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COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
HOUSE FINANCE COMMITTEE

IRVIS OFFICE BUILDING
ROOM G-50
HARRISBURG, PENNSYLVANIA

WEDNESDAY, FEBRUARY 27, 2008
10:30 A.M.

BEFORE:

- HONORABLE DAVID K. LEVDANSKY, CHAIRMAN
- HONORABLE SCOTT W. BOYD
- HONORABLE GORDON DENLINGER
- HONORABLE BRIAN L. ELLIS
- HONORABLE FLORINDO J. FABRIZIO
- HONORABLE DAN FRANKEL
- HONORABLE JARET GIBBONS
- HONORABLE C. ADAM HARRIS
- HONORABLE DAVID R. KESSLER
- HONORABLE WILLIAM C. KORTZ, II



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(CONT'D)

HONORABLE DARYL D. METCALFE
HONORABLE MICHAEL PEIFER
HONORABLE THOMAS J. QUIGLEY
HONORABLE DAVE REED
HONORABLE CHRIS SAINATO
HONORABLE P. MICHAEL STURLA
HONORABLE RANDY VULAKOVICH

ALSO PRESENT:

ROBERT KASSOWAY, MAJORITY EXECUTIVE DIRECTOR
ANDREW RITTER, MINORITY EXECUTIVE DIRECTOR
ERIC MOCH, RESEARCH ANALYST

BRENDA S. HAMILTON, RPR
REPORTER - NOTARY PUBLIC

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SECRETARY MICHAEL J. MASCH

9

P R O C E E D I N G S

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CHAIRMAN LEVDANSKY: Good morning. I just want to welcome -- welcome everybody to this meeting of the House Finance Committee.

This is the third meeting of the Finance Committee this week; and -- and for members and for those who have attended, I think you've realized we are this week in an information gathering mode. Even, one could argue, like a continuing education mode.

As I had mentioned at one of the prior meetings this week, and just to reiterate, earlier this session the jurisdiction of some of the standing committees of the House was changed a little bit.

We created the House Gaming Committee and all the gambling legislation, small games of chance and things like that, are now -- now come under the jurisdiction of that committee.

So the House Finance Committee lost some of the issues that it previously had jurisdiction over. And it didn't cut down on

1 our workload, because essentially what the
2 leadership, the Republican and the Democrat,
3 decided was that the Finance Committee would
4 then take over jurisdiction over
5 pension-related issues.

6 So we've -- we've -- you know, all
7 the things relative to municipal pension
8 systems, the different bills to amend COLA's
9 and 30-and-out and things like that with SERS
10 and PSERS and that's -- are now under the
11 jurisdiction of the House Finance Committee.

12 And that's why earlier this week, on
13 Monday we had a hearing with the municipal
14 retirement system experts to get their
15 information and to learn how they operate, and
16 yesterday it was with the two state systems,
17 SERS and PSERS. I think generally speaking
18 members find -- find -- found those two
19 meetings informative in helping them gain an
20 understanding on how the retirement systems
21 work at the municipal and state level here in
22 Pennsylvania.

23 Continuing with that theme of -- of
24 members gaining better understanding of -- of
25 issues so that we could address them in a more

1 informed manner in the future, a couple weeks
2 ago the budget -- the Governor's legislative
3 liaison made an offer to the committee.

4 So there was some discussion in the
5 committee when we were reporting the
6 legislation to put the funding mechanism in
7 place to pay for the \$850 million bond that's
8 necessary to finance the Governor's energy
9 independence strategy.

10 In the context of that debate, some
11 members had questions relative to the state's
12 bond indebtedness and whether or not we're
13 borrowing too much money or -- or how are we
14 going to pay for it and is it affordable and
15 is this a fiscally sound thing to do?

16 So those questions were raised and at
17 the time Secretary -- the Governor's
18 legislative secretary offered to bring Budget
19 Secretary Mike Masch for a visit before the
20 House Finance Committee to talk to us about
21 the state's bond indebtedness and our -- and
22 our debt capacity and debt ceiling.

23 So, you know, we welcome that -- that
24 opportunity and we have Budget Secretary Mike
25 Masch with us this morning who is going to

1 give us a -- both an overview and I understand
2 probably even in some areas a specific -- a
3 more specific understanding and information
4 relative to the state's bonding issues for the
5 members benefits.

6 So with that background, you know,
7 let me have the members introduce themselves
8 starting on the top row, the far left.

9 REPRESENTATIVE QUIGLEY: I'm
10 Representative Tom Quigley from the 146th
11 District in Montgomery County.

12 REPRESENTATIVE HARRIS: Adam Harris,
13 Juniata, Mifflin, Snyder.

14 REPRESENTATIVE ELLIS: Brian Ellis,
15 11th District, Butler County.

16 REPRESENTATIVE METCALFE:
17 Representative Daryl Metcalfe from Butler
18 County.

19 CHAIRMAN LEVDANSKY: To my right is
20 Executive Director Bob Kassoway.

21 Down here on the left.

22 REPRESENTATIVE KORTZ: Good morning.
23 I'm State Representative Bill Kortz, from the
24 38th Legislative District.

25 REPRESENTATIVE FABRIZIO: Flo

1 Fabrizio, Erie County.

2 REPRESENTATIVE BOYD: Scott Boyd,
3 43rd District, a portion of Lancaster County.

4 REPRESENTATIVE PEIFER: Mike Peifer,
5 139th District, which is Pike, Wayne, Monroe
6 Counties.

7 REPRESENTATIVE KESSLER: Dave
8 Kessler, southeastern Berks.

9 REPRESENTATIVE SAINATO:
10 Representative Chris Sainato. I represent the
11 9th Legislative District which is in Lawrence
12 and a small section of Beaver County.

13 REPRESENTATIVE FRANKEL: I'm
14 Representative Dan Frankel from Allegheny
15 County.

16 CHAIRMAN LEVDANSKY: With that,
17 Mr. Budget Secretary, I also want to thank you
18 for not only appearing here but we had a last
19 minute -- you know, a last minute -- it was a
20 request to start this meeting a half hour
21 later to make it more advantageous for more
22 members to be here. I appreciate that
23 last-minute change in your schedule to
24 accommodate that request.

25 So with that, Mr. Budget Secretary, I

1 turn it over to you.

2 SECRETARY MASCH: Sure. Thank you
3 very much.

4 We have a power point presentation
5 which I think will be helpful because some of
6 these issues are more readily understood with
7 some of the charts and graphs that we've put
8 together.

9 Members of the committee should have
10 copies of that. I understand that it's being
11 projected behind me so you can see it and, lo
12 and behold, it is.

13 I thought I'd start out, though, at
14 the beginning of this presentation just trying
15 to set the context. We should recognize --
16 and I'm sure that the members of the House
17 Finance Committee certainly do -- that every
18 state in these United States borrows money.

19 Part of our financial structure in
20 the Commonwealth and in every one of the other
21 49 states is the issuance of debt.

22 So I think it's worth the while at
23 this hearing to reflect for a moment on what
24 the appropriate role is for borrowing within a
25 state budget. Why do we do it?

1 And I think it's not actually that
2 hard to understand because we all in our own
3 households fashion exactly the same choices.
4 There are purchases that we make in our own
5 households that we finance with debt.

6 And the fundamental principle in
7 terms of when the issuance of debt as a -- as
8 a way of funding a purchase is appropriate is
9 basically the same whether we're talking about
10 a corporation, because corporations borrow;
11 whether we're talking about nonprofits,
12 universities and hospitals, because they
13 certainly borrow; we do in our homes; and
14 governments borrow as well.

15 So why do we all borrow? When should
16 we and how much is too much and for what
17 purposes is it appropriate to borrow?

18 Well, it makes sense to borrow when
19 our intent is to purchase a long-lived asset
20 that will be of benefit to the borrowers for
21 an extended period of time.

22 So to take the most extreme example,
23 it does not make sense to borrow money for
24 five or ten or fifteen years in order that you
25 can go to the store and buy a pastrami

1 sandwich, because, depending on how leisurely
2 your eating habits are, you will derive
3 benefit from that for a couple of minutes or
4 maybe a little bit more, but not much longer
5 than that.

6 And that is the reason why, when we
7 purchase homes, we do it with mortgages.
8 That's a kind of borrowing. Most of us, when
9 we buy cars, we -- we do that through the
10 mechanism of a car loan.

11 And since the goal is to match the
12 stream of payments to the period of time in
13 which benefit is derived, that's why a
14 mortgage is generally for a longer duration
15 than a car loan, because the useful life of
16 a -- of a motor vehicle tends to be shorter
17 than the useful life, the period in which you
18 can derive benefit, from a home.

19 And so, in the same way, we in the
20 Commonwealth, we are the purchasers of
21 long-lived assets. And when we purchase
22 long-lived assets that will benefit not just
23 the taxpayers this year, but will benefit
24 taxpayers for a longer period of time, then it
25 is not appropriate, in fact, for us to put all

1 of the burden of those purchases on this
2 year's taxpayers and none on taxpayers five
3 years or ten years or fifteen years from now
4 if there's a match up of the -- of the
5 borrowing to the benefits.

6 That's why, even if you are a
7 multi-millionaire, you generally buy your home
8 with a mortgage. It's not because you don't
9 have the cash in your pocket. It's not a
10 smart way to finance that particular
11 purchase.

12 So even a very wealthy person will
13 take out a mortgage because that's the most
14 sensible way to purchase a house. And if they
15 have discretionary income, they'll invest that
16 income so that they derive a stream of
17 investment returns to match the stream of
18 financial obligations that they have.

19 Now, the Commonwealth purchases many,
20 many assets that are long-lived. Office
21 buildings, state parks, prisons, highways,
22 redevelopment projects, and much more. And
23 that is why we have a capital budget. That is
24 why we issue state bonds. Bonds being
25 basically our commitment, if we borrow money,

1 to pay it off with interest over a fixed
2 period of time.

3 And we're not alone. Every
4 government -- every government, every state,
5 issues debt to fund its capital program.

6 We would be considered bad financial
7 managers if we did not have a debt component
8 to our budget. But, like each of us as a
9 homeowner and as a private citizen, the
10 Commonwealth must be a prudent borrower, and
11 there are basically two tests of prudence in
12 terms of debt policy.

13 The first one is that we should
14 borrow for appropriate purposes. So we should
15 not borrow to finance expenditures that --
16 that are immediately expensed.

17 We should try to match our debt to
18 the useful life of the -- the investments that
19 are made. And, in fact, we have requirements
20 in the Commonwealth. When we issue debt, we
21 have to analyze the useful life of the assets
22 we are purchasing and we are required to match
23 the average useful life of those purchases to
24 the extent of the borrowing. We're required
25 to do that and we do.

1 Now, the other question -- the other
2 component of a prudent debt policy is that we
3 should not borrow more than we can afford.

4 Well, what does it mean to borrow
5 more than you can afford? It -- it means that
6 your fixed obligations for debt relative to
7 your wealth and your income run the risk of
8 crowding out other essential day-to-day
9 expenditures.

10 And that is why we have two ways of
11 limiting the borrowing of governments. The
12 first in this Commonwealth of Pennsylvania --
13 and this is typical of many states -- we have
14 a constitutional debt ceiling. And I'll speak
15 to that in a moment.

16 So there is an absolute maximum of
17 tax-supported debt that we're allowed to
18 borrow under the state constitution.

19 But the other limit is Wall Street,
20 the financial markets, the credit markets.
21 They limit our ability to borrow. They don't
22 care whether we have a debt ceiling.

23 The -- the underwriters and the
24 investment bankers, the people who broker the
25 long-term municipal debt transactions in the

1 markets in which we participate have their own
2 method and that is credit ratings.

3 There are professional agencies that
4 rate the credit of every borrower, private
5 sector borrowers, nonprofit borrowers, and
6 government borrowers and they give us
7 ratings.

8 And those ratings are basically an
9 assessment by the credit rating agencies of
10 our capacity as a Commonwealth to repay what
11 we are borrowing. And in order to do that,
12 certainly one of the things that the credit
13 agencies, the rating agencies, look at is the
14 level of indebtedness we have relative to the
15 size of our enterprise.

16 So what would be an appropriate debt
17 burden, frankly, for the state of Rhode Island
18 would not be the same as the appropriate or
19 tolerable debt burden for the state of
20 California.

21 So there are -- as I've noted, it is
22 up there, yeah.

23 There are three ways in which the
24 rating agencies measure level of
25 indebtedness. And I have heard members of

1 this General Assembly in recent weeks, and in
2 the past year or two, suggest that perhaps we
3 are getting in over our heads, that we are
4 borrowing too much, that we are maxing out the
5 credit card, and I'm here to tell you, to
6 reassure the members of the Finance Committee,
7 because it's entirely appropriate that you ask
8 the Governor and our administration whether
9 that is the case, and I am here to tell you
10 that that is emphatically not the case based
11 on empirical objective measures.

12 And anyone who suggests we are
13 borrowing too much needs to define what too
14 much is. Fortunately, the credit markets have
15 defined that for us.

16 Their question is: What does our
17 debt look like relative to the aggregate
18 wealth of the state population, and we measure
19 that through state personal income. That's
20 the standard measure.

21 What is our debt relative to the
22 revenues of the state? Because that's where
23 the money for the interest and principal
24 payments is coming out of.

25 And then what is our debt per

1 capita?

2 Each of those is intended as a
3 measure of our level of indebtedness.

4 Now, I want to note that, according
5 to the most recent analysis by one of the most
6 respected credit rating agencies, Moody's
7 Investment Service, that puts out state debt
8 analysis every year, in April 2007 they issued
9 the 2007 state debt ratings, and they
10 indicated that there was 307 to 8 million --
11 I'm sorry -- \$378 billion of tax-supported
12 state debt issued in the United States of
13 America. And 10 billion of that, a little
14 less than 10 billion of that, or 2.6 percent
15 of the total, was issued by the Commonwealth
16 of Pennsylvania.

17 Now, let's -- let's look at some of
18 the measures I have just indicated to you.
19 First of all, the state constitution sets the
20 maximum borrowing capacity of the Commonwealth
21 at 1.75 times the average tax revenues taken
22 in by the state over the previous five fiscal
23 years.

24 Voter-approved debt is not subject to
25 that limit. This is all in the state

1 constitution.

2 So where do we stand on debt under
3 the debt limit? Well, as you can see, we have
4 been a little bit under 15 percent, and our
5 estimates are that we will basically go no
6 higher than 15 percent of the constitutional
7 debt limit or 85 percent lower than the
8 maximum we would legally be permitted to
9 borrow.

10 Right now the budget that we have
11 proposed for fiscal year 2008/'09, if all of
12 its components are approved by this General
13 Assembly, our outstanding debt will be 13
14 percent of the constitutionally imposed
15 limit.

16 Well, let's look at this another
17 way. Let's look at our debt as a percent of
18 personal income.

19 What you see on this chart is the
20 existing debt that the Commonwealth has
21 already issued, and then I have layered onto
22 this three major tax-supported proposals; the
23 acceleration of borrowing for bridge repairs,
24 for the most severely compromised,
25 structurally deficient bridges in the state,

1 where we have proposed to add a debt component
2 to the motor license fund to accelerate
3 repairs.

4 We have 5,000 structurally deficient
5 bridges. The Governor's proposal is to fast
6 track the most compromised of those and repair
7 a thousand of them between now and 2010. So
8 we've layered that in.

9 The Governor's request for
10 authorization from this General Assembly for
11 an additional 750 million for what's called
12 the Redevelopment Assistance Capital Program.
13 People call it RCAP. Really it's RACP, but we
14 have it as RCAP here.

15 This was a program that began in
16 1986. The General Assembly authorizes the
17 release of state funds for projects. There is
18 a requirement of at least a dollar-for-dollar
19 match, or more, of other funds to the state
20 funds that are provided under redevelopment
21 assistance. And over a thousand projects have
22 been initiated to date.

23 But all of the grant of authority
24 from 1986 to the present has now been
25 committed and, therefore, if we're going to

1 continue the redevelopment assistance program,
2 we need for the General Assembly to allow the
3 administration to make additional
4 commitments.

5 We have proposed an increase of 750
6 million in terms of our capacity to make
7 commitments, and you see we assume that in
8 terms of actual expenditures, and therefore
9 borrowing, that will get spread out over the
10 next couple of years.

11 And then finally in the economic
12 stimulus program that this General Assembly
13 approved in 2004, one of the strongest
14 programs that we authorized was the Business
15 In Our Sites Program, for site preparation for
16 economic development projects across the
17 state.

18 And the 300 million of Business In
19 Our Sites funds has been awarded by the
20 Commonwealth Financing Authority, and that is
21 a body, I think you know, both the General
22 Assembly and the Governor have representatives
23 on.

24 They reviewed, found -- they reviewed
25 project applications, awarded funding for

1 those projects. There is a backlog of
2 additional projects that have merit, would
3 have a beneficial impact on communities across
4 Pennsylvania. So the Governor has proposed
5 that we add another hundred million to
6 Business In Our Sites.

7 You can see that if we do all of this
8 that our debt burden will be lower than two
9 percent of state personal income.

10 Now, the rating agencies have a way
11 of assessing the debt burden of the states,
12 and they rank states in terms of whether they
13 have a high debt burden, a moderate debt
14 burden, or a low debt burden.

15 And Moody's and Standard and Poor's
16 and Fitch regard any state where state debt
17 burden is lower than three percent of personal
18 income to have a low debt burden. So this is
19 how we know whether we're borrowing too much
20 or not.

21 And you can see under the Governor's
22 proposals we will remain at two percent or
23 less of state personal income, and that is
24 one-third lower than the threshold for a low
25 state debt burden.

1 And we have done these projections,
2 and you can see that the debt burden has
3 basically stayed at or around -- here I've
4 given you a longer term prospective, going
5 retrospectively and prospectively, to put the
6 current level of -- of proposed borrowing in
7 perspective relative to personal income.

8 So you can see we have had a low debt
9 burden and under the Governor's proposals we
10 will continue to have a low debt burden.

11 I think it's important also to
12 understand that most of the debt that the
13 Commonwealth has outstanding is not for the
14 new programs that the Governor has proposed,
15 as worthwhile as we think they are.

16 Most of the borrowing is for
17 commitments that were made actually in
18 preceding administrations and commitments for
19 core capital. And you can see here that the
20 Rendell administration commitments for
21 redevelopment assistance and the economic
22 stimulus programs have been added onto this
23 chart. They're the red and yellow portions of
24 each bar.

25 The overwhelming indebtedness to date

1 and what we project will happen is for core
2 capital.

3 Now what -- what do I mean by core
4 capital? Well, we borrow in the state of
5 Pennsylvania based on the authorizations that
6 you give us in the General Assembly each year
7 about \$600 million a year. 250 million for
8 improvements to state facilities, \$165 million
9 a year for capital projects at state
10 universities.

11 And it's important I think for the
12 legislature to understand that we do not
13 assist our state system of higher ed, our
14 state-related universities, only through
15 operating subsidies but through about 165
16 million a year in capital assistance.

17 We also provide the match to local
18 transportation projects required in order to
19 bring down federal funding. Now, our match is
20 about 12 percent of total project cost. About
21 three percent comes from the locals and then
22 85 percent of the funding from federal
23 sources.

24 So the leverage on these dollars is
25 very high. We issue about \$25 million a year

1 in capital grants to build the rail freight
2 and aviation networks in the state, 15 million
3 for port improvements, and about 10 million
4 for flood control.

5 And those amounts for rail freight,
6 aviation, and for flood control are before the
7 increased investment that the Governor's
8 recommending under what we call Rebuilding
9 Pennsylvania, our infrastructure initiative
10 that is part of this year's budget proposal.

11 Now, as I've noted, there's another
12 way of measuring debt and that is as a percent
13 of revenue. Debt as a percent of revenue,
14 indebtedness lower than five percent of state
15 revenues is considered a low debt burden. And
16 you can see that we are, have been, and will
17 be below four, and substantially below that
18 for the motor license fund and -- and more
19 than 20 percent below that for the general
20 fund.

21 And, again, you can see that's been
22 the trend all along, both for the -- for the
23 past half decade or so and going forward.

24 The third way that we measure our
25 relative level of indebtedness is per capita

1 debt. And as you can see, on this chart we're
2 showing you Pennsylvania relative to the level
3 of indebtedness per capita for the whole 50
4 states.

5 That's -- that's the bar on the
6 right-hand side, the red bar. And also
7 relative to other states.

8 And I would note that, according to
9 Moody's, in the 2007 debt medians, our level
10 of indebtedness in Pennsylvania was about 10.6
11 billion when this analysis was done. Ohio was
12 11.2, Connecticut was 13 billion, Florida 18
13 billion, New Jersey 29 billion and New York 52
14 billion.

15 So, again, another way of
16 measuring -- of course, those are absolutes,
17 and we want to look at that relative to the
18 wealth of those states, the population of
19 those states, but you can see we compare
20 favorably per capita.

21 Now, finally, the last thing that I
22 did was just look at our actual level of debt
23 issuance. And, of course, everything costs
24 more money. We have had inflation in the
25 economy.

1 But what we've done is we've looked
2 at four-year terms going back to 1967. So
3 this is 40 years of state debt issuance. And
4 we've then adjusted the numbers for
5 inflation.

6 And you can see that, while it's true
7 that our level of debt issuance in Governor
8 Rendell's first term at 713 was higher in
9 nominal dollars than the preceding years, when
10 you adjust for inflation, that term, out of
11 the terms analyzed, is only the fifth highest
12 level of debt issuance and lower than, once
13 it's adjusted for inflation, actually lower
14 than the Ridge/Schweiker second term.

15 So that is why -- all of this is why,
16 when the rating agencies look at Pennsylvania,
17 they have given us an AA rating.

18 Why aren't we stronger? Well,
19 frankly, economic fundamentals. They're not
20 concerned about our level of indebtedness.
21 They're concerned about whether we are going
22 to be competitive in the emerging economy of
23 the 21st Century.

24 And that is why we've been praised
25 for investments we made in our budget.

1 Investments to raise test scores so our kids
2 are more competitive in the labor market.
3 Investments in economic development.
4 Investments in infrastructure. All of those
5 are ways in which we build a stronger
6 Pennsylvania.

7 So we need a balanced budget in more
8 than one way. We need obviously to balance
9 our revenues and expenditures, but we need a
10 balance between investments to help the
11 vulnerable and -- and those in distress among
12 our families and our neighbors. That's what
13 we do in programs where we provide subsidized
14 child care and job training, to get people off
15 of the welfare rolls.

16 And we are doing that and that's part
17 of a balanced plan. That's why the number of
18 people on Cash Assistance in Pennsylvania is
19 now the lowest it's been since 1961.

20 We need to have a balanced program
21 where we invest appropriately in criminal
22 justice. We need to invest in education.

23 But we also need to invest in
24 infrastructure and economic development. And
25 that's where debt comes in.

1 And as you can see, I just gave you a
2 couple of sample quotes from the rating
3 agencies. They say -- and I am -- I am
4 pleased to quote this -- it's not just a
5 reflection of the Office of the Budget,
6 although we try to do a good job for the
7 Governor and for you and the taxpayers, but
8 it's a reflection on our entire Commonwealth
9 that we have collectively, the legislature and
10 executive branch working together, an
11 established record in good financial
12 management, reflected in strong actions to
13 preserve budget balance in recent years and a
14 long-standing policy to maintain debt at a
15 level that does not overburden resources.

16 So there is clearly such a thing as
17 too much borrowing. It is reasonable for the
18 members of the legislature and for the public
19 to ask us to demonstrate whether our level of
20 borrowing is appropriate.

21 Are we borrowing for the right
22 purposes? Are we getting a good return on our
23 investment?

24 I have to tell you that one of the
25 things that we focus on very much in the

1 Department of General Services and the Office
2 of the Budget is getting value for our
3 dollar. And I hope those of you who are on
4 Appropriations, or at other times, will talk
5 to Secretary Creedon about how we've been
6 trying to improve our ability as a purchaser
7 of capital projects to get better value for
8 our dollar.

9 But certainly a Commonwealth in which
10 we did not borrow would be a Commonwealth that
11 would be falling behind other states. We
12 would be less competitive, and we can't afford
13 to do that.

14 What we need is a balance between
15 current expenditures and debt, invested
16 appropriately, as cost effectively as
17 possible, not to excess.

18 And I'm here to tell you that I think
19 our track record as a Commonwealth -- and I
20 want to give credit to preceding
21 administrations and preceding governors -- we
22 have been consistently in Pennsylvania a
23 fiscally conservative state in how we manage
24 our financial affairs.

25 That has continued in this

1 administration. That's our legacy in the
2 Commonwealth. And -- and I am glad that we
3 are maintaining that tradition in this
4 administration.

5 So with that, I'll be happy to take
6 questions from the committee.

7 CHAIRMAN LEVDANSKY: Thank you,
8 Secretary Masch.

9 Before I ask members for questions, I
10 want to introduce a few members that came a
11 little bit late. In one case, he wasn't
12 late. We just failed to recognize him.

13 Down at the front table is
14 Representative Randy Vulakovich from Allegheny
15 County.

16 To my far right here is
17 Representative Jaret Gibbons from Lawrence
18 County.

19 And seated in front of me is
20 Representative Mike Sturla from Lancaster
21 County.

22 And Representative Dan Frankel to the
23 far right from Pittsburgh and Allegheny
24 County.

25 Do the members have any -- any

1 questions for the budget secretary?

2 Representative Boyd.

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

5 One -- I'm sure there will be other
6 questions, but I wanted to ask you about the
7 request for RCAP.

8 June 30th of 2007 House Bill 1409,
9 sponsored by chairman -- Appropriations
10 Committee Chairman Evans, passed the House,
11 which would have increased RCAP \$500 million
12 and is in the Senate, was referred to the
13 Senate Committee on July 3rd, and it's sitting
14 awaiting action.

15 Why now are we coming back and asking
16 for another 750 million on top of the 500
17 million that we already passed?

18 SECRETARY MASCH: Well, it's not an
19 additional 750 million. We are proposing to
20 amend the current authorization bill that's in
21 the Senate to increase the level of commitment
22 from 500 to 750. And though -- that would be
23 a net increase of 250 million.

24 And the reason why we did that is
25 tied to the Governor's overall proposal that

1 he calls Protecting Our Progress, the -- the
2 short-term stimulus program that -- that we
3 have set forward.

4 We believe that our dilemma in the
5 United States and here in the Commonwealth is
6 that we have an economy that is clearly
7 slowing down.

8 From 2001 through 2005 the rate of
9 growth in gross domestic product accelerated
10 from about -- from a low point in the
11 recession of about one percent GDP growth a
12 year to a fairly robust four-and-a-half
13 percent.

14 But every year since then U.S.
15 economic growth has been slowing down. We
16 went from four-and-a-half percent to four
17 percent, then three-and-a-half, then to three
18 roughly.

19 Last calendar year in 2007 our growth
20 GDP was still positive, but it was 2.2
21 percent.

22 Now, we're -- we're not going to know
23 until April how we came out of the first
24 quarter of this year. But if the economic
25 experts that track these things are right, we

1 are either going to be in a very, very low
2 growth period for a couple fiscal quarters,
3 and we may even go negative.

4 If in the first and second quarter of
5 calendar year 2008 we have negative growth,
6 all right, actually a contraction of the
7 economy, then we'll be in recession.

8 We're -- we don't know yet whether
9 we're going to be in recession or not, but we
10 know that we're in a period of much slower
11 economic growth. Our estimates for the growth
12 of state revenues have been adjusted
13 accordingly.

14 In this period we have the worst of
15 all possible worlds. Economic opportunity
16 contracting, growth in business contracting,
17 and at the same time higher prices for, you
18 know, some of the basic purchases that people
19 need to make, food somewhat, energy costs
20 certainly escalating.

21 So the Governor has proposed a
22 multi-part program by which we in Pennsylvania
23 might augment and help to accelerate what
24 President Bush and the Congress are trying to
25 do in Washington, which is to enable us all to

1 get through this period, which if we manage at
2 the federal level, at the state level, and in
3 the private sector in a prudent way, will
4 hopefully be a short, shallow period of
5 economic contraction.

6 So part of that is the Governor's
7 rebate program. Part of that is enhancing job
8 creation tax credits. But part of it is to
9 accelerate spending for redevelopment
10 assistance.

11 And the reason why we proposed the
12 250 million is we have a backlog of about --
13 we think about 250 million of projects that
14 were presented to the Commonwealth that we
15 could not make commitments on because our
16 commitment authority has been limited.

17 Now, if we're going to do these
18 accelerated investments in this period of
19 time, we didn't want that to come at the
20 expense of the overall redevelopment
21 assistance program.

22 So we wanted to leave the original
23 500 million where it was and add 250 million
24 with the focus of that 250 million being
25 projects that we would seek to implement

1 within the next six months.

2 What we -- what I've heard some
3 people call, you know, shovel ready projects,
4 that would move money out and see construction
5 jobs and investment.

6 And since most redevelopment
7 assistance projects are basically
8 public/private partnership where the private
9 sector is putting in money and is going to
10 create permanent jobs, not just the
11 construction jobs, that has both a short term
12 and a long term beneficial effect on the
13 economy.

14 So that's why we're proposing the
15 additional 250 million.

16 REPRESENTATIVE BOYD: So if I heard
17 you correctly, it's for -- our Appropriation
18 staff has told us that there's a billion
19 dollars' worth of projects that are committed
20 and not being implemented for various reasons,
21 not the least of which is the local matches
22 aren't ready, the numbers aren't there.

23 So this 250 million is -- is going to
24 be used for what you've determined or what
25 you're saying is shovel ready projects that --

1 that will happen literally immediately.

2 And I guess my question is -- is if
3 we have projects that, you know, using --
4 using your analogy of a family budget, if --
5 if I've been -- if I'm looking at doing an
6 addition to my home and my car breaks down and
7 I've been putting money away to do an addition
8 to my home but my car broke down, why would I
9 go out and borrow money to fix the car if I've
10 been putting money away to do additions to the
11 home? Why don't I take care of the immediate
12 need? Why go out and borrow more money and
13 then -- do you understand what I'm saying?

14 If we got a billion dollars' worth of
15 projects that aren't ready, why would we
16 borrow 250 million? Why don't we use some of
17 the money that's in the RCAP that's not being
18 used now?

19 SECRETARY MASCH: Right. Well, I
20 cannot speak to the billion dollar number. My
21 sense is that the amount of unspent, but
22 committed, funds would have to be much less
23 than that because the total amount of
24 redevelopment assistance commitments issued to
25 date is 3.1 billion and that's since 1986.

1 And that would suggest that from 1986
2 to the present one-third of those dollars have
3 not been expended yet.

4 I would be happy to provide the House
5 Finance Committee with an update on our
6 expenditures to date, but I have to say that I
7 do -- I question whether that is an accurate
8 number.

9 But I don't have an alternative
10 number to provide to you. But we'd be happy
11 to do that. We certainly track that.

12 I understand your point. And in
13 economic development there is a balance.
14 There are projects that the Governor has
15 authorized our RCAP funding for because they
16 are so crucial to development in a particular
17 community and they're complex. It takes them
18 awhile for all of the moving parts to get put
19 together.

20 That doesn't mean that it was a
21 mistake for us to make commitments to those
22 projects. In some cases it is the
23 Commonwealth making the redevelopment
24 assistance commitment that enables project
25 sponsors in the local community to go to the

1 private sector and convince them to, you know,
2 make their final commitments for the remainder
3 of the funding.

4 So there are times when it takes
5 awhile for us to do one of these projects.

6 On the other hand, our view is that
7 right now public investment, investment in
8 public works, not alone, but as part of a
9 balanced program, makes sense as a way of
10 trying to get more stimulus into the economy
11 to counteract some of the other forces at a
12 macroeconomic level that are leading to a
13 slowdown in economic growth.

14 You know, our view in the
15 administration is that in the United States,
16 as a whole and in the Commonwealth in
17 particular, our fundamentals are very strong.
18 But we -- so if we're talking about longer
19 term economic growth, we're actually pretty
20 optimistic.

21 We've seen the number of jobs created
22 and our level of job creation, which has been
23 very low among the 50 states, moving up year
24 by year.

25 That's why the Governor called his

1 program Protecting Our Progress. If we have
2 longer term investments, and we do need to
3 make them, at this juncture that -- we don't
4 think that means that we should not also make
5 additional investments, if the investments
6 have merit -- and I want to emphasize, we're
7 not saying we should go out and spend money on
8 projects that in some other period of time we
9 would not invest in.

10 But we have been waiting for, you
11 know, a year and a half to two years for the
12 General Assembly to issue a new piece of RCAP
13 commitment legislation.

14 And in that time, knowing that a bill
15 was moving through the legislature, there are
16 communities, there are industrial development
17 authorities, there are private sector
18 investors and developers who have been coming
19 to the administration saying, I have a project
20 which would qualify for this funding and I
21 want to tell you about it and when do you
22 think that this bill is going to get passed?

23 So we now actually have a back log of
24 those projects.

25 So, I guess, representative, I don't

1 see it as an either/or. That's what I meant
2 when I said we need to have a balanced
3 budget. Some shorter term investment, some
4 longer term investment, some immediate
5 expenditure.

6 Obviously, it's your judgment as a
7 legislature whether you agree with our
8 judgment in the administration about what the
9 right balance is, and that's why we're here,
10 and that's why we're here in the budget
11 process.

12 REPRESENTATIVE BOYD: Thank you.

13 CHAIRMAN LEVDANSKY: Thank you.

14 Representative Quigley.

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

17 Thank you, Secretary, for your time
18 and for coming before the committee today.

19 When you -- you opened up your
20 presentation talking about the reasons for
21 borrowing, and I just wanted to -- to ask you
22 with the Governor's proposed energy
23 independence fund which, you know, the source
24 of payment would not be from the general fund
25 per se, but when you look at the energy

1 independence fund, as I understand it,
2 borrowing \$850 million for then the
3 administration, or some committee, to
4 determine who has a worthwhile alternative
5 energy project to be funded, and then
6 presumably the benefits of -- if one of those
7 projects, let's say, hits, for lack of a
8 better term, where it becomes an alternative
9 to, you know, gasoline, or whatever, could you
10 explain why you think that is an appropriate
11 reason for borrowing based on your prior
12 definition?

13 SECRETARY MASCH: Sure. Well, as I
14 said, one of the areas in which the
15 Commonwealth invests capital funds is for
16 economic development purposes.

17 And that's why I tried to illustrate
18 there are others, transportation,
19 infrastructure, the maintenance of our own
20 Commonwealth facilities, our state parks and
21 our offices and all the rest.

22 We believe that we are at a moment in
23 time, for several different reasons, why
24 investments in renewable energy are -- are an
25 area in which in the United States as whole

1 investment is going to accelerate a great
2 deal.

3 I mean when we proposed this a year
4 ago, you know, we didn't want to be
5 pessimistic and contemplate then fuel prices
6 for petroleum-based fuels going up as much as
7 they have; but every time they do, the break
8 price point at which renewables become more
9 competitive, you know, becomes lower and
10 lower.

11 That is, there are more and more
12 renewable alternatives that are a desirable
13 substitute for petroleum-based fuels.

14 It's also the case that many of the
15 technologies are just at the point where
16 they're ready to scale up.

17 So to us the question is -- we think
18 it is clear that in the United States there is
19 going to be a -- a large and very quickly
20 growing renewable energy sector, and the
21 question for us in Pennsylvania is are we
22 going to get in on this?

23 All right. There are those who, I
24 think, might argue that when the wave was
25 information technology, maybe a decade and a

1 half ago, we weren't one of the leading edge
2 states.

3 More recently, the wave of new
4 industry development has been in the
5 biomedical area, and we have done better at
6 catching that wave in part because our
7 confluence of outstanding academic medical
8 centers and -- and pharmaceutical industry
9 firms with a presence in Pennsylvania has
10 given us some competitive edge.

11 We are finding that because of our
12 natural resources, because of our location,
13 that we have a great potential to play a major
14 role in this new and emerging sector of the
15 economy.

16 So the question is then how do we
17 fund this? Well, the beneficiaries are going
18 to be all of us who pay energy bills, you
19 know, industrial -- industrial payers,
20 commercial payers, and residential payers.

21 And so the Governor believed that we
22 ought to do what 17 states have already done.
23 Seventeen states have already added a
24 surcharge to utility bills to encourage
25 conservation and the use of renewable energy.

1 So in adding an assistance benefit
2 charge, we would not be the pioneers here but
3 we would be adding to a number of other
4 states, major states, competitor states to
5 Pennsylvania, who now have a leg up on us
6 because they've decided to make that
7 investment.

8 Now, for consumers our proposal is a
9 20th of a cent per kilowatt hour for electric
10 consumption. And that we -- we estimate that
11 would be 45 cents a month for the average
12 household.

13 But if you look at the components of
14 the Governor's energy independence strategy,
15 smart metering, credits for the purchase of
16 energy-efficient replacement appliances,
17 and -- and if -- and the change in the mix of
18 energy sources that utilities are providing,
19 and the encouragement of greater conservation,
20 our estimate is that the average household in
21 Pennsylvania would save about \$70 a year on
22 their energy bill for the investment of 45
23 cents a month on the systems benefit charge,
24 the average industrial customer over \$10,000,
25 the average commercial customer over \$425 a

1 year.

2 So all of us as energy payers would
3 get more back in energy savings than we would
4 invest. That's why we propose the program
5 that we have.

6 Now, having said that, we have made
7 it clear in the administration that we want to
8 work with the General Assembly on what we
9 think are two open issues.

10 One is, what is the shape of the
11 entity that makes the decisions about
12 allocating the funds and, as you know, we are
13 in negotiations with the House and Senate on
14 that subject.

15 And we certainly do not envision that
16 that's going to be any less of a collaborative
17 process than the economic stimulus program or
18 other kinds of public investment that we've
19 made.

20 And also what is the funding source
21 going to be? We think the systems benefit
22 charge makes sense.

23 But the Governor also has indicated
24 on numerous occasions that we're prepared to
25 work with the legislature if we agree that the

1 goal makes sense for Pennsylvania and there is
2 another way to get at it in terms of funding.
3 We're willing to consider that.

4 But this is why we've made this
5 proposal. And if there are others that --
6 that the legislature considers to be more
7 desirable, we -- we would like to talk to the
8 House and the Senate about that.

9 REPRESENTATIVE QUIGLEY: Thank you.
10 Just one other question, changing gears a
11 little bit.

12 With -- when you talked about as far
13 as an economic stimulus package, what would
14 you say is the administration's position on a
15 proposal that's passed the House and in
16 amendment form, one amendment from my
17 colleague, Representative Taylor, one from
18 myself, about rolling back the Pennsylvania
19 income tax?

20 SECRETARY MASCH: Well, let's look at
21 the Pennsylvania income tax. There are 40
22 states that levy the income tax.

23 We have the 39th lowest tax. We're
24 only one of five states that have a flat tax.
25 And 55 percent of business tax filers in

1 Pennsylvania, our pass-through corporations, S
2 corporations, limited liability corporations,
3 they do not pay the corporate net income tax.
4 They pay the personal income tax and 3.07 for
5 pass-through businesses, that's the lowest
6 rate of business taxation in the United
7 States.

8 So we in the administration do not
9 believe that we have an uncompetitive personal
10 income tax.

11 We also know that each tenth of a
12 percent reduction in the tax will cost the
13 general fund \$360 million.

14 So our view is we should make changes
15 in tax policy where our taxes are -- make us
16 uncompetitive with other states.

17 We have a corporate net income tax at
18 9.99 percent. That's the second highest rate
19 of all the states that levy a corporate net
20 income tax. We think that stated rate ought
21 to go down.

22 But we also know that 75 percent of
23 all corporate filers pay absolutely no tax,
24 while others pay the full freight at 9.99.

25 We don't think that's fair. We don't

1 think that -- that we have an appropriate tax
2 structure for businesses when two businesses
3 with the same true economic profits, one can
4 pay a high rate of Pennsylvania business tax
5 and the other pays nothing just because they
6 formed a business organization.

7 So the Governor has been clear. We
8 don't think the personal income tax is the
9 problem.

10 We do think the capital stock and
11 franchise tax is a problem, and that's why we
12 have here in the Commonwealth lowered the
13 burden of the capital stock and franchise tax
14 to Pennsylvania businesses by \$870 million a
15 year, and we will lower it under the
16 Governor's proposal by an additional \$100
17 million in the coming fiscal year, if you
18 approve the Governor's proposals.

19 And we believe we should lower the
20 corporate net income tax down in the six to
21 seven percent range. We should uncap net
22 operating losses. We should have 100 sales
23 factor for the apportionment of the corporate
24 net income tax, but we should also eliminate
25 the loopholes that enable some businesses to

1 pay less than their fair share of the tax when
2 other Pennsylvania businesses are paying their
3 fair share.

4 So that's the tax policy that makes
5 sense for us.

6 REPRESENTATIVE QUIGLEY: Thank you.

7 CHAIRMAN LEVDANSKY: I'm glad you
8 asked that question.

9 Next Representative Ellis.

10 REPRESENTATIVE ELLIS: Thank you,
11 Chairman Levdansky.

12 And, Secretary Masch, thank you
13 again, as we continue our dialogue, which I'm
14 sure will continue through the Appropriation
15 hearings as well.

16 I do want to kind of focus my
17 questioning specifically on the -- on why
18 we're needing the debt and debt burden, and a
19 couple things that you said struck me as -- as
20 something that I agree with.

21 You're not going to find anybody up
22 here that doesn't believe that we should run
23 the government a little bit more like we run a
24 household, because that's what our
25 constituents expect and they just want to see

1 that we're doing a good job with our money. I
2 also agree with you on that.

3 And I also agree with you that we're
4 not maxing out the credit card. Now, that may
5 sound like a surprise coming from me that I
6 don't disagree. But I agree with you on
7 that.

8 I will offer this. In my opinion I
9 don't think we're maxing out the credit card
10 because we have afforded ourselves the
11 opportunity to get new credit cards.

12 I think what happened was we opened
13 up our door at home and there was a mailer and
14 said sign up for another credit card. That
15 happened in 2004 with the RCAP expansion. In
16 2005 we get another envelope, we open that one
17 up, and we have a third credit card, and now
18 the Governor is asking should we open up this
19 fourth envelope and create a fourth credit
20 card for our household, the household of
21 Pennsylvania.

22 So I question, you know, whether or
23 not that is the right direction to go.

24 But the other -- the final thing that
25 I agree with you on is that there is a time to

1 borrow. And we've heard it from experts this
2 morning from the Tax Foundation that mirror
3 what you said that borrowing should be for
4 one-time capital improvements that benefit
5 long term.

6 I question in some of the new
7 borrowing that we have out there if it all is
8 going to be long-term benefits. As
9 Representative Quigley indicated with the
10 energy fund, we may be taking bets, you know,
11 on what is going to be successful and benefit
12 all Pennsylvanians. So I question that.

13 But specifically, you said that the
14 number of -- our debt burden is \$10.6 billion
15 whenever -- you said whenever that graph was
16 put together.

17 SECRETARY MASCH: That's in the
18 Moody's 2007 state debt medians and I'm
19 looking to see what --

20 REPRESENTATIVE ELLIS: I mean I'm
21 guessing we're still pretty close to that.

22 SECRETARY MASCH: I think in the --
23 that's the -- that's as of 2005, when they put
24 this out.

25 By our own calculations, because we

1 defeased that as well, our estimate is that
2 our actual tax-supported debt, voter approved,
3 and subject to the constitutional limit was a
4 little narrower, I think, than the Moody's
5 definition. It's actually right now at about
6 8.5 billion.

7 REPRESENTATIVE ELLIS: Okay. And the
8 Governor this year is proposing roughly 4.3
9 billion. So that would take that up to almost
10 \$13 billion.

11 SECRETARY MASCH: Well, no. You have
12 to take into consideration the fact that we
13 defease about a half billion dollars' worth of
14 debt a year and some of the debt that you're
15 talking about would be issued over a ten-year
16 period.

17 So the -- I mean you can -- you can
18 see here what our estimates are in terms of
19 the net indebtedness going out to 2013 and --
20 and, you know, if -- if you're going to take
21 that, like a five-year period, you're talking
22 about defeasing another two-and-a-half billion
23 dollars' worth of debt even as you borrow.

24 REPRESENTATIVE ELLIS: And that also
25 goes under the assumption that next year

1 whenever we're -- at this time of the year
2 that the Governor is not going to propose an
3 additional borrowing scheme and the following
4 year after that.

5 So I'll -- I'll -- we'll agree to
6 disagree on that number.

7 But let me ask you, does that number
8 include the money borrowed through the
9 Commonwealth, the Financing Authority?

10 SECRETARY MASCH: Yes.

11 REPRESENTATIVE ELLIS: It does
12 include that?

13 SECRETARY MASCH: Yes.

14 REPRESENTATIVE ELLIS: Okay. Can I
15 ask you real quickly, does it also include the
16 money borrowed through the Delaware River
17 Joint Toll Bridge Commission, the Delaware
18 River Port Authority, the Pennsylvania
19 Economic Development Financing Authority, the
20 Pennsylvania Energy Development Authority, the
21 Higher -- PHEAA, the Pennsylvania Higher
22 Educational Facilities Authority, the Housing
23 Finance Agency, the Industrial Development
24 Authority, the Pennsylvania Infrastructure --
25 Infrastructure Investment Authority, the

1 Pennsylvania Turnpike Commission, the
2 Philadelphia Regional Port Authority, or the
3 State Public School Building Authority, which
4 certainly is issuing debt?

5 SECRETARY MASCH: Right. Absolutely
6 not. And it does not include the debt of any
7 municipality in the Commonwealth, and it does
8 not include the debt of any nonprofit that
9 might receive state funds.

10 Because in all of the instances
11 you've cited, and the ones that I've added to
12 the list, all of that debt is not financed out
13 of the general tax revenues of the citizens of
14 the Commonwealth of Pennsylvania.

15 That's not -- why it's not counted as
16 tax-supported debt.

17 REPRESENTATIVE ELLIS: But don't we,
18 in fact, back them up if they default?

19 SECRETARY MASCH: No. In fact, the
20 indebtedness of all of the agencies and
21 authorities that you have cited is not an
22 obligation of the Commonwealth of
23 Pennsylvania.

24 It is the debt solely of those
25 agencies and authorities that were created by

1 the Commonwealth.

2 They are not considered debt under
3 Article 8 of the state constitution.

4 REPRESENTATIVE ELLIS: Okay. So what
5 would happen if they defaulted?

6 SECRETARY MASCH: Well, first of all,
7 the boards of each of those agencies is
8 obligated to run those as self-supporting
9 entities.

10 So it is the job of those boards with
11 members appointed by Governor and the state
12 legislature, in most instances that you've
13 cited, to ensure that those agencies manage
14 their affairs in such a way that they, again,
15 like the Commonwealth, take on no more
16 indebtedness than they are able to handle.

17 But if -- but the first recourse has
18 to be to the resources of the agencies
19 themselves.

20 REPRESENTATIVE ELLIS: Okay. If --
21 Mr. Chairman, if you can indulge me, I'll be
22 real quick with a couple more points.

23 Secretary Masch, are you familiar
24 with -- you cited a couple things that you
25 were proud to quote.

1 Are you familiar with the Standard
2 and Poor -- Standard and Poor's report from
3 May of 2007 and what they said about
4 Pennsylvania?

5 And I don't expect that you -- you've
6 -- I'm sure you read it, but you may not have
7 it.

8 But if I can just quote that. It
9 says: Pennsylvania's debt profile is
10 currently favorable but over the next five
11 years Commonwealth management intends to issue
12 substantially more general obligation debt
13 than it retires.

14 In addition, Commonwealth officials
15 intend to issue roughly half of the 2 billion
16 of economic stimulus debt proposed by the
17 Governor.

18 This is the important part. Over the
19 next five years, these additional issuances,
20 exclusive of economic stimulus debt, would
21 boost the Commonwealth's tax-supported debt by
22 more than 39 -- 39 percent -- over fiscal year
23 end 2006 levels, moving it to an above average
24 debt burden from below average when compared
25 with other states.

1 Okay. To me that -- that indicates
2 that we're okay right now, as you may -- may
3 have indicated. I think we've -- we've had
4 projects that have been worthwhile, and I'm
5 not even ruling out the fact that some of what
6 the Governor has proposed may be worthwhile as
7 well.

8 But what -- what are your thoughts in
9 regards to what Standard and Poor's had
10 indicated then?

11 SECRETARY MASCH: Well, as you can
12 see, I -- based on our analysis of everything
13 that we've proposed, we will continue to have
14 a below average level of indebtedness relative
15 to our personal income, relative to our
16 revenues, and per capita, and we have done all
17 of those projections out to 2013 and with all
18 the details actually in the Governor's budget
19 proposal so you can see the levels of
20 indebtedness that we're assuming in each of
21 these areas.

22 So I do not believe that that is an
23 accurate characterization.

24 As you can see, we are
25 anticipating -- let me see if I can -- in

1 absolute terms, we are absolutely anticipating
2 that our nominal dollar level of indebtedness
3 will increase.

4 But that's not the relevant measure.
5 Because you have to factor inflation into that
6 and the growth of the base, the capacity of
7 the Commonwealth to absorb that debt burden.

8 That's why the only meaningful way
9 year over year to measure debt burden is to
10 measure it relative to personal income and is
11 to measure it relative to revenues.

12 Because all those things are growing
13 at the same time. And -- and -- and as I
14 noted here, you know, the -- the level of
15 indebtedness in nominal dollars, say, are for
16 Governor Shafer for his term in 1967 nominally
17 is 443 million. If we issued that debt today,
18 it would be for 630 million.

19 So not the relevant comparison.
20 That's why we do these multi-year projections,
21 to make sure we are not getting ahead of
22 ourselves, that we are not going to issue debt
23 that would put us over.

24 Now, you've seen from all of the
25 charts that I've presented our relative level

1 of indebtedness compared to those metrics.
2 Personal income and revenue in particular, we
3 close the gap a little bit. So we go from
4 being at say 1.8 percent of personal income to
5 1.9 percent of personal income over a period
6 of time.

7 That is a greater relative level of
8 indebtedness. There's no question about
9 that.

10 But that's not the question, I think,
11 that you in the legislature are asking. You
12 are asking is it excessive and imprudent.

13 Well, that depends on two things. Is
14 it excessive relative to the total budget at
15 still less than two percent of personal
16 income? When anything over three percent is
17 considered a low debt burden, I don't think
18 it's excessive.

19 Now, whether it is a wise investment,
20 that's what the General Assembly and the
21 Governor do during the budget process.

22 I readily acknowledge that the
23 content, what we spend the money on, is as
24 important as the level of indebtedness, and we
25 all have to be convinced that the investments

1 that we're making are going to have a positive
2 return for the taxpayers of Pennsylvania.

3 If we didn't think that was the case,
4 we wouldn't be making the proposals to you in
5 the first place.

6 REPRESENTATIVE ELLIS: Okay. And
7 then just, finally, if I can return back to
8 your example of running it like a household.

9 You know, certainly the federal
10 government has moved forward with an economic
11 stimulus package, a bonus rebate back to
12 families. If we take a look at our surplus
13 as -- as our bonus, as our rebate, have we
14 ever considered doing what many Americans say
15 they're going to do with the money they get,
16 which is pay down their debt burden?

17 Have we said, well, maybe instead of
18 proposing all this new spending, we could take
19 a portion of the surplus and pay down our debt
20 service? Was that ever a consideration of
21 your department?

22 SECRETARY MASCH: Sure. And -- and
23 actually we take every opportunity to
24 refinance debt where we can refinance debt on
25 favorable terms.

1 What you don't see in the numbers
2 here are several billion dollars' worth of
3 refinancing that the Commonwealth has done
4 that have saved us hundreds of millions of
5 dollars over the past five years.

6 But I'd be happy -- I didn't come
7 prepared to talk about our refinancing, but we
8 have done plenty of that. So we do do it.

9 Look, I think the difference -- there
10 are state governments that are considered to
11 have a high debt burden, excessive relative to
12 personal income, excessive on a per capita
13 basis, excessive relative to their revenues,
14 and they probably ought to consider that
15 strategy. Just as there are some families
16 that have borrowed too much money relative to
17 their income.

18 But that's not the Commonwealth of
19 Pennsylvania. We have managed ourselves in a
20 more prudent way than that.

21 You know, I think the Governor has
22 been very clear. We don't want to spend any
23 more money than we think we absolutely have
24 to.

25 But we do have to make investments on

1 behalf of the people of Pennsylvania. We do
2 need more effective public schools.

3 When our relatives and our neighbors
4 have a child who is born with autism or mental
5 retardation and it would bankrupt the family
6 to take care of that child without our
7 assistance, we think it's the right thing for
8 us to do, to make that investment.

9 We think it's worthwhile to spend
10 more money to get people off of the welfare
11 rolls and put them to work.

12 So that's the balance that we're
13 looking for. Investments that have a return.
14 And, you know, it -- it would be very easy to
15 cut spending if we didn't care about what the
16 consequences were for the people of
17 Pennsylvania.

18 Where we can constrain spending, we
19 absolutely do that. We are spending no more
20 money this year in the Commonwealth of
21 Pennsylvania to run the government than
22 Governor Schweiker spent in 2002.

23 And so where it's -- where we can
24 deliver value to the taxpayers and spend less,
25 we're absolutely committed to do that and we

1 do hold spending down.

2 REPRESENTATIVE ELLIS: All right.
3 Thank you very much, Mr. Chairman, and,
4 Secretary Masch, for coming today. I truly
5 appreciate it and I look forward to continuing
6 this -- this conversation.

7 You know, you bring up that we have
8 to make choices. It's time for choosing, and
9 we have to decide as a legislative body where
10 we're going to go. And I look forward to the
11 continued dialogue.

12 CHAIRMAN LEVDANSKY: Thank you, Bob.
13 Before I recognize the next member
14 for questions, I just want to introduce
15 Representative Gordon Denlinger from -- from
16 Lancaster County has joined us this morning as
17 well.

18 And Representative Dave Reed. I'm
19 sorry. Dave, I didn't see you come in.
20 Joining us as well. Thank you for coming.

21 Next question, Representative Mike
22 Sturla.

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

25 I guess I might change the tone a

1 little bit here because instead of asking why
2 you're borrowing at all I may ask why aren't
3 you borrowing a little more.

4 And I know your answer is probably
5 going to be that we found a nice balance here,
6 and I may go along with that.

7 The reason I ask that is, though,
8 because in Lancaster we've been the recipient
9 of some of those capital budget dollars in
10 recent years and some of the other investments
11 that the state has been willing to make.

12 I made the comment several years ago
13 that I thought within the next five years in
14 Lancaster we would see about a billion dollars
15 in economic development projects; and someone
16 said that they thought I was exaggerating,
17 that they thought it would probably only
18 exceed about a half billion dollars in the
19 next five years.

20 Right now, if we can get the capital
21 budget approved and if we had gotten it
22 approved three months ago, we could have done
23 it then, for about \$35 million today we can do
24 another 150 million dollars' worth of projects
25 in my district. And if we get another 35

1 million six months after, we can do another
2 150 million dollars' worth of projects.
3 That's what's sitting on the books, waiting,
4 ready to go, people money in hand, but for
5 their last portion, sometimes it's 10 percent,
6 sometimes it's 25 percent, sometimes it's 50
7 percent of their project, but those
8 public/private partnerships that you talked
9 about.

10 And I guess as a -- to go back to the
11 home analogy, or the house analogy, I get a
12 little concerned sometimes, I -- I -- what I
13 call the slum lord mentality, the person that
14 keeps telling their tenants, don't go buy a
15 house, don't take out a mortgage until you can
16 buy the thing outright. Meanwhile I'll keep
17 charging you \$900 a month rent but don't go --
18 don't dare go borrow money to buy a house
19 because you might actually be able to reduce
20 your payments in the long run. You might
21 actually be able to have something that's
22 worthwhile 30 years from now. You might
23 actually be able to pave roads, to fix bridges
24 and build schools and do those types of
25 things.

1 And I think that there's as much
2 caution that we should put into not borrowing
3 appropriately as we do with are we borrowing
4 too much.

5 I guess we could take our surplus
6 this year and make a doubled-up mortgage
7 payment and we might realize that benefit 30
8 years from now when we had one less debt
9 payment. But we wouldn't have the kinds of
10 things we need now.

11 In particular, I guess I want to talk
12 about educational facilities and particularly
13 higher educational facilities, because you
14 talked about the new economics.

15 For several years I've been pushing
16 the idea of investing in our institutions of
17 higher education. I think next to -- it's
18 either California or Massachusetts, we have
19 the second largest number of institutions of
20 higher education of any state in the nation.

21 And as an industry, if you will,
22 educating students is a pretty lucrative
23 industry and it creates a lot of really good
24 paying jobs. It's a non-smokestack industry,
25 and we do a pretty good job of it here in the

1 state of Pennsylvania.

2 And I guess, having seen some of the
3 educational facilities in my district and in
4 the immediate surroundings of my district make
5 some of those investments and increase the
6 number of students we have, I really don't
7 mind if somebody from Nevada comes and spends
8 four years in Lancaster, spends a hundred to a
9 hundred and fifty thousand dollars in tuition,
10 pays my professors 75, 80, a hundred thousand
11 dollars a year, invests in my economy, has
12 their parents visits four times, comes back to
13 visit ten years later. I don't really mind
14 that as a business.

15 I think it's a pretty good business,
16 and I would hope we would continue to
17 investment in that and become a leader.

18 Because unlike some states that have
19 to go out and build an entire college, we may
20 just need to build a new science building.

21 So I guess I'd ask you to elaborate
22 on how we're investing in Pennsylvania's
23 higher education systems, public and private,
24 and how that affects the new economy.

25 SECRETARY MASCH: Well, there are

1 several components to this. First of all, as
2 I've noted, every year we assist the State
3 System of Higher Ed; the state-relateds, Penn
4 State, Pittsburgh, Temple, and Lincoln, and
5 our community colleges with about a 175
6 million in capital projects.

7 And we have done some additional
8 funding in some -- for selected projects in --
9 in -- in different years for -- for each of
10 the state-relateds since I've been here over
11 and above that core commitment.

12 But that's the only regular,
13 systematic state investment in higher ed,
14 bricks and mortar.

15 All the rest is funded through the
16 other programs we've been describing, the
17 economic stimulus program, redevelopment
18 assistance. That's where we get the state
19 dollars, in some cases to match with, you
20 know, other private dollars that are raised by
21 these institutions, and a number of projects
22 that redevelopment assistance have done in
23 particular have been higher ed projects.

24 Now, I would note that the other
25 thing that we are hoping to see final passage

1 on in this Generally Assembly is the
2 Governor's Jonas Salk Legacy Fund proposal,
3 which would take half of the money we
4 currently spend on research grants to
5 universities and -- and convert that to debt
6 service so that we could do a half billion
7 dollars of investment in biomedical facility
8 bricks and mortar.

9 And the reason we're proposing that,
10 that is the amount of money from -- from the
11 tobacco settlement that we put into research
12 grants, although it's not, you know,
13 insubstantial, it pales in comparison to what
14 our academic medical centers can -- do realize
15 now and can realize -- and that's the key
16 thing -- from the National Science Foundation,
17 National Institutes of Health, DARPA, from
18 private sector clinical trials, and all the
19 rest.

20 As some people on this panel know, I
21 used to be a university vice president before
22 I took this job, and I must say they're two
23 very different kinds of jobs and that
24 presented a different set of challenges.

25 But let me tell you what one of those

1 challenges was. The institution I worked for
2 was considered to be one of the most
3 outstanding biomedical research complexes in
4 the United States of America, and we had
5 principal investigators, we had world class
6 researchers who wanted to come and join our
7 faculty.

8 And there's only one reason why we
9 didn't add them to the faculty. We had no
10 place to put them. Just had no place to put
11 them.

12 If those people come in here, if you
13 get a world class researcher, they come. They
14 bring their colleagues, their research
15 institutes with their funding, their
16 post-docs, their graduate students, and they
17 attract more research dollars to Pennsylvania
18 and that leads through tech transfer and
19 commercialization to spin-off private
20 businesses which are more likely to be
21 developed here.

22 So that's why we proposed doing more
23 in those areas.

24 But we do not have -- other than for
25 our own state supported institutions, for the

1 private universities, and that is more than
2 half of higher ed in Pennsylvania, we do not
3 have any dedicated source of funds.

4 It is the programs that I've been
5 describing that are the way that we can fund
6 those projects. So that's economic stimulus.
7 That's redevelopment assistance. That's
8 Growing Greener. You know, a lot of that
9 money goes to other kinds of projects but it
10 does to go to higher ed as well.

11 And, you know, that, for instance,
12 for the Keystone Innovation Zone, we've been
13 able to leverage those funds with tax credits
14 and so, you know, Franklin and Marshall is a
15 great example of the Keystone Innovation Zone
16 where we do the downtown development, we do
17 the university development, but we do
18 community redevelopment in the areas
19 surrounding the university.

20 And we have over 25 colleges and
21 universities where we're doing Keystone
22 Innovation Zones in the Commonwealth today.

23 REPRESENTATIVE STURLA: Thank you.

24 CHAIRMAN LEVDANSKY: Thank you,
25 Representative Sturla. Representative Dave

1 Reed.

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

4 And thank you, Secretary Masch, for
5 appearing before the committee today.

6 I have really what would amount to a
7 follow-up question. On February 11th before
8 the Appropriations Committee, when you had
9 testified, along with the Secretary of Revenue
10 and the Secretary of DCED, about the need to
11 increase the RCAP limit --

12 SECRETARY MASCH: Uh-huh.

13 REPRESENTATIVE REED: -- you had
14 alluded to, along with your colleagues, a
15 number of, quote, shovel ready projects that
16 were ready to go.

17 And at that time we had requested
18 from you a list of those shovel ready
19 projects, as well as copies of the letters
20 sent by your office to different organizations
21 or groups, in essence, committing future
22 revenues from the RCAP as was done apparently
23 down in Delaware County or Chester County,
24 whatever county it is, the soccer stadium, and
25 you had agreed to provide that information to

1 the committee. And it is now two-and-a-half
2 weeks later and maybe the chairman of the
3 committee received that information but the
4 members have not.

5 And my question to you is do you have
6 that information compiled yet and when should
7 we expect that information?

8 Because I would think it's probably
9 not only appropriate to the Appropriations
10 Committee but to all members of the General
11 Assembly who represent the taxpayers.

12 SECRETARY MASCH: Representative
13 Reed, it just so happens I finished off on
14 that letter yesterday afternoon. It should be
15 in the hands of the House Appropriations
16 Chairs this morning.

17 If I'm remembering right, it's 47 --
18 47 million for seven projects. All seven
19 letters are attachments to the correspondence
20 to Representative Evans and Representative
21 Civera.

22 So those are -- those are projects
23 where the Governor -- and you'll see in the
24 letters -- was very careful to say, I favor
25 funding this project if the General Assembly

1 approves additional redevelopment assistance
2 commitments and the project meets all of the
3 project criteria.

4 There is an application process, and
5 we do a lot of due diligence.

6 But those are not the only
7 redevelopment assistance projects that we are
8 aware of, those -- that seven. There are
9 others which we would have to decide whether
10 to fund.

11 But there are literally projects
12 across the Commonwealth. A planned technical
13 park in Hermitage in Mercer County, for
14 instance. A planned industrial park in
15 Indiana County and a related multi-tenant
16 facility. A -- a Bucknell -- this is one of
17 these university towns -- a Bucknell
18 University and a development corporation,
19 neighborhood development project in Lewisburg
20 in Union County, and there are others.

21 Now, we -- we have to vet all those
22 projects and do the due diligence. But I just
23 want to give you some examples of things we
24 already know about that could be funded and we
25 believe are -- have matching funds in hand and

1 are shovel ready.

2 REPRESENTATIVE REED: Well, I
3 certainly appreciate that list coming over to
4 the committee chairs this morning.

5 Secretary Yablonsky talked about, I
6 think, 40-some-odd shovel ready projects. You
7 also -- and we talked about providing that
8 list. Just so we have an idea of what are the
9 shovel ready projects.

10 I know I mean that there are probably
11 hundreds upon hundreds of RCAP projects out
12 there, but the administration had
13 determined -- I think he said something like
14 40 or 50 shovel ready projects. Should we
15 expect that list as well?

16 Just so we have an idea where those
17 shovel ready projects are, because those are
18 the ones that may very well get priority and
19 are ready to go.

20 SECRETARY MASCH: Right. Well, if
21 Secretary Yablonsky made a commitment to you,
22 I'm sure he will fulfill it. But I'll be
23 happy to make sure that information is
24 provided to Appropriations and to Finance.

25 REPRESENTATIVE REED: Okay.

1 Wonderful. Thank you very much,
2 Mr. Secretary, and Mr. Chairman.

3 CHAIRMAN LEVDANSKY: Thank you.

4 Represent -- Representative Sturla.
5 And if no other members, the vice-chairman,
6 Representative Metcalfe after Sturla.

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

9 I just want to say I have projects in
10 my district right now that are shovel ready,
11 we have not gotten a letter yet from the
12 Governor saying that he's committed to it.

13 I could probably add another seven
14 projects to that list if you wanted to get me
15 that letter. If that helps with
16 Representative Reed's request, I'd be glad to
17 submit that as long as we got the letter.

18 CHAIRMAN LEVDANSKY: Thank you,
19 Representative Sturla.

20 We've been also joined by
21 Representative Mario Scavello.

22 No other -- any other members have
23 questions?

24 Representative Peifer.

25 REPRESENTATIVE PEIFER: I just want

1 to jump in here at the end.

2 I -- I think it's a great
3 conversation. Because I think this is what we
4 debate all the time in our caucus and -- and
5 what we can afford to borrow.

6 We talked about what people expect us
7 to do, and I don't think we are venture
8 capitalists. I mean that's the risk I run
9 when I look at government. Okay?

10 We live in a capitalistic society.
11 We have banks that lend money. We have
12 investment bankers. We have venture
13 capitalists.

14 And I think when we talked about
15 roads and bridges, I mean there's no debate
16 there. We want safety. Public safety is so
17 important to us. And we know we've got a
18 number of situations throughout this
19 Commonwealth.

20 But when we start, you know, growing
21 that debt for other reasons besides
22 infrastructure and bridges and roads, that's
23 when, I think, the question mark goes up and
24 says, is it really a necessity? And that's --
25 you know, we're not socialism. We're not

1 getting -- you know, we just don't hand out
2 money. We're not a bank.

3 And I'd just like your opinion on
4 that.

5 SECRETARY MASCH: Well,
6 Representative, I quite agree with you.

7 But here's our dilemma in
8 Pennsylvania. Every one of the 49 other
9 states that is competing with us for the
10 retention and attraction of investment capital
11 has economic development programs which,
12 through loans and grants and credits,
13 subsidize development.

14 So our view in the Rendell
15 administration is that the Commonwealth of
16 Pennsylvania is not prepared to declare
17 unilateral disarmament in the competition for
18 jobs and investment with other states.

19 And I -- you know, I have seen it
20 suggested that, well, maybe we ought to just
21 run an experiment and we'll just -- we won't
22 do any of those programs and we'll eliminate
23 them from the budget.

24 The budgetary impact actually, as
25 I've tried to show you today, would not be

1 that great as you've seen. The overwhelming
2 majority of your capital dollars would still
3 be spent because that's not what they're for.

4 But at the margin, our view is that
5 we're already more than a little bit pregnant
6 when it comes to the mixture of pure private
7 market capitalism and the government supported
8 incentives for development, expansion,
9 relocation and all the rest.

10 So the question is not are states in
11 the United States going to engage in that
12 activity. The question is are we going to be
13 competitive among the states?

14 REPRESENTATIVE PEIFER: Well, maybe
15 we could look at the corporate tax structure.
16 If we took that \$850 million and said, you
17 know, let capitalism be capitalism and let --
18 let outside investment into our state, and if
19 we didn't have such a large corporate tax rate
20 of 9.99 percent, maybe we could generate some
21 of that incentive.

22 SECRETARY MASCH: But,
23 Representative, 75 percent of our businesses
24 pay zero tax and another 15 percent pay
25 \$10,000 or less.

1 We agree the rate is too high, but
2 the reason the rate is too high is because the
3 base is too narrow.

4 We favor a lower rate and a fairer
5 tax system in which every business is taxed in
6 the same way and we eliminate the loopholes.

7 But our problem is not that
8 corporations in Pennsylvania are paying too
9 high a tax. And 55 percent of our business
10 taxpayers don't pay the corporate net income
11 tax at all. They pay the personal income tax
12 rate.

13 And the business tax rate we levy on
14 them is the lowest of 50 states. So, you
15 know, as far as I can see, we're pretty
16 competitive in that way.

17 And in the past five years, with your
18 help here in the General Assembly, we have cut
19 annual business taxes by a billion and a half,
20 but in a targeted way; research and
21 development tax credits, the farm conservation
22 tax credit, the educational improvement tax
23 credit.

24 So this administration is very
25 supportive of targeted, strategic changes in

1 business taxes. We've worked with you to do
2 that.

3 And, frankly, we think this General
4 Assembly and this administration have a pretty
5 good track record when you stack us up again
6 other states.

7 REPRESENTATIVE PEIFER: Thank you.

8 CHAIRMAN LEVDANSKY: Thank you,
9 Representative Peifer.

10 Representative Vulakovich.

11 REPRESENTATIVE VULAKOVICH: So I want
12 to get this straight. Our CNI tax is too
13 high, but there's so many loopholes. Okay?

14 So why isn't that favorable for
15 businesses to come here?

16 SECRETARY MASCH: Well, what we're
17 looking for is, first -- two things. Fairness
18 among businesses that earn the same economic
19 profits.

20 A fair business tax system ought to
21 require every business with the same level of
22 true profitability to pay about the same tax.

23 Two, the problem is because our
24 stated rate is so high, a lot of businesses,
25 when they're considering corporate relocation,

1 they don't bother to dig underneath the covers
2 and find out that the actual effective tax
3 rate is going to be much lower.

4 They hear 9.99 and then they stop
5 thinking of Pennsylvania. So that's why we
6 think that a high stated rate when the true
7 effective rate can be low -- but it really
8 depends on your corporate structure.

9 It's not a fair system and it's not
10 competitive either.

11 REPRESENTATIVE VULAKOVICH: So what
12 you're saying, these people aren't smart
13 enough to know that the CNI is so high and yet
14 there's big loopholes in there? I don't get
15 that.

16 SECRETARY MASCH: Well, that is what
17 corporate relocation specialists tell us,
18 and -- and --

19 REPRESENTATIVE VULAKOVICH: That's
20 not what they're telling us, though.

21 SECRETARY MASCH: Yes.

22 REPRESENTATIVE VULAKOVICH: And --
23 and what would be cheaper, to borrow \$850
24 million or to lower the PIT, lower the CNI,
25 keep on eliminating the CSFT tax, take --

1 uncap the NOL's for businesses that do
2 research? Because that's where it's really
3 important to them. They come in and it takes
4 them a good five years to get started.

5 And going to single sales factor
6 where you borrow no money but you make a good
7 business climate and you're not borrowing
8 money and paying it back at a real basic
9 interest rate of 8 mill per hundred dollars
10 for a hundred million?

11 And that's just the first year. It's
12 not even compounded.

13 So I don't get it. I -- I -- it's
14 different philosophies, but I'm trying to
15 understand all this.

16 And I just think I would rather
17 not -- rather than pick winners and losers,
18 and give a little bit of money to a few that I
19 think are winners, I'd rather give to
20 everybody and let them try to win on their
21 own.

22 In other words, don't take the money
23 from them in the first place. Let them grow.
24 That's the way our -- our country started, and
25 that's the -- that's the way I look at with

1 borrowing \$850 million on a project when we
2 could bring these research companies in and
3 say, you know what? There's no cap on your
4 NOL's.

5 SECRETARY MASCH: Borrowing 850
6 million would mean debt service of a little
7 over 7 million a year. The changes you're
8 suggesting to the NOL and the single sales
9 factor, once they're fully implemented, would
10 cost over 400 million a year. A reduction in
11 the personal income tax of just a tenth of a
12 percent would cost \$360 million a year.

13 So on the -- on the first question
14 you asked, which is which would be more
15 expensive, the proposals that you put forward
16 would be vastly more expensive, and the
17 question would be what would you cut in the
18 budget in order to -- because the -- in the
19 aggregate, the proposals that you made would
20 cost over \$800 million.

21 REPRESENTATIVE VULAKOVICH: All
22 right.

23 SECRETARY MASCH: Out of the \$28
24 billion budget. So deciding in a consensus of
25 all four caucuses in the House and Senate, how

1 to eliminate that 800 million from the general
2 fund would be the challenge you'd face in
3 order to implement those changes on a
4 permanent basis.

5 REPRESENTATIVE VULAKOVICH: Well, I
6 don't disagree with you on that. But, you
7 know, the idea is that we're borrowing money
8 to pay people to come here, and unfortunately
9 I don't think we're borrowing enough -- or I
10 don't want to say it that way.

11 We're not borrowing money to help
12 people who are here to stay and grow. We're
13 borrowing money to bring people to come in
14 here.

15 And I guess it's just a matter of
16 philosophy because, you know, once that money
17 is gone, you're going to give a little bit of
18 money to a few companies, but you could give a
19 lot of savings to a whole lot of companies,
20 and even the companies that have been here
21 doing business, that have been loyal, and you
22 create a good business climate and people
23 would like that, for their businesses to grow,
24 and your kids would grow and stay here, you
25 know.

1 And I guess it's a just matter of
2 philosophy as to whether we create a better
3 business climate and, in the end, if we create
4 a better business climate, we'll increase our
5 revenues.

6 SECRETARY MASCH: Yeah. Well,
7 Representative, that's why --

8 REPRESENTATIVE VULAKOVICH: It will
9 take time.

10 SECRETARY MASCH: That's why we've
11 supported a billion and a half in business tax
12 cuts in the past five years.

13 You and we together have cut
14 businesses' taxes by a billion and a half in a
15 selected, targeted, deliberative way.

16 And I don't think we made a mistake
17 in doing that. But let's be clear. Under our
18 current corporate income tax, with the
19 exclusions, the way our tax is written. We're
20 already picking the winners and losers.

21 Two businesses with the same true
22 economic profits, one can have a much higher
23 tax burden than another. We don't think
24 that's a good tax policy and we do urge that
25 the House and Senate consider changes in it to

1 level the playing field among businesses.

2 When it comes to economic development
3 or tax policy, we do not favor only relocation
4 projects. I do want to state for the record,
5 many of the investments we have made and we
6 would make, with the resources you would
7 provide to us, would go exactly to businesses
8 that are here that need assistance, especially
9 in making the advancements in technology to
10 make them competitive with competitors in
11 other states and other markets. So it's not
12 all to bring new businesses in.

13 But let's recognize we have cut taxes
14 for existing businesses in Pennsylvania by a
15 billion and a half a year, and that's just
16 since Governor Rendell took office.

17 CHAIRMAN LEVDANSKY: Before I --
18 before I recognize the next member for a
19 question, Secretary Masch, just I -- I just
20 want, for your information, and for the
21 public, this whole issue of promoting tax
22 fairness and not picking winners and losers
23 and making sure that everybody pays their fair
24 share so that we can bring the rates down,
25 that whole issue is essentially embodied in

1 the context of House Bill 1186, combined
2 reporting, where you close the loopholes, you
3 raise the revenue, you use that revenue to
4 lower all the taxes, the CNI, uncap NOL's,
5 single tax factor, all those good things we
6 want to do can be done, okay, through House
7 Bill 1186, which this committee reported from
8 committee last spring.

9 So if there's an interest in
10 promoting tax fairness and using that as a
11 means to lower all business taxes, we teed
12 that up and hit it down -- hit it down the
13 fairway. We need to get the long irons out
14 and put it on the green and get it done.

15 SECRETARY MASCH: All right.

16 CHAIRMAN LEVDANSKY: With that,
17 Representative David Kessler.

18 REPRESENTATIVE KESSLER: Thank you.

19 We've been talking about this \$850
20 million where it's been suggested that we
21 drive it back to businesses and individuals.

22 If we were to take that \$850 million
23 and drive that back just to households -- for
24 instance, we've talked about property taxes,
25 according to my calculations that would be

1 about \$300 per household.

2 If we were to drive it back to
3 individuals and businesses, oh, my gosh, that
4 \$300 would even be less.

5 So that \$850 million, if we invest
6 that into bringing businesses into
7 Pennsylvania, isn't in the long term that
8 going to bring in a lot more revenue than
9 driving that money back?

10 SECRETARY MASCH: Well, that -- I
11 don't think it will surprise you if I say
12 yes. That is the view of our administration.
13 We agree with that proposition.

14 But if we invest -- and we've been
15 talking mostly here, I think, about the energy
16 independence investments, that 850 million,
17 there are other benefits for all of us.

18 Because, yes, I mean there would be
19 direct benefits in terms of direct investment,
20 jobs, and expansion of the economic base.

21 But to the extent that we reduce for
22 all businesses and households in Pennsylvania
23 our reliance on imported petroleum products,
24 do more conservation and more renewables,
25 that's in everybody's interest. That will

1 reduce everybody's costs and make our
2 Pennsylvania businesses more competitive. And
3 if this industry is located here, then we're
4 better able to take advantage of that.

5 Now, you in the General Assembly
6 approved back in 2004 the energy portfolio
7 standards that require all of our energy
8 producers to purchase a growing percentage of
9 the energy they generate from renewable
10 sources.

11 If they, instead of making those
12 purchases in the Persian Gulf, were making
13 them from renewable energies here in
14 Pennsylvania, because we're growing that
15 sector, even as we mandate that more of our
16 energy be purchased from those sources, then
17 we keep all of that benefit here in the
18 Commonwealth. That's why we support it.

19 REPRESENTATIVE KESSLER: And I think
20 that's a good investment. Thank you.

21 CHAIRMAN LEVDANSKY: Okay. With
22 that, the vice chairman of the Finance
23 Committee, Representative Daryl Metcalfe.

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

1 I have a few questions after hearing
2 all the other questions and some of your
3 answers.

4 Talking about those -- those
5 corporations that are avoiding paying the CNI,
6 and you mentioned 75 percent, is that
7 correct? You said 75 percent?

8 SECRETARY MASCH: 75. Our most
9 recent number -- I'll get it for you while
10 we're talking about it, but I believe the last
11 time the Department of -- let me give you the
12 most recent numbers I have. It's 71 -- as of
13 2005 -- I think we have more updated numbers,
14 but I have here the 2005 numbers. And in 2005
15 71 percent of corporate filers paid no tax, 23
16 percent paid somewhere between a dollar and
17 \$10,000 per filer, and six percent of filers
18 paid more than \$10,000.

19 Now, I want to be clear. We would
20 certainly anticipate that, you know,
21 businesses with no true economic profits would
22 not pay, and certainly filers of the corporate
23 net tax which is, you know, where they don't
24 have the same exclusions that we have with the
25 separate -- mandated separate reporting for

1 entities, you know, what would we expect
2 instead of 71 percent? We'd expect to see
3 like 40, 45 percent paying no tax. That's
4 what would suggest to us the 71 is very high.

5 It's not the fact that there are
6 businesses -- I want to be clear. Every one
7 of these businesses is lawfully paying no
8 tax. They're not avoiding or evading taxes.
9 They are complying with the tax laws of the
10 Commonwealth as they are currently written.

11 The question is whether this is the
12 best tax structure for us to have in the
13 Commonwealth.

14 REPRESENTATIVE METCALFE: I
15 appreciate the answer. But I'll try and frame
16 my question so we get shorter answers, because
17 I know the hour has been pressing here for the
18 members who have been waiting to hear the
19 wrap-up questions.

20 But there's a large percentage -- you
21 would admit there's a large percentage of that
22 70 wide -- 71 percent that made no profits?

23 SECRETARY MASCH: That's right.
24 Absolutely.

25 REPRESENTATIVE METCALFE: So you

1 wouldn't expect them to pay?

2 SECRETARY MASCH: Correct.

3 REPRESENTATIVE METCALFE: Then you
4 said there were some other variables that may
5 also play into that.

6 So when we talk about 75 percent or
7 71 percent not paying the CNI, many of them,
8 nobody would expect them to pay because
9 they're not making any money.

10 SECRETARY MASCH: Correct.

11 REPRESENTATIVE METCALFE: Okay. I
12 wanted to bring that back.

13 The -- when you talked about the
14 Pennsylvania personal income tax, which I'm
15 still hearing from constituents regarding that
16 that Rendell pushed when he came into office
17 and the PIT went from the 2.8 to the 3.07.

18 So when you talk about that and
19 you're mentioning we still have like the ten
20 -- we're number 10 as far as our rate compared
21 to other personal income tax rates around the
22 country?

23 SECRETARY MASCH: We have the 39th
24 lowest out of the 40 states that levy a
25 personal income tax.

1 REPRESENTATIVE METCALFE: Okay. So
2 when -- but if you look at the per capita
3 burden, do you know where we are with the per
4 capita tax burden that's created by the PIT?

5 SECRETARY MASCH: No, I don't have
6 those numbers in front of me.

7 REPRESENTATIVE METCALFE: Well, we
8 are in the middle. It's not near as favorable
9 as you would -- as you would rate it with that
10 ranking and ultimately the bottom line is
11 what's the impact on the individuals who are
12 paying it?

13 I mean, you know, you might sit in
14 ivory towers, some -- some folks down here,
15 and look at what people are paying out there
16 and say it's not -- it, you know, looked --
17 it's justifiable because of other tax rates
18 around the country.

19 But there's a lot of constituents
20 that are still feeling the impact of that tax
21 increase by Governor Rendell when he came in,
22 which kind of plays into what you had argued
23 that there's been -- I think you said one and
24 a half billion dollars' worth of tax cuts for
25 businesses in Pennsylvania since Governor

1 Rendell's administration came in?

2 SECRETARY MASCH: That's correct.

3 REPRESENTATIVE METCALFE: And you
4 also said earlier that there's many, many
5 businesses, many small businesses that are
6 really the economic generator for us across
7 the state that are actually paying their
8 business taxes through the PIT.

9 SECRETARY MASCH: Uh-huh.

10 REPRESENTATIVE METCALFE: So those
11 individuals realize no business tax cuts
12 because they're paying their business taxes
13 through the PIT.

14 They actually realize a tax
15 increase. And I think -- I believe it -- I
16 think it was to the tune of about a billion
17 dollar tax increase with the PIT increase.

18 SECRETARY MASCH: No. It wasn't. It
19 was only about two-thirds of that billion
20 dollars was --

21 REPRESENTATIVE METCALFE: Yeah, there
22 were fees and --

23 SECRETARY MASCH: -- from the PIT.

24 REPRESENTATIVE METCALFE: Because
25 there were additional fees and things.

1 SECRETARY MASCH: Right.

2 REPRESENTATIVE METCALFE: That would
3 have taken it over a billion.

4 SECRETARY MASCH: Right.

5 REPRESENTATIVE METCALFE: 1.1 billion
6 or something.

7 SECRETARY MASCH: Right. But I do
8 have to note it was a tax increase approved by
9 this General Assembly with members of both
10 parties voting for it.

11 REPRESENTATIVE METCALFE: Oh, I know.

12 SECRETARY MASCH: Yes, the Governor
13 did support it.

14 REPRESENTATIVE METCALFE: I know
15 that.

16 SECRETARY MASCH: But it was not the
17 Governor's tax increase.

18 REPRESENTATIVE METCALFE: But they --
19 but they wouldn't have become law without the
20 Governor's signature or without his backing on
21 this --

22 SECRETARY MASCH: Absolutely.

23 REPRESENTATIVE METCALFE: -- with the
24 General Assembly.

25 SECRETARY MASCH: And rather than cut

1 a billion dollars out of the budget, we
2 thought that was the desirable alternative.

3 REPRESENTATIVE METCALFE: As again --
4 and, again, I think it was the desire of
5 people in ivory towers in Harrisburg, not the
6 people, hard-working men and women across the
7 state, who are still reeling from that.

8 Now, on to the next question.

9 SECRETARY MASCH: I must tell you, I
10 never heard of it -- I never heard of us being
11 referred to as a ivory tower here in
12 Harrisburg.

13 Having come from the ivory tower at
14 Harrisburg, I can tell you it feels pretty
15 different to me.

16 REPRESENTATIVE METCALFE: Well, I
17 think there's still people that perceive it
18 that way out there in the -- across the land
19 here in Pennsylvania.

20 You were talking about excessive
21 related to -- you know, that our tax burden,
22 our debt was not excessive related to other --
23 other measures.

24 But when you start adding in the debt
25 that we -- that we are facing as a state

1 and -- and some of those that Representative
2 Ellis had named off to you that said they're
3 not directly going to be -- that we as
4 taxpayers wouldn't be liable for those.

5 But we -- we still feel the impact
6 across the state, across the 501 school
7 districts that are carrying debt, across the
8 3,000 or so authorities that are carrying
9 debt, across the 2,600 municipalities that are
10 carrying debt.

11 So when you look at the overall tax
12 burden, that's why there's so many of us that
13 are saying the debt increase, you know, to add
14 more, to increase the per capita debt,
15 increase the per capita debt burden to the
16 individuals across the state, is not wise and
17 not fiscally reasonable.

18 Even though I know Representative
19 Sturla would like to see more debt. But,
20 again, I would disagree with him on picking
21 people up and shaking pennies out of their
22 pocket, like he's mentioned in the past.

23 I think we should keep people upright
24 and allow them to keep their pennies in their
25 pockets and actually add their dollars back in

1 there.

2 But the --

3 SECRETARY MASCH: Representative, I
4 just would note for quite a number of these
5 entities, like the Housing Finance Authority,
6 the Higher Educational Facilities Authority,
7 the Economic Development Financing Authority,
8 it is not public entities but rather private
9 entities that actually are the guarantors of
10 this debt.

11 And what we are able to do through
12 the tax exempt market is enable the private
13 sector to realize a lower rate of interest.

14 So I certainly agree with you. Every
15 municipality may potentially take on debt,
16 every school district, every authority, and
17 every one of those entities should be doing
18 the same analysis we are, as to whether their
19 spending is for appropriate purposes and
20 whether their level of indebtedness is -- is
21 reasonable relative to their resources.

22 REPRESENTATIVE METCALFE: It was --
23 it was touched on earlier on the venture
24 capital component of the debts being proposed
25 to allow a certain amount of the debt that we

1 would incur to be given out to venture
2 capitalists who would be picked by the state
3 or by the administration as to being worthy of
4 having that type of taxpayer money given to
5 them.

6 And I think it was -- it was pretty
7 well advocated against earlier that there's
8 many of us that don't think government should
9 be in the role of lending money to venture
10 capitalists, period.

11 We're not a bank. We're a
12 government, and we have nothing that we don't
13 take. We're -- we're overhead. We're not job
14 creators. There are job creators out there
15 trying to make jobs and all we do is create a
16 bigger burden for them.

17 One of the solutions that
18 Representative Levdansky, the Chairman, had
19 mentioned was the legislation that was passed,
20 I believe you said, last spring during this
21 session.

22 And just to note that, as I
23 understand it, that legislation that was
24 passed at that time was a straight party line
25 vote. Republicans opposing; Democrats in

1 favor.

2 I think there's a clear philosophical
3 difference here in what the administration is
4 doing and what the members of the committee
5 who are on the -- in the same party as the
6 Governor, there's a clear, very clear
7 difference in what they support and what the
8 Republican caucus supports.

9 And -- and I ultimately believe and
10 what the people actually support is not
11 increasing the level of debt but actually
12 paying it down.

13 I know when you were asked the
14 question about paying down the debt you talked
15 about refinancing but not paying down, and I
16 understand, you know, refinancing may look
17 like you're paying down, but I think the
18 Representative that asked the question was
19 actually looking for an answer to -- that we
20 talked about taking a sum of money, \$100
21 million, 200 million, 300 million, and
22 actually paying down the principal so we don't
23 have as much interest to pay.

24 Has the administration looked at
25 actually doing that with any of the additional

1 revenue that's come in?

2 SECRETARY MASCH: Well, again,
3 basically what we would be doing is we would
4 be providing bondholders with money earlier
5 than they had expected to receive it at
6 benefit to them and at disadvantage to the
7 taxpayers, and we would be truncating our
8 payments so that the burden on taxpayers in
9 terms of when they paid did not match the
10 useful life of the assets that we created.

11 In addition to that, that money has
12 to come from somewhere.

13 So if -- if -- if I understand you
14 correctly that you would advocate reducing
15 spending in the aggregate and then directing
16 more of the remaining spending to paying down
17 debt, we would have to make deeper cuts in the
18 state budget.

19 And I mean, obviously, that's what we
20 do during the budget process, is we decide
21 what we should spend money on and how much.
22 And that's the consensus we have to get to.

23 The judgment of the administration is
24 that we cannot responsibly make dramatic
25 reductions in the state general fund budget

1 without that being to the disadvantage of the
2 people of the Pennsylvania.

3 Where we can spend less, we do. But
4 where it will harm the taxpayers, because the
5 taxpayers are parents who send their kids to
6 public schools, the taxpayers are the people
7 who have the elderly who need nursing home
8 care, who are born with or their nephew or --
9 or their cousin is born with autism or mental
10 retardation.

11 I mean those are the -- and also I
12 think the taxpayers expect us to maintain a
13 criminal justice system and to -- and to play
14 our role in it in the Commonwealth and to
15 incarcerate those who sentences warrant that.
16 We have to do all of those things.

17 REPRESENTATIVE METCALFE: We would
18 agree -- we would agree on some of the
19 expenditures you mentioned. Certainly not all
20 of them because I think the best way to help
21 the taxpayers is run the government more
22 efficiently and let them keep more of the
23 money that they earn and not take it out of
24 their pockets to do -- to pay for programs for
25 their neighbors that they might not have a

1 need for now or ever.

2 Which, just to kind of wrap it up,
3 you mentioned renewable energy, and I -- I
4 can't let that get away, with your advocacy
5 for renewable energy, at the same time as
6 bringing up the fact that when we talk about
7 energy independence it should be about energy,
8 period.

9 We have coal in the ground here in
10 Pennsylvania that produces more than 50
11 percent of our electricity right now. We have
12 about 300 years' worth of coal still in the
13 ground. We have nuclear power that is -- is
14 starting to move forward around the world at a
15 lot faster pace than it is here in the United
16 States, and especially here in Pennsylvania.

17 I mean those are sources of energy
18 that are -- have become very efficient and
19 are -- and are becoming cleaner all the time,
20 regarding the coal endeavors, and I think the
21 administration would -- would go a long way to
22 furthering that objective of helping with
23 energy independence by looking at all energy.
24 We're certainly all for renewable energy, but
25 we have a lot of energy resources at our

1 disposal that we need to tap to make sure we
2 are energy independent.

3 SECRETARY MASCH: Right.

4 Representative, we agree with you and we
5 believe that, you know, environmentally sound
6 approaches which use our coal resources in
7 Pennsylvania need to be a part of our energy
8 strategy.

9 The Governor supports that. It is
10 part of our proposal. Coal gasification and
11 other technologies are making tremendous
12 advancements, and we do not believe there is a
13 contradiction between coal being part of our
14 energy future and -- and -- and maintaining
15 the quality of the environment at the same
16 time.

17 And we look forward to working with
18 the legislature to advance that agenda.

19 REPRESENTATIVE METCALFE: Just a
20 final comment, Mr. Chairman.

21 Just the argument that was proffered
22 earlier by you that other states are doing it
23 so we should do it, too, regarding venture
24 capital or some of the economic development
25 that might be perceived as the

1 administration's economic development but not
2 by some of us, because we really believe
3 economic development is in the hands of
4 entrepreneurs across the state.

5 I don't think -- you know, that's --
6 that's kind of a -- you know, an argument that
7 I had to teach my daughter about, you know,
8 just because the other kids are doing it
9 doesn't mean you do it, too. Might not make
10 sense. Actually there might be a better way.
11 You know, just because the herd's moving that
12 direction, you know, we're -- we're people
13 with the -- with the ability to actually make
14 choices and make better choices based on what
15 we see others doing. And I think, you know,
16 we don't do it just because they do it.

17 We -- to be competitive, we know --
18 we know what ultimately creates more jobs and
19 it's to let the entrepreneurs do it.

20 And we need to allow them to do it
21 and not put money in the hands of politicians
22 who can -- who thinks they have a better way
23 to hold out the carrot and stick out there to
24 do it.

25 SECRETARY MASCH: Well, I quite agree

1 with you. The source of jobs, energy and --
2 and -- and creativity and innovation in the
3 economy is the private sector. That's where
4 jobs are created.

5 The question is how much of the
6 private sector is going to invest here in
7 Pennsylvania.

8 And I would note, for instance, I'm
9 on the Tobacco Settlement Investment Board
10 where we're taking state-controlled dollars
11 and making health venture investments because
12 the General Assembly decided that we should do
13 that, again, on a bipartisan basis and all
14 representatives from all caucuses sit on that
15 board and we do work with investment firms to
16 invest in new businesses.

17 And I noticed, since I sit at those
18 meetings and hear the proposals, that we have
19 those private-sector entrepreneurs coming to
20 us and looking for those dollars. And if we
21 don't have them, they're going to go to other
22 states.

23 And if -- if we could get a way to
24 get every state to agree to stop providing
25 economic development incentives and subsidies,

1 so we could all compete on a level playing
2 field, you know, I think Pennsylvania could be
3 a very strong competitor.

4 But we do not believe it is prudent
5 for this Commonwealth to basically say we're
6 not going to compete and let other states
7 steal a march on us.

8 I mean that's the reality of where we
9 are right now.

10 REPRESENTATIVE METCALFE: Thank you,
11 Mr. Secretary.

12 We did get some information back
13 on -- just to give you some additional
14 information -- from Representative Boyd, when
15 he asked you earlier regarding the RCAP and
16 what was remaining on the RCAP authority, that
17 there was supposedly 1.3 billion that was
18 certified and signed by yourself back on
19 January 9th.

20 So that might help you to track those
21 numbers down that Representative Boyd was
22 questioning you on.

23 SECRETARY MASCH: I don't think
24 that -- that is a number for commitments. I
25 don't think it's the number for un --

1 unexpended commitments.

2 But that's -- as I've promised the
3 committee, we will give you an updated number
4 on un -- committed but unexpended dollars.

5 REPRESENTATIVE METCALFE: Thank you.

6 Thank you, Mr. Chairman.

7 CHAIRMAN LEVDANSKY: Thank you.

8 Secretary Masch, I just have a few
9 areas I want to run through as expeditiously
10 as possible here. The hour is getting late.

11 Earlier there was -- there was a
12 question on we -- we got off the subject a
13 little bit talking about the -- the
14 indebtedness and it was an earlier question
15 about the PIT.

16 And in your response, I think you
17 indicated that there were 40 -- there were 40
18 states that had a PIT and ours is one of the
19 lowest.

20 I have some -- some -- some research
21 and some reports that indicate that 45 states
22 have a PIT and -- and most of them are
23 graduated and -- and my understanding it's
24 just a handful are flat.

25 And if you look at all of the states,

1 you know, my understanding is there's 45 out
2 of 50 have a PIT and of the 45 we rank 44 at
3 3.07 and only Illinois is lower --

4 SECRETARY MASCH: Right.

5 CHAIRMAN LEVDANSKY: -- at 3.0.

6 Your -- your -- your information and facts are
7 just slightly different than mine.

8 If you could have your staff provide
9 me, you know, with the research and the -- the
10 reports that you cite, it would be -- would be
11 helpful.

12 SECRETARY MASCH: Right. There
13 are -- there are states that have taxes on a
14 portion of personal income, like wages only,
15 and not unearned income and I think we're not
16 counting those because it's a narrower base.
17 It's not comparable to the personal income
18 tax.

19 But if I remember right, I think
20 there's only four or five states that do not
21 have graduated taxes.

22 CHAIRMAN LEVDANSKY: Okay. Yeah.
23 Which could be -- which could be the subject
24 for another discussion regarding a
25 constitutional convention and amending the

1 uniformity clause so we can get a little more
2 progressive in how we -- how we level the
3 PIT.

4 But I just appreciate your -- your
5 furnishing me with that.

6 SECRETARY MASCH: Okay.

7 CHAIRMAN LEVDANSKY: Secondly, I just
8 want to run through very quickly, to make sure
9 I understand this. The Moody's Investors
10 Services document that you provided the
11 committee, on -- on Page 5 -- on Page 5,
12 table -- table one looks at net tax-supported
13 debt on a per capita basis.

14 SECRETARY MASCH: Uh-huh.

15 CHAIRMAN LEVDANSKY: Pennsylvania
16 ranks 24th at \$852 per capita. The national
17 median is 787. The mean is -- is 1101.

18 Clearly, Pennsylvania is in the
19 middle of the -- of the pack nationally if you
20 measure debt as -- on a per capita basis.

21 On Table 2, if you measure debt as a
22 percentage of personal income, then the
23 national median is 2.4. Pennsylvania, again,
24 ranks 24th, right at the national median of
25 2.4.

1 Table -- Table 4, you look at gross,
2 tax-supported debt, actual total dollars, with
3 Pennsylvania with 14 billion. The national --
4 the gross-to-net ratio, the national average
5 is 1.34. Pennsylvania is at 1.33.

6 So on the -- on the -- on the
7 gross-to-net ratio we are right at the
8 national average.

9 And then finally on Table 5, net
10 tax-supported debt as a percentage of personal
11 income, again, looking at all 50 states from
12 1992 to 2007, Pennsylvania in 2007 is --
13 again, debt as a percentage of personal income
14 is 2.4 percent. The national median is 2.4
15 percent.

16 I only cite these statistics because
17 it's sort -- and this is Moody's. This is
18 about as reputable financial numbers as one
19 can get.

20 It's -- it's -- I mean it's a little
21 bit shocking to those who have been for so
22 long stating that Pennsylvania is a high debt
23 state. And in 19 -- if you look at the
24 tax-supported debt as a percentage of personal
25 income going back to 1992, 15 years ago, it

1 was 2.7 percent. It's now down to 2.4.

2 So it's pretty -- the numbers are
3 shocking when compared to the rhetoric that
4 I've been hearing over the last couple of
5 years.

6 The numbers show that we are in the
7 middle of the pack in terms of our debt, our
8 state debt. No matter how you measure, per
9 capita, percentage of personal income, gross
10 net, however you want to measure it, we are in
11 the middle range of all states nationally.

12 Another point that I -- that I just
13 wanted to make. You know, we got a little bit
14 off the subject here today, and that's okay
15 with me. I enjoy the -- the dialogue, and
16 it's very informative, I think, for the
17 members to have the benefit of -- of your
18 wisdom, Mr. Secretary.

19 But we got a little bit off talking
20 about tax policy. I think sometimes --
21 sometimes public officials forget that -- I
22 mean the whole goal is to have a sound
23 economic policy.

24 Tax policy is an -- is a factor, an
25 important factor, that overall impacts

1 economic policy, but it's not the only one.

2 It doesn't occur in a vacuum.

3 We need a sound state tax policy to
4 encourage business investment and to raise the
5 necessary revenue to fund the programs that we
6 believe are important for Pennsylvania's
7 families and communities.

8 So the tax policy is important. But
9 so is fiscal policy that encourages investment
10 in the private sector.

11 And, thirdly -- sometimes we forget
12 about this, too -- but federal monetary policy
13 certainly impacts a state's economy. What the
14 level of interest rates are has a tremendous
15 effect on business investment nationally and
16 not just in the state.

17 So I guess what I'm saying, you know,
18 for the benefit of everybody, is economic
19 policy is a combination of tax policy, fiscal
20 policy, investment policy, and monetary
21 policy, and you need the right mix and blend
22 of all those policies to promote sound -- a
23 sound economy in -- in Pennsylvania.

24 Now, this whole testimony today,
25 Mr. Secretary, honestly comes as -- you know,

1 I'm having a hard time sometimes looking at
2 these numbers and this information. And the
3 facts that you have provided us with today
4 bears out a sentiment and a view that I have
5 had about Ed Rendell for a long time. This
6 goes back to way before he became governor.

7 I sensed, going back to 1986 when I
8 first supported him for governor against the
9 real Bob Casey, I sensed back then that he's a
10 fiscally conservative, business friendly
11 person.

12 And if you look at -- and if you look
13 at all of these facts and you look at -- at,
14 Mr. Secretary, at the chart where you show the
15 amount in constant dollars, corrected chart,
16 that this administration, compared to the
17 last, compared to the -- going back to 1967,
18 this administration ranks right in the middle
19 when you talk about debt and in -- and in the
20 state assuming debt under their
21 administration.

22 So I guess all I'm saying is these
23 facts confirm to me what I always suspected
24 was the Rendell administration is a fiscally
25 conservative, business friendly

1 administration, focused on promoting --
2 promoting economically sound decisions in the
3 Commonwealth.

4 And that just stands in stark
5 contrast to the rhetoric and the spin that
6 we've been hearing for so long.

7 So at least from now on, I would hope
8 that, you know, we at least ought to base our
9 comments and our public statements about state
10 debts, about state tax policy, based on
11 facts.

12 And then -- and I think if we did
13 that, our political differences would be a lot
14 narrower in the General Assembly. I think
15 sometimes we get a little bit too carried away
16 with the PR and the spin and we lose -- we
17 lose sight of the facts and the reality.

18 So in that regard, Mr --
19 Mr. Secretary, you know, I want to thank you
20 for being here today to help -- to help put
21 the numbers and the facts before us so that we
22 can -- you know, so we can understand that
23 perhaps our areas of differences ought to be a
24 lot narrower than they sometimes sound to be.

25 And one final thing, just for the --

1 for the information of the members. Next
2 Monday we will be in Horsham in Montgomery
3 County to have a public hearing on -- on the
4 research and development tax credits and on
5 Tuesday we'll be in Philadelphia City Council
6 chambers having a public hearing on the -- on
7 the Youth Internship Tax Credit as well.

8 Mr. Secretary, one final thing. I
9 mean this is the first time in my tenure as
10 chairman of the committee where the budget
11 secretary has been here.

12 You know, when we pass a budget, you
13 know, obviously the Appropriations Committee
14 is very involved in the spending side of
15 things.

16 This committee -- this committee is
17 charged with establishing the level of taxes
18 that we collect to help fund the budget.

19 So -- so this dialogue is a -- is
20 very important and instructive, I think, not
21 just for myself, but I think for all the
22 members of the committee, and perhaps in the
23 future we could -- we could do this perhaps on
24 an annual basis to -- to give our -- to give
25 the members of this committee the opportunity

1 to talk to you about tax policy and -- and
2 about debt and other things.

3 Because we do need to work hand in
4 glove with the Appropriations Committee in
5 terms of the budget process.

6 So that's -- that's no questions for
7 you; but if you want to react, you can. I
8 just want to thank you for your
9 participation.

10 SECRETARY MASCH: Well, I'm very
11 happy to be here. My experience in Harrisburg
12 suggests to me that the consensus that we have
13 between the executive branch and the
14 legislature, between the House and the Senate,
15 between Republicans and Democrats, is we
16 aspire to be a Commonwealth, not just a
17 governor, but a Commonwealth that is fiscally
18 conservative, that is economically
19 competitive, that is pro business, but also
20 pro family at the same time.

21 We have responsibilities as
22 government to help our families flourish and
23 much of the spending that we do in -- in -- in
24 the budget, in education and in human
25 services, is specifically intended to help

1 make our families stronger.

2 But, clearly, we have to have a
3 strong economic sector as well, and I hope
4 that we can continue to try to find the
5 bipartisan compromises that will enable us to
6 be a pro family and a pro business
7 Commonwealth as we have been and as -- and as
8 with our hard work we can continue to be in
9 the future.

10 CHAIRMAN LEVDANSKY: Thank you very
11 much for your presentation and your time
12 today.

13 Thanks to the members for their
14 attendance.

15 (The proceedings were concluded at
16 12:38 p.m.)

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

Brenda S. Hamilton, RPR
Reporter - Notary Public