
21 that \$10 million.

22           REPRESENTATIVE WHEATLEY: Sure.

23           And just to go back a moment, can you help  
24 me understand, because I have always gotten a little  
25 confused with this conversation around the expansion

1 of gaming and if it hurts the Lottery Fund, and it is  
2 kind of couched in an either/or type of way that we  
3 can't have both sustaining, working together jointly,  
4 because--- Can you just help me understand the  
5 Lottery Fund and what is happening with its revenue  
6 structure and what is projected to be into the  
7 future, as well as how gaming comes into play as it  
8 relates to its revenue, because quite frankly, last  
9 year with gaming money, we were able to do more with  
10 our seniors and older adults in this Commonwealth.

11 So can you help me understand this process,  
12 because I do have a lot of citizens who are worried  
13 that the Lottery Fund is going to disappear and that  
14 is going to hurt seniors and that programming, but it  
15 seems to me that is only because of the way we are  
16 talking about it. Can you help me understand that a  
17 little bit?

18 SECRETARY WOLF: Yeah. I don't believe  
19 there is a relationship between lottery sales and the  
20 slots, and I said that last year before we had much  
21 information. We are getting a little more  
22 information now, but I still believe that, and let me  
23 give you the two broad reasons.

24 The first is just looking at the nature of  
25 the two products. The one, slots, is a venue

1 product. People plan; they go to a venue; they spend  
2 the money. The lottery is a much more impulse item.  
3 It is on the counter at stores, and people come in  
4 buying something else and they end up buying a  
5 lottery ticket. So the tradeoff there, it seemed to  
6 me, is to not have a lot of--- It didn't make sense  
7 on the surface of it.

8           The question was, do the statistics actually  
9 back that up? And we are now into gaming. Gaming  
10 has been in existence for about a year, a little over  
11 a year, but we are not up to speed, not all the  
12 venues are up yet, and in this past calendar year,  
13 the venues have opened up at different times. So we  
14 have truly preliminary data on what is happening, and  
15 it looks like maybe when a slots parlor opens, there  
16 is some excitement and that there is some diversion  
17 of discretionary dollars, but it does not look like  
18 it is very significant at all.

19           Again, this is really preliminary  
20 information. I think we have to wait until next year  
21 to really get good statistical information. What we  
22 do have and what we do know that is affecting the  
23 lottery is, again looking at the statistics, as I  
24 said earlier, when Powerball jackpots are doing well,  
25 the lottery does well.

1           The other thing is the economy. We have  
2 done some work looking at the relationship between  
3 customer sentiment, customer confidence, and lottery  
4 sales, and there is a relationship that when customer  
5 confidence is high, lottery sales do well. Of  
6 course, so do other retail sales. When customer  
7 confidence is low, lottery sales suffer, and what we  
8 are seeing right now, I think in the last 5 months,  
9 is a reduction, a decrease, in consumer confidence.

10           So we live in the retail world; we are  
11 seeing the same results that other retailers are  
12 seeing. It is not the slots. It is Powerball; it is  
13 the economy.

14           REPRESENTATIVE WHEATLEY: Sure. And just  
15 one final comment, question type of--- Going back to  
16 the earlier conversation, I think the minority  
17 Chairman mentioned that the Rainy Day Fund is really,  
18 its true name is the Budget Stabilization Fund.

19           If you can help me understand, you know, the  
20 Commonwealth makes money or raises money via  
21 consumptions of goods and those sales off of those  
22 consumptions and other venues. So if you were to  
23 give consumers an infusion of cash that they, by  
24 research or virtue of who they are and what they are  
25 and what they do, they buy more goods and services,

1 doesn't that in turn bring the State and the  
2 Commonwealth money to help stabilize this budget?

3 SECRETARY WOLF: It should.

4 Now, the question, of course, is to what  
5 extent does that flow back into the tax coffers? And  
6 it is probably true that not all of that money will  
7 come back, even though it cycles through the economy  
8 a number of times. But the idea is that it does spur  
9 economic activity that would not be spurred if that  
10 stimulus package did not go into place.

11 REPRESENTATIVE WHEATLEY: So it is almost  
12 like a \$130 million, or somewhere around there, maybe  
13 a \$100 million infusion into the economy to try to  
14 stimulate more activity?

15 SECRETARY WOLF: Well, I had a good question  
16 on Monday from one of your members on my assertion  
17 that there was a multiplier that was in the 6 to 8  
18 level, and I would like to acknowledge that I think I  
19 was wrong. It was probably higher.

20 I was using a press report from Oklahoma  
21 that said that the multiplier in fact would be 6 to  
22 8. So I went back, the member was good enough to  
23 send me a copy of the article, and we did some more  
24 research so that I am in a position to give a much  
25 better answer.

1           But it looks like a multiplier of a truly  
2 targeted stimulus package, one that goes into the  
3 hands of people who will spend it, who have a high  
4 propensity to consume, will be in the 3 to 5 area.  
5 So in fact if that is true, let's say it is 4, you  
6 multiply \$130 million times 4, and you end up with a  
7 little over a \$500 million infusion into the economy.

8           Now, I can show you the calculations that we  
9 made to come up with that, and you can take issue  
10 with that -- it might be 3 -- but it is certainly  
11 higher than the \$130 million that will flow through  
12 the economy. And that is where you get back to the  
13 point, I think, where you can say that a stimulus,  
14 even though the initial targeting is to low- and  
15 moderate-income people, that actually has a much  
16 broader beneficial impact on all of us in the  
17 economy. And again, especially when it is done as  
18 the Governor is trying to do it, in conjunction with  
19 the Federal program that is much bigger.

20           REPRESENTATIVE WHEATLEY: Thank you.

21           Thank you, Mr. Chairman.

22           CHAIRMAN EVANS: Representative Dante  
23 Santoni.

24           REPRESENTATIVE SANTONI: Thank you, Mr.  
25 Chairman, and good afternoon, Mr. Secretary.



1 SECRETARY WOLF: Good afternoon.

2 REPRESENTATIVE SANTONI: To follow up a  
3 little bit on the questions from Representative  
4 Wheatley about the gaming, do you oversee the Gaming  
5 Fund and the State Racing Fund? What exactly are  
6 your responsibilities on those?

7 SECRETARY WOLF: No. The only thing, the  
8 Pennsylvania Gaming Control Board oversees the gaming  
9 industry. We are responsible for making sure that  
10 the taxes are collected accurately and timely.

11 REPRESENTATIVE SANTONI: So you see the  
12 money coming in from the venues?

13 SECRETARY WOLF: Yes.

14 REPRESENTATIVE SANTONI: Okay. I guess---  
15 All right. That was my question.

16 We were starting to see some property tax  
17 relief with regard to that, and I guess the Budget  
18 Secretary certifies that fund to make sure it is at  
19 the proper level before the money goes out, correct?

20 SECRETARY WOLF: Right.

21 REPRESENTATIVE SANTONI: But you see the  
22 funds that are coming in and where we are, and I know  
23 that we are getting small property tax relief. Could  
24 you just give me your opinion or your comments on  
25 where you see that going?

1           When we first passed that bill back in, I  
2 think it was 2004, some of the numbers that were  
3 talked about being generated to go toward property  
4 tax relief was to the tune of about a billion  
5 dollars. Many of the naysayers of that legislation  
6 said, you will never see that in a million years. So  
7 I guess I'm just asking you, with where we are now,  
8 the moneys that are coming in, could you give us an  
9 estimate, a guesstimate, as to where you see that as  
10 far as property tax relief now and into the future?

11           SECRETARY WOLF: I think that's a good  
12 question.

13           The billion dollars, I think, was the  
14 estimate at the very beginning. It looks like, and  
15 again, we are still, new venues are opening up, and  
16 the total number of racinos and casinos that were  
17 planned are still not all up and running, so we don't  
18 know.

19           We originally thought that, for example, the  
20 revenues per machine would be somewhere around \$230  
21 per machine. On average, it is coming in higher than  
22 that. So I think that \$1 billion today, if we were  
23 asking ourselves where that would end up when all the  
24 venues are open, we are looking at annual tax  
25 receipts of probably closer to \$1.1 billion.

1           Again, that is a guess, but I think it is  
2 fair to say that the gaming industry is producing,  
3 and -- this is the part that we see -- the taxes are  
4 flowing very well.

5           REPRESENTATIVE SANTONI: That is great to  
6 hear.

7           The other question I have is a question that  
8 I'm going to pose to you and many of your other  
9 Secretaries on the perception out there, I guess,  
10 that there is a lot of fat in the system and in all  
11 the departments.

12           I know that there have been letters sent out  
13 requesting, you know, a 10-percent across-the-board  
14 cut in each department. I guess my question is, I'm  
15 sure that your department is lean and mean, and I  
16 understand that, but say that they got their wish and  
17 there was a 10-percent cut across the board, the  
18 funding for your department. How would that affect  
19 you, and more importantly, how would that affect the  
20 people in Pennsylvania?

21           SECRETARY WOLF: A 10-percent cut in the  
22 complement; we have got a 2,300 complement, so that  
23 would be a 230-person cut.

24           The department, as far as I know, over the  
25 first 5 years of the Rendell Administration, has cut

1 about 226 positions in its complement, so that would  
2 take the total in a 6-year period to about 500.

3 I can only speak for my agency, but when I  
4 came here, I came out of the business world. I spent  
5 my entire adult life building a business in York  
6 County and remained very sensitive to productivity  
7 and efficiency and the need to make sure the  
8 processes are as streamlined as possible.

9 When I came to the Revenue Department, I was  
10 really impressed. I was completely unimpressed by  
11 the technology, because we do need -- if I haven't  
12 mentioned that -- new computers in the Revenue  
13 Department. But the people, I have never met a group  
14 of people who were as dedicated, hardworking, and  
15 committed as the people that I am working with now in  
16 the Revenue Department. So that is the first thing.

17 The second thing is--- And I'm sure that  
18 you find that throughout the Commonwealth.

19 The second thing is, the Revenue Department  
20 does something that I don't think too many other  
21 departments do, and that is, we focus on bringing in  
22 the dollars. The people that we have process  
23 returns, they do audits, but everything they do,  
24 almost everything that everybody in my department  
25 does, is dedicated to recovering and collecting the

1 taxes that are owed the Commonwealth.

2 So to the extent that you cut 10 percent of  
3 our complement, I think most of that cut, if not all  
4 of it, would result in a less efficient, less  
5 productive tax collection process, so that at the  
6 same level of taxes we have now, we would collect  
7 fewer taxes, and I think that would be the main  
8 consequence of that move in my department.

9 REPRESENTATIVE SANTONI: Just so you know, I  
10 am not advocating that. I hear that out there, and I  
11 want people to know that when you just say that, it  
12 is political popular maybe to say something like  
13 that, but how it affects real people is important for  
14 the people that we all represent to know about. So I  
15 thank you for your answer.

16 Thank you, Mr. Chairman.

17 CHAIRMAN EVANS: Representative Brian Ellis.

18 REPRESENTATIVE ELLIS: I did not have any  
19 questions, but I can throw one together real quick.

20 CHAIRMAN EVANS: Well, I don't know how  
21 you're feeling. Aren't you feeling well?

22 REPRESENTATIVE ELLIS: No, I feel very well.

23 CHAIRMAN EVANS: No, seriously, because  
24 you're like---

25 REPRESENTATIVE ELLIS: Thank you, Mr.

1 Chairman.

2           In regard to the reductions in spending  
3 within your department, certainly we have many  
4 departments across the Commonwealth who cumulatively  
5 we are looking for, the Governor himself is looking  
6 for \$100 million worth of cuts. I don't believe that  
7 his position or the position that many of us are  
8 advocating at reducing costs is necessarily pointed  
9 specifically at the Revenue Department. We do look  
10 at your department as a good model.

11           But that being said, we do believe that  
12 there is room for you to cut and still provide a  
13 level of service. You are providing an excellent  
14 service now with 226 folks lower than you had before,  
15 and we believe that you can continue to do that.

16           And it is nice to have somebody from the  
17 private sector in your position, so thank you for  
18 coming to the public sector.

19           But my question would be in a totally  
20 different direction. Certainly in the past, the  
21 first term of the Administration, we saw an increase  
22 in the borrowing that has been done here in  
23 Pennsylvania under this Governor, and in this year's  
24 budget he proposes another \$4.3 billion worth of  
25 additional borrowing, which is certainly going to

1 increase the amount of debt service that we are going  
2 to pay.

3 Do you guys have any long-range plans to,  
4 instead of just making the minimum payment, to find  
5 revenue and dedicate revenue specifically to the  
6 indebtedness problem that we face here in  
7 Pennsylvania?

8 SECRETARY WOLF: We don't have any specific  
9 plans or programs aimed at debt reduction, but we  
10 have done a number of things to try to increase our  
11 efficiency in terms of collecting taxes that are in  
12 place right now, and one of the things that is in the  
13 budget and has been for the last 3 years and is a  
14 continuation of programs, initiatives, that were  
15 started before I got here, in the compliance area, we  
16 have about \$9 million in this year's budget as a  
17 carryover from programs that we started over the last  
18 2 or 3 years.

19 Those are the things we are trying to do,  
20 again, to make the existing system work better, more  
21 efficiently, at the current level of taxes. And, you  
22 know, we don't determine where those funds go, but  
23 those are funds that would not otherwise be available  
24 to the Commonwealth for programs for debt reduction,  
25 for whatever the General Assembly and the Governor

1 feel those funds should be used for.

2 REPRESENTATIVE ELLIS: Okay. And another  
3 question that I would have is, and I'm hearing from a  
4 lot of the small businesses throughout my district,  
5 certainly the compliance level of them paying their  
6 taxes is certainly something that I think that you  
7 guys have taken an aggressive approach to, in my  
8 estimation, at times maybe a little too aggressive,  
9 because what I'm seeing is an increase in the amount  
10 of fines that people are paying for human error,  
11 paperwork errors, and delays in processing. You are  
12 still collecting the taxes, just not as fast as  
13 prescribed. To me, whenever you aggressively go  
14 after the small businesses for small errors and you  
15 penalize them with big penalties, I think that is an  
16 issue that we have to take a look at.

17 Can you tell me or can you provide the  
18 committee with the numbers of the collection rate of  
19 delinquent taxes over the past few years as well as,  
20 are we increasing, are you collecting more delinquent  
21 taxes? Or you collecting more in fines from the  
22 small businesses across Pennsylvania?

23 SECRETARY WOLF: If I could maybe share with  
24 you, I have the information that I could get back to  
25 you.



1           One of the things, and I'm not trying to  
2 duck the question, but there is some--- Let me give  
3 you an appreciation for the degree of difficulty in  
4 actually trying to show that.

5           We, I think, started out, the Rendell  
6 Administration, before I got here, with what we  
7 defined as delinquent collections at about \$500  
8 million. The goal was to get above \$700 million, and  
9 we are there. And if you look at the trend of  
10 delinquent collections over the years, we have been  
11 in the last 4 years above the trend line that goes  
12 back, oh, about 15 years.

13           The problem with that metric is knowing  
14 exactly what is the result of actual collections  
15 going out to a specific taxpayer and saying, "You owe  
16 us back taxes. Could you please pay them?" The  
17 difference between that and sort of a general idea  
18 that, okay, the Revenue Department is actually very  
19 serious about collections, so the compliance among  
20 the rest of the taxpayers actually increases, and I  
21 think we are seeing some of both. We can't really  
22 measure the latter, but the former is something that  
23 I think we can see. But it is this sort of  
24 educational thing.

25           And one of the things, I have to say that

1 the intent of the department, as a former business  
2 owner, is not to be hard and rigid in the tax area,  
3 especially with small businesses. We have, I think  
4 -- and I would really want to hear about any  
5 exceptions to this rule -- we have in place rules  
6 that if a taxpayer is otherwise compliant, has been  
7 compliant and has a history of that, and comes in  
8 with a late payment or has not paid a tax because she  
9 or he didn't understand that that tax was owed, we go  
10 a long way in terms of recognizing that in terms of  
11 abating penalties, abating fines, and things like  
12 that.

13           So if we have not done that, I would like to  
14 know about it, because I agree with you that we are  
15 not out to discourage business in Pennsylvania. What  
16 we want to do is ensure compliance. If we do that  
17 publicly and clearly, make it clear to everybody and  
18 every taxpayer that we are serious about enforcing  
19 the laws, I think what happens is that you have a  
20 broader compliance, and when you have a broader  
21 compliance, you are actually creating an environment  
22 of fairness to those businesses and those individuals  
23 that do pay their taxes on time and in full, and that  
24 is really all we are trying to do.

25           REPRESENTATIVE ELLIS: Well, I appreciate

1 you saying that, and I actually have sitting on my  
2 desk a local business that I was planning on speaking  
3 with you about, so we will get together next week and  
4 handle that.

5 SECRETARY WOLF: Absolutely.

6 REPRESENTATIVE ELLIS: Because, again, they  
7 do realize that they made a mistake, they are willing  
8 to pay their taxes, they always have in the past, and  
9 this is a situation where the fine outweighs the  
10 crime.

11 SECRETARY WOLF: We recognize that, so I  
12 would love to hear that. So please---

13 REPRESENTATIVE ELLIS: That's a good thing.

14 And then finally, the last thought is,  
15 obviously everybody in your department, according to  
16 you, is in the business of collecting the revenue.

17 SECRETARY WOLF: Yes.

18 REPRESENTATIVE ELLIS: Do you see, based on  
19 the letter that I had sent you last week -- it is a  
20 little tougher for you; you don't have programs that  
21 you administrate, but you do have collection services  
22 that you administrate -- do you see any shortcomings  
23 in the collections? Specifically, are there any  
24 areas where we need improvement?

25 SECRETARY WOLF: In the process that we---

1 Yes, I do, and that is why our long-range plan for  
2 the department involves, again, the three pillars of  
3 any strategy to improve -- people, process, and  
4 technology -- and we are working on all three areas.

5 The technology piece is absolutely crucial.  
6 There are things that we cannot do right now as an  
7 agency because we don't have the technology to allow  
8 us to match returns in different corners of the  
9 office.

10 One taxpayer comes in to one of our offices  
11 out in the State, and our collection of taxpayer  
12 service employees have to bring up four different  
13 screens, each with a different password, to be able  
14 to serve that one taxpayer. And when they want to  
15 try to find information that came in under this tax  
16 correspondence to the same information in a different  
17 tax, that's a manual process. It is really tough.  
18 So technology is a huge part of that, and I think we  
19 could be a lot more efficient, much more productive,  
20 if we had that technology.

21 What it would allow us to do is not reduce  
22 our complement, I would argue, but take the people  
23 that we have right now and redeploy them into areas  
24 that actually do produce more.

25 For example, one field auditor working in

1 the corporate tax area brings in \$1.5 million a year  
2 after a year and a half on the job. Now, you have  
3 reached a point of diminishing returns, but we are  
4 far from that point of diminishing returns, and so  
5 what I would ask you to accept, at least on this  
6 department's part, would be that cutting people would  
7 not be as good an idea as trying to create greater  
8 efficiencies, find ways or help us find ways to make  
9 ourselves more productive so that we can take the  
10 people we have and do a better job of collecting the  
11 taxes that are on the books right now.

12 REPRESENTATIVE ELLIS: Well, I believe that  
13 is the position that we are advocating as well, so  
14 thank you for saying that.

15 And, Mr. Chairman, I appreciate your  
16 indulgence on the multiple questions, allowing me to  
17 ask more than one. I appreciate that.

18 CHAIRMAN EVANS: I'm glad you said that for  
19 the record.

20 REPRESENTATIVE ELLIS: It is on the record.  
21 I appreciate that, Mr. Chairman. Thank you very  
22 much.

23 CHAIRMAN EVANS: You got it.

24 Representative Reed.

25 REPRESENTATIVE REED: Thank you, Mr.

1 Chairman, and thank you, Secretary Wolf, for  
2 appearing before the committee today.

3 SECRETARY WOLF: Thank you.

4 REPRESENTATIVE REED: I have two separate  
5 questions. The first one is relatively short.

6 The Governor has proposed increasing the job  
7 creation tax credit program from \$1,000 to \$3,000,  
8 and currently under that program, a business is  
9 eligible for that tax credit for a 3-year span of  
10 time, \$1,000 a year. Will that program, will they  
11 now be eligible for \$3,000 a year for 3 years or just  
12 a one-time hit of \$3,000 at the beginning?

13 And the reason I ask that is, the Governor  
14 had not asked for an increase in the annual cap to  
15 that tax credit of \$22.5 million. So either we are  
16 doing it all at once, or less folks are going to be  
17 eligible for that program.

18 SECRETARY WOLF: It would be every year you  
19 would be eligible for that tax credit.

20 Again, it is for new jobs only, so you can't  
21 go back to the same job and say, okay, I created a  
22 job last year, and I want a tax credit each of the  
23 successive years for that one job I created. It is  
24 net new jobs every year.

25 REPRESENTATIVE REED: So it will be the same

1 parameters as the current program, just increasing it  
2 from \$1,000 to \$3,000.

3 SECRETARY WOLF: Right.

4 REPRESENTATIVE REED: And you don't  
5 anticipate less folks being eligible for the program.  
6 How does that, again, mesh with--- The Governor is  
7 not asking for an increase in the cap of the \$22.5  
8 million, and it could just be a clerical mistake made  
9 by the Office of the Budget, and that is okay. But  
10 from what we understand, that cap is generally maxed  
11 out every year, so we either have to appropriate more  
12 money for that program or less folks are going to be  
13 eligible.

14 SECRETARY WOLF: I think that is a good  
15 question. Could I get back to you on that? I don't  
16 know the answer.

17 REPRESENTATIVE REED: Okay; absolutely.

18 The second area that I want to talk a little  
19 bit about has been mentioned quite a bit in the last  
20 couple of weeks since the Governor proposed it, and I  
21 do hate to disagree with my own Chairman a little  
22 bit, but there are those of us who do fundamentally  
23 have a problem with the rebate proposal, and part of  
24 that problem is, many of us don't consider it a  
25 rebate proposal; we consider it, in essence, a

1 taxpayer-funded bonus proposal.

2           Now, I do understand that the individuals  
3 eligible for that proposal do pay other taxes --  
4 sales tax, real estate transfer tax, gas tax, some of  
5 the other taxes out there -- but the very proposal is  
6 based upon, the eligibility for the proposal is based  
7 upon your personal income tax, of which these folks  
8 are not in the end paying the personal income tax  
9 because they are being rebated for their personal  
10 income tax liability. It is almost like if I went  
11 into an appliance store and bought a blender and I  
12 got a rebate on a TV I didn't purchase. So I think  
13 that fundamental tenet does bother a number of folks,  
14 not just in this body but across the Commonwealth,  
15 that I have spoken to.

16           Secondly, when you look at it, and this is  
17 probably the more practical side of it outside of the  
18 policy equation, when you look at what the Federal  
19 government has done, and a couple of weeks ago when  
20 we hosted the hearing with yourself, Secretary Masch,  
21 and the Secretary of the DCED, we didn't actually  
22 know the impact of the Federal program on the State  
23 of Pennsylvania. According to the United States  
24 Treasury Department Office of Tax Analysis, we found  
25 out this week that the Federal program is going to



1 create 5.8 million Pennsylvanians will be eligible  
2 for that program, and over \$4.9 billion will flow  
3 into the State of Pennsylvania in the form of a  
4 short-term economic stimulus package. And when you  
5 compare those numbers, \$4.9 billion versus \$130  
6 million at the State level, we can see far and above  
7 the Federal government is doing the job of, in the  
8 short term, stimulating the economy.

9           So the question comes back to, since we have  
10 received those numbers -- and in all fairness to the  
11 Governor and to you and your fellow Secretaries, you  
12 didn't have those numbers available when you created  
13 the program -- since those numbers have come out,  
14 have you stepped back at all and looked at, if the  
15 Federal government is handling the short-term  
16 stimulus, perhaps what we should be looking at at the  
17 State level with those dollars is creating stability  
18 in the long term, and one suggestion that I would  
19 like to get your reaction on is perhaps cutting the  
20 gross receipts tax.

21           The gross receipts tax is the tax that hits  
22 the consumer, the homeowner, the lower income, the  
23 middle-income families in their utility bills, and  
24 obviously there are a number of concerns, especially  
25 in the winter months, on utility bills --

1 electricity, natural gas, home heating fuel -- that  
2 if they are already going to get the money from the  
3 Federal government to stimulate the economy, to roll  
4 right back into purchasing goods, perhaps what we  
5 should be doing at the State level is cutting the  
6 electricity tax so that they can have some long-term  
7 stability within their homes and not just a  
8 short-term stimulus.

9           Have you considered that? Is that something  
10 you would be open to taking a look at?

11           SECRETARY WOLF: Again, the Governor would  
12 make the call on that.

13           I would, I think, recommend against that,  
14 and for this reason: My sense of a really -- and we  
15 talked about this last Monday -- a really effective  
16 stimulus program is that, and again I am quoting  
17 somebody else here, so I didn't make this up, but the  
18 targeted, temporary, and timely. Those are the key  
19 characteristics. And one of the problems with the  
20 gross receipts tax proposal that you have is that  
21 that would be phased out probably over the course of,  
22 well, permanently, but over a monthly period of the  
23 bills being received by the consumer.

24           The reason that you want a stimulus package  
25 to be timely, targeted, and temporary is because you

1 don't want it to distort the economy over the long  
2 run. You want a fast jolt of consumer dollars. You  
3 are trying to push aggregate demand here, and if you  
4 do that right, you are going to help all those  
5 taxpayers, because the economy isn't going to sink as  
6 low as it might otherwise sink.

7           It sounds like you agree with the Governor,  
8 at least on the issue that the State probably ought  
9 to be doing something in conjunction to augment what  
10 the Federal government is doing, and I appreciate  
11 that. I would just urge you to consider what and how  
12 much more effective in stimulating that kind of  
13 aggregate demand, which, as far as I can see in this  
14 particular recession, is a huge issue.

15           Retail sales were dreadful in December, they  
16 were even worse in January, and one of the concerns  
17 is that the consumer, the person who has led our  
18 economy for the last, how many years if not decades,  
19 may be ready to sort of stay at home for a change.  
20 And to transition from that dependence on that  
21 consumer to the point where the consumer is not  
22 spending as much, I think we need something like the  
23 stimulus package, and I think in conjunction with  
24 what the Federal government is doing. Those two  
25 things can be very, very effective in stimulating

1 that demand.

2 REPRESENTATIVE REED: Then I guess what we  
3 actually have is a disagreement on economic policy,  
4 because I question the need.

5 When you have got \$4.9 billion coming in  
6 from the Federal government, it is almost like  
7 somebody just sat back at the State level and said,  
8 well, the Federal government is doing this huge  
9 program; we want to get a part of the action so that  
10 we can claim we stimulated the economy; let's throw  
11 \$130 million at it so we can claim a piece of that  
12 pie. And I actually believe that fundamentally, for  
13 long-term stability, not short-term stimulus, what we  
14 need to do is put these families, especially  
15 lower-income and middle-income families, in a  
16 position where they don't just get a check one time,  
17 that they have some long-term financial security in  
18 their homes, especially when it comes to their  
19 heating costs.

20 And I guess it is just, again, it is a  
21 fundamental difference in economic policy given the  
22 Federal program, and I'm sure we'll debate that over  
23 the next couple of months.

24 Thank you, Mr. Secretary. I appreciate your  
25 comments.

1           SECRETARY WOLF: No, thank you, and just one  
2 other thing.

3           I think one of the goals of the Governor --  
4 and I think Secretary Yablonsky is in a much better  
5 position to talk about this than I -- but one of the  
6 goals of the capital expenditures, on infrastructure,  
7 on business investment, and on all those things  
8 really is to serve that specific purpose.

9           So that's the other leg of this economic  
10 stimulus package. It is not just the rebates; it is  
11 also the huge capital investment program that I think  
12 would have some of that effect that you are looking  
13 for.

14           REPRESENTATIVE REED: And I think we are  
15 going to find a lot more agreement on some of the  
16 other portions of that stimulus package as opposed to  
17 the rebate portion.

18           Thank you.

19           SECRETARY WOLF: Okay. Thank you.

20           CHAIRMAN EVANS: Representative Scott  
21 Conklin.

22           REPRESENTATIVE CONKLIN: Thank you, Mr.  
23 Chairman, and as always, Secretary Wolf, it is a  
24 pleasure.

25           SECRETARY WOLF: Thank you.

1           REPRESENTATIVE CONKLIN: I'm going to do  
2 just a little follow-up on what the Representative  
3 was just talking about.

4           I was sitting up here doing some figures,  
5 and I'm looking at, there has been some talk about  
6 not doing the \$400 rebate. There are some folks that  
7 are talking about doing both, taking our personal  
8 income tax from 3.07 to 2.99, and basically I do have  
9 a few questions.

10           One is, and I forgot to ask you before I  
11 started, do you need any new computers or anything,  
12 Mr. Secretary?

13           SECRETARY WOLF: Yes, I do.

14           REPRESENTATIVE CONKLIN: Okay. I got that  
15 out of the way. I wanted to be the one to ask that  
16 question.

17           SECRETARY WOLF: Thank you; thank you.

18           REPRESENTATIVE CONKLIN: But I was up here  
19 just doing some quick math. I'm looking at, if we  
20 use the \$35,000 mark and we forget about the bonus,  
21 as some people call it -- which I consider that a  
22 bonus to the retail stores; I consider that a bonus  
23 to those folks who work in those retail stores,  
24 because that \$400, as we said earlier, will triple in  
25 the amount of money that it does stimulate -- but if

1 we would get rid of that \$400 and we just look at  
2 going from the 3.07 to 2.99, is my math correct that  
3 someone making \$35,000 a year would come up with  
4 about 54 cents a week? Someone making about \$50,000  
5 a year would come up with about 78 cents a week? Do  
6 you feel that that 54 or 78 cents a week would  
7 stimulate the economy in a substantial way, or do you  
8 feel that a quick infusion by those individuals that  
9 would spend it the quickest of \$400 would do much  
10 better to stimulate the economy in the short term?

11 SECRETARY WOLF: Well, it gets back to the  
12 conversation we were just having.

13 I think the one-time infusion of cash would  
14 have a much more striking impact in the economy than  
15 letting it drift out over a period of time.

16 REPRESENTATIVE CONKLIN: Well, and don't get  
17 me wrong, I'm not saying that 78 cents a week for  
18 somebody making \$50,000 isn't anything. It is still,  
19 you know, it is still an extra 78 cents.

20 SECRETARY WOLF: No, I understand, and I'm  
21 just saying that I think the one-time feature of the  
22 Governor's stimulus package makes that a better bet  
23 than any stimulus that would be put into the pockets  
24 of the consumer, the taxpayer, over a longer period  
25 of time.

1           REPRESENTATIVE CONKLIN: I agree with you.

2           I do have one more question. I was a county  
3 commissioner for many years. One of the ways that we  
4 could tell the state of the economy was that we  
5 looked at our percentage of collection. For  
6 instance, if you are on a school board, you try to  
7 figure 94 percent collection; you get maybe 97 on a  
8 good year, on a bad year you get 91.

9           At the county, we were always around 96, 97  
10 percent, but when the economy, one of the ways that  
11 we could tell early when the economy was going down  
12 is that the rate of collection of those folks paying  
13 their taxes would fall 2 or 3 percent.

14           In the State of Pennsylvania today, and we  
15 heard Representative Ellis talk about some folks, how  
16 is the state of collection in the State of  
17 Pennsylvania today, especially those retail stores  
18 that have to pay the sales tax, and if you have any  
19 connection with the smaller municipalities?

20           SECRETARY WOLF: The tax picture remains  
21 somewhat uneven for Pennsylvania. If you look at the  
22 reality transfer tax, that is obviously down. That  
23 is a function of housing starts and the things that  
24 are happening in, I think, the residential  
25 construction market.



1           On the other hand, on a positive note, I  
2 think the most recent information is the housing  
3 starts for 2007 were down 25 percent. Our reality  
4 transfer tax collections are only down about 8  
5 percent. So relative to the rest of the country, we  
6 are not doing as badly.

7           Sales and use tax, we divide that into two  
8 categories -- motor vehicle and non-motor vehicle.  
9 Motor vehicle has been down for a long time, but  
10 recently it has actually been up. Motor sales,  
11 automobile sales, vehicle sales, are down in the  
12 nation at large, I think 2 percent? Two percent, and  
13 our motor vehicle sales and use tax is actually up 3  
14 percent.

15           Sales and use tax, non-motor vehicles, was  
16 actually doing pretty well up through November, and  
17 then in December, which we collected in January, and  
18 I don't know what our February collections were for  
19 January, but everything I'm hearing about the January  
20 retail sales is not good, so I'm assuming that we  
21 will see some not so good numbers there.

22           Withholding tax and personal income tax and  
23 corporate taxes are doing quite well. Now, again,  
24 those two taxes tend to be lagged based on 2007  
25 performance, so what we might be seeing is basically

1 what happened a year ago, and we will not see the  
2 effects of this year's economy until the next year  
3 tax receipts.

4           So I think what we are seeing is what the  
5 Governor said in his budget address, and that is a  
6 mixed picture. I think we are in a better position  
7 in some ways than other States to weather the  
8 economic storm. The weaker dollar actually should  
9 help a lot of our manufacturers who are looking to do  
10 well in the export markets.

11           Again, we didn't have the run-up in housing  
12 prices that some of the other States in the country  
13 had, so that whatever scale back we had in housing  
14 starts, as I just pointed out, has not been as great.

15           So it is still cloudy. I don't think things  
16 are going to be as good as they were last year, but  
17 I'm not ready to say that this Commonwealth is yet in  
18 a recession, and I think we are in a position that we  
19 could do some things---

20           REPRESENTATIVE CONKLIN: Thank you.

21           SECRETARY WOLF: If we are headed that way,  
22 we can do some things to help avoid getting into one.

23           REPRESENTATIVE CONKLIN: Thank you. That is  
24 good news.

25           Thank you very much, Mr. Secretary.

1           SECRETARY WOLF: Thank you.

2           CHAIRMAN EVANS: Representative Siptroth.

3           REPRESENTATIVE SIPTROTH: Thank you,  
4 Secretary Wolf.

5           SECRETARY WOLF: Thank you.

6           REPRESENTATIVE SIPTROTH: Good to see you  
7 again.

8           My question concerns the volunteer  
9 firefighters relief associations. Currently, the  
10 sales tax exemption for that organization has to be  
11 renewed every 5 years, I believe it is. Would you  
12 support legislation to alter that to a non-expiring  
13 exemption certificate, except for, you know, if that  
14 organization were dissolved at some future time?

15           SECRETARY WOLF: Well, obviously the  
16 Governor and the Policy Office would have to weigh in  
17 on that. But I come from a small town in York  
18 County, we have a volunteer fire company, and I'm a  
19 big supporter of volunteer fire companies. So if  
20 that would make it easier for volunteer fire  
21 companies to do the good work they do, I would  
22 certainly support it.

23           REPRESENTATIVE SIPTROTH: Thank you very  
24 much.

25           I'm a treasurer of one of these volunteer,

1 and by oversight, we just don't keep up with the  
2 renewal process, and we get a deficiency rating from  
3 the Auditor General's Office occasionally because of  
4 that.

5           So I think that a non-expiring certificate  
6 would be very beneficial to that organization, the  
7 same as a number of Little League organizations and  
8 not-for-profit organizations currently have.

9           SECRETARY WOLF: Again, as a Department of  
10 Revenue, we understand the challenges that volunteer  
11 organizations like volunteer fire companies face, and  
12 I think we have tried to work very closely with  
13 volunteer fire companies that find themselves in that  
14 situation.

15           So whether the statute has changed or not, I  
16 would urge you to contact me if you have constituents  
17 or know of volunteer fire companies with that kind of  
18 an issue, and I will certainly do my best to help  
19 them out.

20           REPRESENTATIVE SIPTROTH: Okay. Thank you  
21 very much.

22           Thank you, Mr. Chairman.

23           CHAIRMAN EVANS: Representative Mario  
24 Scavello.

25           REPRESENTATIVE SCAVELLO: Mr. Chairman, I

1 have to make a comment, that you referred to me as  
2 the new member from Philadelphia, and actually  
3 there's a little bit of truth to that. The 189th  
4 District that is in Monroe, the 176th District that  
5 is in Monroe, were both from Philadelphia, and  
6 probably in the next decade, we will have another  
7 legislative district from Philadelphia that will come  
8 to Monroe.

9           However, why I keep mentioning this on a  
10 regular basis -- it is nice to see that you mentioned  
11 Monroe -- is that because of the hold harmless, we  
12 are getting the representation but we are not getting  
13 the dollars for the growth in that county.

14           Just imagine, we picked up three  
15 legislators, but the growth supplements are not  
16 coming to Monroe; they are still going to  
17 Philadelphia. If you could help me correct that,  
18 believe me, I will not make these comments.

19           The first one that I have, the first  
20 question, and we had asked for this, and I thank you  
21 for handing this out, the distribution numbers. Are  
22 not the distributions \$200 and \$400 per---

23           SECRETARY WOLF: Yes.

24           REPRESENTATIVE SCAVELLO: Okay.

25           First of all, good afternoon, Mr. Secretary,

1 and I also want to tell you that I echo the other  
2 comments from the other legislators. You have an  
3 outstanding department. Anytime that I have called  
4 with a constituent problem, you guys have been  
5 fabulous.

6 SECRETARY WOLF: Thank you.

7 REPRESENTATIVE SCAVELLO: Are not these  
8 numbers supposed to be \$200 and \$400?

9 SECRETARY WOLF: Yes.

10 REPRESENTATIVE SCAVELLO: Well then, I'm  
11 looking and when I add them, it is \$839,794. Why  
12 aren't the numbers even? Shouldn't they be all  
13 zeroes?

14 SECRETARY WOLF: That's a good question.

15 REPRESENTATIVE SCAVELLO: I hope Philly  
16 isn't getting more money, because originally,  
17 originally I thought that number was like \$17  
18 million. It is \$21,461,000, which is almost, you  
19 know, 16.6 percent, where poor old Monroe gets 1  
20 percent, but that is another question.

21 SECRETARY WOLF: I'm waiting for an answer  
22 for that question, so yeah, go ahead.

23 REPRESENTATIVE SCAVELLO: Go ahead.

24 MR. HASSELL: So you are asking---

25 CHAIRMAN EVANS: Can you introduce yourself

1 for the record, please?

2 MR. HASSELL: Yes. I am Dan Hassell, Deputy  
3 Secretary for Tax Policy with the Department of  
4 Revenue.

5 REPRESENTATIVE SCAVELLO: My question is, if  
6 the numbers are supposed to be \$200 and \$400, the  
7 distributions, why do we have, you know, 607? 629?  
8 Wouldn't those all be even numbers?

9 MR. HASSELL: To be honest with you, I don't  
10 know what the answer to that is off the top of my  
11 head.

12 REPRESENTATIVE SCAVELLO: But you do agree  
13 that there might be something wrong here.

14 MR. HASSELL: I will be happy to check into  
15 it for you.

16 REPRESENTATIVE SCAVELLO: Okay. Thank you.  
17 Could I have that board back up? This one  
18 here. Thank you.

19 Mr. Secretary, you made some comments in  
20 regard to these numbers here, and I used to do  
21 budgeting for supermarkets. I was in the private  
22 sector in New York City, the A&P Supermarkets, and I  
23 am confused about that 2009-2010 year where you are  
24 projecting that 10.5-percent growth. I would loved  
25 to have been able to do that in the supermarkets.

1           You mentioned one thing, reducing costs, but  
2 reducing costs really does not touch this, because  
3 this is really the sales. It would not really affect  
4 that. That \$1 billion in sales that has been grown  
5 is, and I even was part of it; we voted for it in  
6 2002-2003 when we did the jackpot -- what do we call  
7 that? The Powerball. The Powerball really generated  
8 that \$1 billion. But I'm really still concerned  
9 about that 10.5 number. And you did mention also  
10 that you would look for new outlets, but between new  
11 outlets and reducing costs, that is a very, very  
12 strong projection there.

13           I'm the one that brought that up, that  
14 brought up that the lottery would be affected, and I  
15 still think that it is going to be to some extent.  
16 My question is, are you really certain that that 10.5  
17 between new outlets and instant games is going to  
18 create that type of an increase?

19           SECRETARY WOLF: Yeah; let me just point out  
20 that the growth over the last 5 years has not been  
21 just the Powerball. I know that was part of it.

22           REPRESENTATIVE SCAVELLO: It's a big chunk  
23 of it, right?

24           SECRETARY WOLF: It's a chunk of it, and it  
25 was really in that one year.



1           Outside of 2005-2006, it is really  
2 interesting, those jackpots, that was just an amazing  
3 year for hitting jackpots.

4           REPRESENTATIVE SCAVELLO:   Okay.

5           SECRETARY WOLF:   Powerball, if you look at a  
6 Powerball chart since we started doing it, it  
7 actually is fairly level except for that one year.

8           REPRESENTATIVE SCAVELLO:   Okay.

9           SECRETARY WOLF:   So where the growth has  
10 really come from, and I would be glad to send you the  
11 analysis we did on the specific products that have  
12 grown, but it has been in the instant game area,  
13 those scratch-off games.

14          REPRESENTATIVE SCAVELLO:   Okay.

15          SECRETARY WOLF:   And one of the things, back  
16 in 2001-2002, I think our net profit margin was about  
17 38 percent.   What has happened since then is that we  
18 have been selling or our customers have been buying  
19 more and more of these instant games.   We have had to  
20 sort of restrain ourselves in terms of the instant  
21 games, the games they won going out, because we had  
22 that 30-percent constraint.

23                 This budget is based on, in 2008-2009,  
24 sometime during this coming fiscal year, we get  
25 permission from or we get relief from that 30-percent

1 requirement. That is going to allow us to put out a  
2 whole host of new games that, we think given the past  
3 acceptance of customers, will actually--- It is  
4 basically a different set of products that we will be  
5 selling that allows us to do that 10.5. And if we  
6 don't get that relief, then we won't be able to  
7 deliver that.

8 REPRESENTATIVE SCAVELLO: Yeah. Now, the  
9 instant games, you are referring to the scratch-offs,  
10 all those types of things?

11 SECRETARY WOLF: Yes.

12 REPRESENTATIVE SCAVELLO: But there's a ton  
13 of them out there now. I look at some of these  
14 machines; they might have about 20 different  
15 varieties of them.

16 SECRETARY WOLF: Right.

17 REPRESENTATIVE SCAVELLO: From \$2 to \$5 to  
18 \$10.

19 SECRETARY WOLF: But they still keep growing  
20 pretty dramatically.

21 Last year, again, last year we had a small  
22 increase, I think a \$6 million increase, almost no  
23 increase in sales. We had about a 200-and-some  
24 million dollar decrease in the Powerball.

25 REPRESENTATIVE SCAVELLO: Okay.

1           SECRETARY WOLF: That \$200 million in sales  
2 was made up completely by a \$200 million increase in  
3 the instant games.

4           REPRESENTATIVE SCAVELLO: But if you were  
5 looking for that, why wouldn't you ask for it sooner?  
6 If that---

7           SECRETARY WOLF: It didn't happen. Each  
8 year we get closer. This year, actually, our margins  
9 are probably going to be closer to 31, 32 percent.

10           So we are doing this to say, we see this  
11 coming, and whether it is me or my successor at the  
12 Secretary of Revenue, at some point you are going to  
13 be faced with the decision as to whether you want net  
14 profit dollars to continue to grow or you want to  
15 basically stop the growth of the product that people  
16 want, and the only way we are going to continue to be  
17 able to sell those instant games is if we can go  
18 below 30 percent overall.

19           REPRESENTATIVE SCAVELLO: Yeah; I hope you  
20 are right.

21           I can tell you that in my area, I'm getting  
22 comments, I have a casino right in the center of the  
23 district and I get comments from wives telling me  
24 their husbands are there every night, and really, it  
25 is concerning. I don't know the effect that it is

1 going to have, but I just worry. I truly worry. And  
2 if those are the same folks who were buying \$10 worth  
3 of lottery tickets a day and now they are throwing it  
4 into the slot machine, at some point I think we are  
5 going to see--- I can understand in some cases the  
6 explanation you gave, but for the most part, when you  
7 look at PA versus New Jersey or any of the other  
8 States, we are going to have 14 locations within an  
9 hour. No matter where you live, you can find a slot  
10 location. You are going to have folks that normally  
11 would have put that \$20 worth of lottery tickets, \$10  
12 worth of lottery tickets, now decide to throw them  
13 into a slot machine.

14 I want to go to the casino numbers---

15 SECRETARY WOLF: You know, I don't want to  
16 minimize the importance of that. The lottery is part  
17 of the Revenue Department, the gaming is not. I  
18 don't have any vested interest in---

19 REPRESENTATIVE SCAVELLO: I know you don't.

20 SECRETARY WOLF: ---in any answer in this.  
21 I want to know what the right answer is, because I  
22 want to be able to respond to whatever is causing  
23 this.

24 Again, the data is a lot stronger on the  
25 state of the economy, which we can't do a lot about,

1 and on the products we are selling, including  
2 Powerball, which we can do something about, and I  
3 think that is why our strategy is focused on that---

4 REPRESENTATIVE SCAVELLO: Yeah.

5 SECRETARY WOLF: ---and giving us the  
6 ability to do more.

7 Next year, I think, when I come back here,  
8 we will be able to have a much more informed  
9 discussion on what impact exactly slots have.

10 But I think if you ask the people who are  
11 looking at the overall economy and say, you know,  
12 where are slots having the biggest impact,  
13 Pennsylvania slots, I think they are going to say  
14 Atlantic City, and to a certain extent the casinos in  
15 the southern part of New York State and maybe even  
16 West Virginia. But we are not seeing that kind of  
17 impact, anywhere close to that kind of impact---

18 REPRESENTATIVE SCAVELLO: That's a good  
19 comment, because it leads me to my next question, you  
20 know, and follow up on Representative Santoni's  
21 question.

22 As these new casinos come on line, you know,  
23 we look at the overall picture and say, our numbers  
24 are off; we are going to actually generate more than  
25 what we anticipated because you see the added

1 revenue. But I took a look at the five casinos that  
2 are open, and, for example, Mohegan Sun in the, oh,  
3 let's say the July, the August, the September, and  
4 October number, they averaged better than 16 1/2,  
5 around 16 1/2 percent gross terminal revenue. Mount  
6 Airy opens up, and the Mohegan Sun is averaging about  
7 \$13, excuse me, about \$13 million -- and those were  
8 \$16 1/2 million -- \$13 million in gross terminal  
9 revenue, and their numbers have been as low as 12.  
10 So some of that, we are in competition with  
11 ourselves.

12 And the next player is going to be in the  
13 Bethlehem area, which I know will affect Mount Airy's  
14 numbers, and I'm wondering how many players are  
15 coming from the Allentown area now that are going to  
16 the new casino, either the new casino here or  
17 traveling up to Mount Airy.

18 So I guess my question is, we got to be a  
19 little cautious on those predictions, because it is  
20 obvious that some of that business, that new  
21 business, is going to be coming from existing  
22 business, business in the gaming volumes that are  
23 already in some of these other locations. Would you  
24 agree?

25 SECRETARY WOLF: Well, right now, again,

1 that's a question that is much better directed toward  
2 the Gaming Control Board, not---

3 REPRESENTATIVE SCAVELLO: No, I only said it  
4 because you mentioned that 1.1. That is why I  
5 brought that up.

6 SECRETARY WOLF: Well, it's a good point,  
7 and you, with your own background, you know that at  
8 some point you start to eat into the sales as you  
9 expand your store network. But I---

10 REPRESENTATIVE SCAVELLO: I was with a chain  
11 that they were their own worst competitor. There was  
12 right a quarter of a mile away another one.

13 I just want to highlight another one, and it  
14 sticks out -- the Meadows racetrack. They were  
15 averaging \$20 million, \$19.8, \$19.5. West Virginia,  
16 I believe, has now got table games, and they took a  
17 \$3 million, a \$3 1/2 million hit. So, you know---  
18 And you know Maryland is around the corner. They are  
19 going to be putting their slots in as well and  
20 probably affect this.

21 So we have got to really take a cautious  
22 step and think exactly what the final outcome is  
23 going to be. I would like to see, if we are going to  
24 get some reductions out on property tax, be able to  
25 do it every year on a consistent basis, and if we

1 overdo it this year, will we have anything next year?

2 That is where my concern is. You don't want  
3 to have people expect money every year, and if we  
4 give out too much in a rebate this year -- and I will  
5 propose this question later on to the Secretary --  
6 but the question or the comment that I have is, we  
7 need to be very careful with that, because people are  
8 going to expect that \$300, \$400, whatever it is, and  
9 if we give it to them this year and then we don't  
10 have it for them next year, you know, it is very  
11 tough for them to budget.

12 SECRETARY WOLF: Let me just commit to you  
13 that whatever those revenues are, the Revenue  
14 Department of the Commonwealth of Pennsylvania stands  
15 ready to collect the taxes due.

16 REPRESENTATIVE SCAVELLO: Well, thank you  
17 very much.

18 CHAIRMAN EVANS: Representative Fred  
19 McIlhattan.

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

22 Mario really covered my question, but I want  
23 to go back on it for just a few minutes, and that is  
24 your comment, Mr. Secretary, on the net sustainable  
25 revenue from slots, which you threw out a figure of



1 \$1.1 billion, if I understand that correctly.

2 I'm on the Gaming Oversight Committee, so I  
3 probably am tuning into this a lot closer than a lot  
4 of others, and as was mentioned before, you know,  
5 when we first opened our venues, things were coming  
6 in great, and then as we began to saturate the  
7 market, and Mario pointed out what happened to  
8 Mohegan Sun when Mount Airy came on, and I assume  
9 that is going to happen as other venues come on.

10 Also, you know, when all 14 are up, we are  
11 only going to have 28,180 slots, not the 61,000 that  
12 the law permitted. I mean, we are not going to have  
13 61,000 when all 14 are up. So do you really feel  
14 comfortable with that prediction of \$1.1 billion, I  
15 guess is what I'm asking you, because that is  
16 important for us now. This is sustainable revenue  
17 from slot machines in Pennsylvania, and you are  
18 predicting that \$1.1 billion annually is going to be  
19 there. Is that correct?

20 SECRETARY WOLF: Just based on the early  
21 returns, it seems to me, again, as you point out, you  
22 are right, these slots have only been open for, most  
23 of them, less than a year, and so it is too early to  
24 draw conclusions for what the industry is going to do  
25 over the next 10 years.

1           Again, we don't know what the competition is  
2 going to be doing in Atlantic City or West Virginia  
3 or New York or New Jersey. But I think the early  
4 returns are that I think the Governor and I think the  
5 Administration and I think the people who supported  
6 gaming have to be somewhat pleased that, at least  
7 initially, the results seem to be exceeding  
8 expectations.

9           Again, I would be the last person to make  
10 any promises on the future of gaming revenues down  
11 the road.

12           REPRESENTATIVE McILHATTAN: Okay. Let me  
13 ask you one other question.

14           I know in the venues that have opened up,  
15 because our gaming board or group always goes to  
16 visit those, our Gaming Committee, our oversight  
17 committee, there are lottery machines inside those  
18 venues.

19           SECRETARY WOLF: Right.

20           REPRESENTATIVE McILHATTAN: How are they  
21 doing in comparison to other things? I'm just  
22 curious.

23           SECRETARY WOLF: Well, let me introduce,  
24 this is Ed Trees, who is the Executive Director of  
25 our lottery.

1           REPRESENTATIVE McILHATTAN: I mean, are a  
2 lot of people playing the lottery machine in the  
3 casino? I'm just curious. I have no idea.

4           MR. TREES: Actually, sir, those venues are  
5 doing very well in terms of their lottery sales.

6           REPRESENTATIVE McILHATTAN: They are; okay.  
7 I was just curious to know which direction they were  
8 going, and they are really doing good then.

9           MR. TREES: Yes, sir, they are.

10          REPRESENTATIVE McILHATTAN: Okay. Thank you  
11 very much.

12          CHAIRMAN EVANS: Representative Keller.

13          Oh, Representative Reichley. Representative  
14 Reichley.

15          Bill, did you---

16          REPRESENTATIVE KELLER: Fred had my  
17 question.

18          REPRESENTATIVE REICHLEY: Okay.

19          CHAIRMAN EVANS: Representative Reichley.

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

22          Thank you, Mr. Secretary, for being so  
23 patient.

24          SECRETARY WOLF: Thank you.

25          REPRESENTATIVE REICHLEY: And I apologize if

1 some of these questions seem a little redundant. I'm  
2 just a simple country lawyer, so you have to go over  
3 this stuff a little more carefully with me.

4 But I'm trying to get a handle on the  
5 situation, and I know they are showing these charts.  
6 I just want to make sure I completely understand it.  
7 But this is the year-ending balance for the Lottery  
8 Fund.

9 SECRETARY WOLF: Right.

10 REPRESENTATIVE REICHLEY: Over which the  
11 department has the supervision in terms of  
12 collections.

13 SECRETARY WOLF: We put the money into the  
14 fund. That is right.

15 REPRESENTATIVE REICHLEY: The supervision  
16 over the collections.

17 SECRETARY WOLF: Well, collections--- The  
18 sales.

19 REPRESENTATIVE REICHLEY: Right; okay.

20 SECRETARY WOLF: Right.

21 REPRESENTATIVE REICHLEY: Do you dispute the  
22 fact that the Lottery Fund balance has gone down over  
23 the last few years?

24 SECRETARY WOLF: Oh, no, absolutely not.

25 REPRESENTATIVE REICHLEY: Coinciding with

1 the time at which gaming was coming on line.

2 SECRETARY WOLF: In 2006-2007, there were  
3 only, I think, two venues open in that fiscal year,  
4 weren't there?

5 REPRESENTATIVE REICHLEY: I understand, but  
6 as gaming is coming on line, this is when we are  
7 seeing the year-end balance go lower and lower.

8 SECRETARY WOLF: I think you are looking at  
9 the wrong thing. I would argue that if you are  
10 looking for a relationship, it would be on the sales  
11 and net profit of the lottery, not, for whatever  
12 reasons, money is being taken out of the Lottery Fund  
13 to provide whatever services.

14 What we are doing is, I think, what is going  
15 to be affected by the lottery. And the money that is  
16 going into the lottery was down slightly in  
17 2006-2007, but only slightly.

18 REPRESENTATIVE REICHLEY: Okay.

19 SECRETARY WOLF: This year, we are having a  
20 little bit of a downturn, but again, those numbers do  
21 not reflect the changes in the net profit, the  
22 profitability of the lottery, not at all.

23 REPRESENTATIVE REICHLEY: Okay. Well, let  
24 me just, and we will go to the next chart, because,  
25 as you said, I think that would help to clarify your

1 point from that answer. But this is also at a time  
2 when the Medicare Part D program went into effect  
3 from the Federal government, which was removing PACE  
4 participants, particularly PACE participants, from  
5 that program. So there was a savings associated with  
6 the PACE program. So shouldn't the balance have been  
7 higher for the Lottery Fund, because an expenditure  
8 was being taken over by the Federal government  
9 through Medicare Part D?

10 SECRETARY WOLF: Again, I have nothing to do  
11 with what money comes out of that Lottery Fund, and I  
12 think you need to direct that question to Secretary  
13 Masch or Secretary Richman to find out exactly where  
14 those dollars are going and why they are coming out  
15 at the rate they are.

16 What I control is what goes into the Lottery  
17 Fund, and that has remained fairly stable and has in  
18 fact grown over the last 5 years pretty dramatically.

19 REPRESENTATIVE REICHLLEY: Okay. Well, let  
20 me--- Thanks.

21 And this is the chart that I think you were  
22 trying to make reference to and I think Chairman  
23 Civera presented to you before.

24 SECRETARY WOLF: Yes.

25 REPRESENTATIVE REICHLLEY: And I think you

1 have explained that in '05-06, you did have a  
2 tremendous growth in Powerball ticket sales.

3 SECRETARY WOLF: Right.

4 REPRESENTATIVE REICHLEY: But then again  
5 sort of getting into my question, at the same time we  
6 have seen slot machine gaming or gambling come on  
7 line, you saw a reduction in the lottery revenue, and  
8 at the same point, the same year, which in fact  
9 following up on Representative Scavello's question  
10 about certainly Bethlehem coming on line, maybe  
11 Philadelphia, who knows, you are still projecting a  
12 10.5-percent increase in lottery revenue.

13 SECRETARY WOLF: In '09-10.

14 REPRESENTATIVE REICHLEY: Yeah.

15 SECRETARY WOLF: Not this coming fiscal year  
16 but the---

17 REPRESENTATIVE REICHLEY: I understand, but  
18 certainly in Bethlehem, and probably because of  
19 litigation Philadelphia, will not be coming on line  
20 until probably '09-10, so.

21 SECRETARY WOLF: Right, so I guess that is  
22 one more indication my disagreement with the  
23 proposition that slots are really affecting lottery  
24 sales and net profit.

25 I believe that we are in control of our own

1 destiny, that we are not competing to much of an  
2 extent with the slots, and that we can increase sales  
3 to that extent in 2 years if we have the right  
4 combination of technology, products, and permission  
5 from the General Assembly.

6 REPRESENTATIVE REICHLEY: Well, if you will  
7 pardon the expression, don't your projections seem to  
8 be a roll of the dice? I mean, you are flying in the  
9 face of the data which shows that lottery collections  
10 go down as gaming comes on line. You are expecting a  
11 1-year jump-up 2 years from now when more casinos are  
12 going to be operating, and then it goes back down  
13 again.

14 SECRETARY WOLF: Actually, I was trained as  
15 a statistician, so I don't see the same thing from  
16 that data that you do.

17 As I said, in 2006-2007 we had a decline  
18 because we had a decline in Powerball. What you have  
19 here are percentage differences. When you have a  
20 huge percentage increase the year before, 19.8  
21 percent as a result of those three great Powerball  
22 jackpots, it is not too hard to have a reduction in  
23 the lottery collections.

24 Now, I don't know whether that is referring  
25 to--- It must be net profit, because sales were



1 actually up slightly in 2006-2007. So I think what  
2 you have here is a net profit figure.

3 In 2007-2008, we are projecting, I think  
4 correctly but conservatively, that we are going to  
5 end the year below where we were last year, again,  
6 another 4-percent decline in the net profit. But if  
7 we have a Powerball jackpot that hits, you know, we  
8 could be lucky in that and those numbers could  
9 change.

10 February, it turns out right now, is  
11 actually a fairly strong month compared to last year.  
12 Again, slots have been open this whole period, and we  
13 have seen, July and August we were double digits  
14 ahead of last year in sales. Slots were open in July  
15 and August. November, December, and January we were  
16 doing, we had a dismal 3 months in lottery sales and  
17 net profit. February, we seemed to be back on track.

18 Again, one of the constants throughout that  
19 whole period has been that slots had been open, and  
20 yet we have done very well during part of that time  
21 and we have done very poorly during part of that  
22 time. It is hard to blame that on slots, which has  
23 been a constant throughout that period.

24 So I guess I would challenge that slots is  
25 the issue. It is not flying in the face of

1 statistics; it is actually looking at the same  
2 figures very differently.

3 I have spent, we have spent a lot of time  
4 trying to understand and get our arms around why sales  
5 were down last year -- or sales were flat last year;  
6 they were actually up last year, but flat -- and why  
7 net profit was down last year, why it seems that we  
8 are heading in that direction for this year, and  
9 slots is really not part of the explanation we are  
10 coming up with.

11 I really am agnostic in terms of whether  
12 slots matters or not. If it does, I want to know.  
13 You know, my interest is in doing what I can to make  
14 sure the lottery grows and continues to do what it  
15 has done to provide funds for older Pennsylvanians.

16 If I thought slots was really at the heart  
17 of the problem for the last year or this year, I  
18 would acknowledge it and try to get my arms around  
19 it, but I don't have any indication statistically or  
20 otherwise that it does.

21 REPRESENTATIVE REICHLEY: Okay. Well, let  
22 me just move on, but let me clarify: This is not a  
23 statistical chart out of our own creation; this came  
24 from page C-10.5 of the Governor's own Budget Book.  
25 So these are not figures we are pulling out of thin

1 air.

2 SECRETARY WOLF: No, no, no, but I'm saying  
3 those are net profit percentage figures.

4 REPRESENTATIVE REICHLEY: It is net, as the  
5 State's net lottery collections, ticket sales minus  
6 commissions minus field-paid prizes.

7 SECRETARY WOLF: Right; right.

8 REPRESENTATIVE REICHLEY: I want to touch  
9 briefly upon this, because a couple of other members  
10 asked me to ask questions of you, and I'm trying to  
11 watch the time, and I know that Chairman Evans is  
12 very respectful of that.

13 In a very simple answer, does the  
14 Administration support the elimination of the cap on  
15 net operating loss as it exists right now in 48 other  
16 States?

17 SECRETARY WOLF: Yes, as part of a broader  
18 business tax reform package. Yes.

19 REPRESENTATIVE REICHLEY: So you are in  
20 favor of the elimination of that operating loss?

21 SECRETARY WOLF: Yes, and that was reported  
22 2 years ago by the Business Tax Reform Commission,  
23 which I served on.

24 REPRESENTATIVE REICHLEY: Okay. And you  
25 also support then the adoption of a single sales

1 factor?

2 SECRETARY WOLF: Yes.

3 REPRESENTATIVE REICHLEY: Okay. Are you in  
4 favor of Representative Levdansky's bill, which I  
5 think he just sent a cosponsor memo on the other day,  
6 for increasing the R and D tax credit up to \$75  
7 million, I think it was?

8 SECRETARY WOLF: I haven't seen that. I  
9 don't know.

10 REPRESENTATIVE REICHLEY: Okay. Regarding  
11 gaming, there is some concern, I guess last month  
12 your department selected a company called GTech  
13 Corporation to supply terminal-based game services to  
14 the lottery, and there is some question as to whether  
15 the department could have engaged in a competitive  
16 bidding process which would have allowed for a  
17 lower price to be received than what GTech was  
18 offering.

19 Is there a reason why the department did not  
20 negotiate with GTech and any other competitors to  
21 obtain a lower price for the services being  
22 offered?

23 SECRETARY WOLF: That was a competitive  
24 bidding process.

25 REPRESENTATIVE REICHLEY: Is that the best

1 price? Did you have the best and final offer price  
2 from GTech? Was it the lowest possible price for the  
3 services?

4 SECRETARY WOLF: It is still in negotiation,  
5 but we followed the Commonwealth's competitive  
6 bidding process in that, so.

7 REPRESENTATIVE REICHLEY: Now, GTech has a  
8 similar sort of contract, is that correct, with  
9 regard to the slot machine gaming revenue?

10 SECRETARY WOLF: They run the central  
11 computer system for the Department of Revenue.

12 REPRESENTATIVE REICHLEY: I think it was in  
13 the last year that it had been reported that the  
14 casinos, at least, felt that there was a discrepancy  
15 between what they were reporting as wagered slots  
16 bets and what GTech was reporting, and I think there  
17 was even a suggestion that an audit should be  
18 conducted of GTech.

19 SECRETARY WOLF: Right.

20 REPRESENTATIVE REICHLEY: Was that done?

21 SECRETARY WOLF: Yes. Well, what we  
22 actually did was audit the venues to make sure that  
23 the GTech machines were working properly and found  
24 out that there actually was no discrepancy.

25 REPRESENTATIVE REICHLEY: Okay.

1           SECRETARY WOLF: One of the things that I  
2 think you are probably referring to is an article in  
3 one of the newspapers, the State newspapers, and we  
4 took that very seriously. So we created a group  
5 within the Revenue Department to go out and see  
6 whether that was in fact true, whether there was a  
7 discrepancy between, and I think what the article  
8 said was between what the books of the venue were  
9 showing and what the Revenue Department was showing  
10 as the gross receipts, the gross terminal revenue  
11 that would be taxable.

12           So we went out and took a very systematic  
13 look at our own procedures. Again, we had not yet,  
14 and I think this was the September or October period,  
15 so we hadn't yet gone through a whole year of  
16 auditing. But it was a good time for us to sit down  
17 and reflect on how we did our own audits of the  
18 venues.

19           But we went out to the specific venues that  
20 were cited in that newspaper article, and to a number  
21 of other ones, and what we found was that we do a  
22 reconciliation on these gross terminal revenues on a  
23 daily basis, every workday. We don't do it on  
24 Saturdays and Sundays. So on any given day, there  
25 might be a day or two discrepancy on what we are

1 reporting and what the venue has in their own system,  
2 but that comes back into alignment when the weekend  
3 is over.

4           What happened, it turns out one of the big  
5 issues at the time we were sort of analyzing this was  
6 the third quarter of 2007 ended September 30, which  
7 was a Sunday, so there were 3 days of receipts in  
8 some of these casinos that actually do their own  
9 reconciliation on a quarterly basis. At the end of  
10 that quarter, that was maybe 3 days off from our own  
11 numbers, and when we went out to audit that, we found  
12 that, and it reconciled, because the next day when we  
13 did our own reconciliation with the central control  
14 system, it came back into alignment. But for that  
15 one point in time, Sunday, September 30, it looked  
16 like there was about a 3-day discrepancy, and there  
17 was. So what we concluded was that we should  
18 probably do our field audit more frequently. We had  
19 them scheduled for once a year; we now have them  
20 scheduled for twice a year.

21           We also have established a procedure where  
22 we will go out at least, I think, four times a year  
23 to do spot audits, to make sure that the collections,  
24 the gross terminal revenues that we see at the  
25 central computer system, match what the venues see in

1 their machines, and these would be unannounced  
2 audits.

3 And the final thing we changed in our  
4 procedures was to ask the venues to do a cash  
5 reconciliation between their systems and the central  
6 control system on their own on a quarterly basis.

7 I think those three things convinced us that  
8 there was not a problem, because the discrepancies  
9 that were there because of that 3-day difference went  
10 away, and it also convinced us that we have a pretty  
11 good system in place for making sure that the  
12 central control system is working now, and we will  
13 continue to test to make sure that it works in the  
14 future.

15 REPRESENTATIVE REICHLEY: Okay. My very  
16 last question. I want to just ask this quickly,  
17 because I know we are running out of time.

18 This was brought up last night. I was at a  
19 senior citizens center in Emmaus, and a question was  
20 posed to me, does the Federal stimulus package, the  
21 tax rebates, affect the eligibility of recipients of  
22 either the property tax and rent rebate program or,  
23 and I don't know if you are going to know the second  
24 part, PACE and PACENET eligibility?

25 SECRETARY WOLF: I don't know the answer to



1 that. We will have to get back to you on that.

2 REPRESENTATIVE REICHLEY: The concern is  
3 that right now, the definition, at least under the  
4 property tax and rent rebate program, isn't  
5 clear---

6 SECRETARY WOLF: Right.

7 REPRESENTATIVE REICHLEY: ---as to whether  
8 the Federal tax rebate program could in fact be  
9 included in calculating all the annual income.

10 SECRETARY WOLF: Right.

11 REPRESENTATIVE REICHLEY: And I guess my  
12 second leading question then is, would the Governor's  
13 cash grant program fall under the same category? Is  
14 it possible that some of our seniors who are very  
15 close on that margin of eligibility are going to get  
16 bumped out of it because of either your cash grant  
17 program or the Federal stimulus, and if so, I don't  
18 know that that is really going to have the  
19 consequence we want to see.

20 SECRETARY WOLF: Yeah, I think you are  
21 right, and I need to get the right answer back to  
22 you. But I believe that that would not be in keeping  
23 with the spirit of the Governor's package.

24 REPRESENTATIVE REICHLEY: And while I  
25 recognize it is unlikely that the seniors would

1 receive it, because many of them are not working, as  
2 I'm sure all of us have seen stories of some seniors  
3 who need to work a part-time job to make ends meet,  
4 they are barely qualifying for the property tax and  
5 rent rebate program or PACE and PACENET, and \$200,  
6 \$400, whatever it might be, or the Federal stimulus  
7 package, might push them above those thresholds, and  
8 I would urge you to please work with the two Chairmen  
9 to ensure that doesn't happen.

10 Thank you.

11 SECRETARY WOLF: That's a very good point.  
12 Thank you.

13 CHAIRMAN EVANS: Thank you, Representative  
14 Reichley.

15 I would like to thank the Secretary, you and  
16 your staff, for coming just to educate us. I think  
17 that this was an excellent hearing, and I think that  
18 all members got a chance to get some real insight  
19 about the Governor's proposed budget and the role  
20 that you are playing relating to collecting the  
21 revenue.

22 So I applaud you, and I applaud your  
23 leadership. I know it is not easy---

24 SECRETARY WOLF: Thank you very much.

25 CHAIRMAN EVANS: ---but I do applaud your

1 leadership.

2 SECRETARY WOLF: Thank you.

3 CHAIRMAN EVANS: Again, this meeting is  
4 recessed until Monday at 9 o'clock. Thank you very  
5 much.

6

7 (The hearing concluded at 2:59 p.m.)

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1           I hereby certify that the proceedings and  
2 evidence are contained fully and accurately in the  
3 notes taken by me on the within proceedings and that  
4 this is a correct transcript of the same.

5

6

7

8

-----  
Debra B. Miller, Reporter

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25