

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
APPROPRIATIONS COMMITTEE HEARING
BUDGET HEARING

STATE CAPITOL
MAJORITY CAUCUS ROOM
HARRISBURG, PENNSYLVANIA

MONDAY, FEBRUARY 25, 2008, 1:00 P.M.

VOLUME III OF V

PRESENTATION BY TREASURY DEPARTMENT

BEFORE:

HONORABLE DWIGHT EVANS, CHAIRMAN
HONORABLE MARIO J. CIVERA, JR., CHAIRMAN
HONORABLE STEPHEN E. BARRAR
HONORABLE STEVEN W. CAPPELLI
HONORABLE H. SCOTT CONKLIN
HONORABLE CRAIG A. DALLY
HONORABLE GORDON R. DENLINGER
HONORABLE BRIAN ELLIS
HONORABLE DAN B. FRANKEL
HONORABLE JOHN T. GALLOWAY
HONORABLE WILLIAM F. KELLER
HONORABLE THADDEUS KIRKLAND
HONORABLE BRYAN R. LENTZ
HONORABLE TIM MAHONEY
HONORABLE KATHY M. MANDERINO
HONORABLE MICHAEL P. MCGEEHAN
HONORABLE FRED MCILHATTAN
HONORABLE DAVID R. MILLARD
HONORABLE RON MILLER
HONORABLE JOHN MYERS
HONORABLE CHERELLE PARKER
HONORABLE JOSEPH A. PETRARCA

1 BEFORE: (cont'd.)
2 HONORABLE SCOTT A. PETRI
3 HONORABLE SEAN M. RAMALEY
4 HONORABLE DAVE REED
5 HONORABLE DOUGLAS G. REICHLEY
6 HONORABLE DANTE SANTONI, JR.
7 HONORABLE MARIO M. SCAVELLO
8 HONORABLE JOSHUA D. SHAPIRO
9 HONORABLE JOHN SIPTROTH
10 HONORABLE MATTHEW SMITH
11 HONORABLE KATIE TRUE
12 HONORABLE GREGORY S. VITALI
13 HONORABLE DON WALKO
14 HONORABLE JAKE WHEATLEY, JR.

15 ALSO PRESENT:
16 MIRIAM FOX
17 EDWARD NOLAN

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JEAN M. DAVIS, REPORTER
NOTARY PUBLIC

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1 CHAIRMAN EVANS: I would like to bring the
2 House Appropriations Committee to order.

3 We have the State Treasurer before us. As
4 you know, we get right to the discussion and
5 presentation.

6 I was talking to you a little bit off-line
7 about investment, and I know your background is as an
8 investment banker. In the Governor's speech, he
9 talked about economic stimulus, you know,
10 infrastructure, debt, things of that nature, and you
11 are the State Treasurer. You know, are we a
12 high-debt State? A low-debt State? You know, what
13 are we as a State, because that's a constant debate
14 in this General Assembly about debt and the
15 importance of using debt.

16 So can you talk about it from your
17 perspective, obviously as the State Treasurer and
18 obviously as a person who did a little investment
19 banking in your life.

20 MS. WIESSMANN: Certainly.

21 As a member of the Bond Committee, obviously
22 I take an interest in terms of what goes on in terms
23 of the debt of the Commonwealth, but the Treasurer's
24 primary role is to make sure that all of the payments
25 that are made for debt service are done judiciously

1 and correctly in accordance with law.

2 As an investment banker and as someone who
3 has followed the capital markets throughout my entire
4 career, I am very, very thoughtful and careful about
5 the credit markets and what is important in the
6 credit markets, and the good news for Pennsylvania
7 today is that Pennsylvania has been so conservative
8 in terms of its credit and the credit markets that it
9 has not been buffeted by the financial problems that
10 are existing in many sectors of government today.

11 Having said that, there's a reason for that,
12 and that is that Pennsylvania has a very, very low
13 debt ratio. I think it's about 13 1/2 percent of its
14 debt ceiling, and the credit markets and the rating
15 agencies all have a very, very high view of
16 Pennsylvania's credit.

17 So Pennsylvania is uniquely positioned to
18 invest in its infrastructure, invest in its capital,
19 unlike many other places that do have credit issues
20 with too much ballooning debt. A number of States
21 that we know that are close by, New Jersey, for
22 example, is probably one of the most prominent that
23 is really, really under water in terms of its
24 burgeoning debt factors, as well as New York
25 State.

1 But Pennsylvania is uniquely positioned to be
2 able to take advantage of an opportunity with their
3 great credit and the credit markets to actually
4 invest in the future of the Commonwealth.

5 CHAIRMAN EVANS: Some people would argue,
6 when you use the word "conservative," some people
7 argue from the opposite side that it is good that
8 Pennsylvania has been conservative on its use of debt
9 and that this is something that we should not just do
10 it willy-nilly. But yet when you talk about
11 infrastructure such as bridges, roads, and obviously
12 we would never have enough money to pay as we go,
13 help this committee understand a little bit of how
14 you think we can strike the balance, because, you
15 know, somebody is always constantly running around
16 saying, you know, Rendell, and not that you, you are
17 an independent elected official, not speaking for the
18 Governor, but running around saying that we are
19 either spending or borrowing.

20 So I'm trying to understand, how do we make
21 these investments for the future, you know, bridges,
22 roads -- and we do have some problems with our
23 bridges; we have a lot of bridges, and roads and
24 things of that nature -- as we look toward the
25 future? You know, how can you help us understand

1 about striking the balance?

2 MS. WIESSMANN: I think the simplest analogy
3 that I have used with many people who do not know
4 much about the financial markets is the comparison to
5 the home mortgage.

6 Home mortgages right now, as you can see,
7 they are great examples of when there isn't enough
8 money, a down payment or when people take on rates
9 that are too high, and there are appropriate
10 mortgages and there are inappropriate mortgages. But
11 basically you are financing an asset that should give
12 you benefits throughout your lifetime, and it's
13 certainly appropriate for you to undertake or take on
14 debt that is commensurate with the useful life of
15 whatever the asset is.

16 Having said that, I would never say that debt
17 should be taken on willy-nilly. I think you have to
18 make a very careful investment or a careful
19 assessment and then look at the investment and the
20 return you will get.

21 The one caveat that I also would add, though,
22 in terms of debt issuance is that, an investment in
23 the future is that today's dollars, as we know,
24 particularly actually right now, today's dollars are
25 going to be less expensive than tomorrow's dollars,

1 and it's always better to invest today and get the
2 compound benefit of your investment over the course
3 of many years as opposed to waiting until later when
4 you have to make up with a lot more assets.

5 CHAIRMAN EVANS: Okay.

6 Representative Craig Dally.

7 REPRESENTATIVE DALLY: Thank you, Mr.
8 Chairman, and good afternoon, Madam Treasurer.

9 Recently your office announced its
10 participation with 50 other U.S. and European
11 institutional investors in a climate change action
12 plan that will boost investments in clean energy and
13 energy-efficiency technologies that require tougher
14 scrutiny about carbon-intensive investments that may
15 pose long-term financial risks, and I guess your
16 proposal is to invest \$40 million total in this new
17 fund.

18 My question is -- and I think that's, you
19 know, that's a laudable goal -- my question is, how
20 does that comport with the Prudent Investor Standard
21 that you are obligated to follow pursuant to, you
22 know, State statute and regulations?

23 MS. WIESSMANN: Well, let me first say that
24 the Prudent-Person Investor Rule, which is a
25 relatively recent vintage in the State's history, is

1 the dominant and primary guiding force for all of
2 Treasury's investments.

3 The Prudent-Person Rule is a principles-based
4 investing assessment, and when I came into office, we
5 made a determination, or I knew that I wanted to look
6 at all of our investment policy and all of our
7 investment procedures as it relates to governance,
8 how we manage our investments, how we actually
9 invest. It is a very, very dynamic process, and it
10 is continually changing.

11 So I have made the determination and
12 established something called the Pennsylvania
13 Investment Principles, which are the basis for which
14 we invest in many of the investment opportunities
15 that we have. There are a number that have been
16 well established, as you may be aware of, but there
17 is also this newer initiative called Keystone
18 Green.

19 I think it's fair to say that one of the
20 primary reasons for the Prudent-Person Rule was to
21 enable the Treasury Department to obtain on a prudent
22 basis some alpha, some increased interest income that
23 was available when funds were invested in a very
24 prudent matter, and along that line, that included
25 equities and other opportunities.

1 I think that there are a lot of sectors, a
2 lot of investment sectors, which are coming into
3 their own, and in fact I do think that environmental
4 investing is part of the next frontier of investing.

5 Because the investing environment has evolved
6 dramatically over the past, even 10 years, but over
7 30 years and the number of investment products that
8 are available to investors have proliferated so much,
9 we have the opportunity to look at and assess many,
10 many different investments, and that's going to
11 continue. So we have to take advantage of those
12 investments where we think they will provide some
13 alpha, and frankly, diversification to the portfolio,
14 and Keystone Green is one element of that.

15 I should also tell you, though, that I think
16 that it's not inconsistent to invest well and also to
17 invest good, if you will, and I think these are funds
18 that would otherwise be invested in much shorter term
19 securities, possibly, and I see no reason, so long as
20 they uphold the suitability standard for us as a
21 long-term investment, I think they are very, very
22 appropriate, and hopefully ultimately they will
23 benefit the residents of Pennsylvania.

24 REPRESENTATIVE DALLY: At present, how much
25 of these funds are invested in State and how much are

1 invested out of State? Do you know?

2 MS. WIESSMANN: Keystone Green is an
3 initiative; there is a component that we hope to have
4 invested in companies in State. The initial
5 investments are with publicly traded funds. Some of
6 those companies may be in State, some may be out of
7 State. They are not Pennsylvania directed. That's
8 another element of the investment plan that we hope
9 to initiate soon.

10 REPRESENTATIVE DALLY: And I would imagine
11 that these types of funds are fairly new.

12 MS. WIESSMANN: Actually, the funds we just
13 invested in, they run the gamut.

14 Again, as I said, we live in a complex world.
15 The investment options have proliferated so much,
16 there are many, many. Some may be new, but they will
17 have to be suitable. But the funds that we just
18 invested in, many of them have 5- and 6-year track
19 records.

20 REPRESENTATIVE DALLY: I see.

21 MS. WIESSMANN: And they are publicly traded.
22 One is an exchange traded fund, which is considered
23 very liquid.

24 REPRESENTATIVE DALLY: Okay.

25 And the first part of my question was, I just

1 wondered how you benchmark the performance of these
2 funds, of this fund, you know, to some other fund as
3 far as rating, you know, your rate of return, which I
4 guess goes back to my initial question about the
5 Prudent-Person Investor Standard, so.

6 MS. WIESSMANN: Yes. Well, we will look at
7 them relative to the benchmarks that we use for all
8 of our other investments. They will definitely, they
9 will not be on a subsidized basis at all.

10 REPRESENTATIVE DALLY: All right. And my
11 last question, at least for this round.

12 I recall, and I apologize for not having the
13 information in front of me, but I believe the
14 Treasury provides a line of credit to---

15 MS. WIESSMANN: PHEAA.

16 REPRESENTATIVE DALLY: PHEAA, right. You
17 knew where I was headed.

18 Can you just explain a little bit about that
19 line of credit and whether it is fully extended at
20 present or not?

21 MS. WIESSMANN: Treasury has extended a line
22 of credit for many years now to PHEAA for operating
23 expenses and to enable them to purchase student loans
24 and for whatever other purpose they have needed it.

25 We currently have a loan of \$700 million

1 outstanding with them. When I came into office, we
2 evaluated all of the terms of the loan and its impact
3 on the General Fund, and we determined that \$700
4 million is too significant a portion of the General
5 Fund to be outstanding to PHEAA.

6 We subsequently negotiated with PHEAA -- and
7 the interest rate was outdated as well. It was a
8 lagging interest rate, which wasn't appropriate at
9 this point. So we renegotiated the loan with PHEAA,
10 and we are expecting at the end of the month that
11 they will be paying down \$200 million of it. And
12 they have indicated as recently as last week that
13 they are planning on paying down the \$200 million, so
14 that we will have two pieces of a loan but \$500
15 million in total. One will be more like a note, and
16 one will be a line of credit.

17 And they have had, of course, the financial
18 markets now are in a bit of disarray---

19 REPRESENTATIVE DALLY: Right.

20 MS. WIESSMANN: ---but they have access and
21 they have had access to billions and billions of
22 dollars in the marketplace.

23 Our loan may have been very necessary for
24 them at one point in time, but it's really dwarfed by
25 the scale of their operations at this point.

1 And yet for the General Fund it's very, very
2 significant. As you know, we are cyclical, and there
3 are periods of times when our cash actually goes down
4 quite low, and that's the sensitivity; that's the
5 stress testing we have evaluated in terms of
6 appropriate sizing.

7 I would hope at some point that the General
8 Fund is not lending PHEAA at all.

9 REPRESENTATIVE DALLY: Okay.

10 And the purpose of my question -- I think you
11 got to it -- was just the turmoil in the capital
12 markets and the problem it is to raise dollars, you
13 know, in that arena. So it is coming at a difficult
14 time, I know, for PHEAA, but I understand your
15 rationale, too. So thank you.

16 MS. WIESSMANN: Right.

17 Well, the market that has been affected is
18 the auction rate securities---

19 REPRESENTATIVE DALLY: Right.

20 MS. WIESSMANN: ---and they have relied on
21 very, very low interest rates.

22 And the fact of the matter is that the world
23 is going to change. That's the only segment of the
24 municipal marketplace that has been really, really
25 adversely impacted. They have access to commercial

1 lines of credit. They have access to, and what they
2 will probably end up doing is converting some of
3 their debt into some other type of variable rate debt
4 that is not currently under pressure in the markets.

5 REPRESENTATIVE DALLY: Were they paying a
6 floating interest rate to the Treasurer?

7 MS. WIESSMANN: Yes, but it was a lagging
8 rate.

9 REPRESENTATIVE DALLY: Oh, I see.

10 MS. WIESSMANN: So if rates were going up,
11 the General Fund was giving up funds, and they were
12 able to take advantage of it in the marketplace.

13 REPRESENTATIVE DALLY: Okay. Thank you.

14 MS. WIESSMANN: But we have been very
15 supportive and we have been working through this with
16 them, but it is a loan that should be replaced.

17 REPRESENTATIVE DALLY: Very good. Thank you.

18 CHAIRMAN EVANS: Madam Treasurer, I have like
19 six more people, and then I got the Secretary of
20 Banking, so I'm going to need you to be tight in your
21 answers.

22 MS. WIESSMANN: Okay. I'd be delighted to.

23 CHAIRMAN EVANS: To what Representative Dally
24 raised, tomorrow at 3:30, PHEAA will come before us,
25 at 3:30, as the result of my office working with

1 Mario Civera's office, and Chairman Adolph will be
2 here at 3:30. So PHEAA will be here so we can have a
3 discussion with them.

4 I would like to go to Representative Josh
5 Shapiro.

6 REPRESENTATIVE SHAPIRO: Thank you, Chairman
7 Evans, and I have a few questions and I'll try and
8 move through them quickly.

9 Madam Treasurer, it is wonderful to see you,
10 and thank you for your testimony today.

11 You recently took some steps, which you
12 alluded to in your conversation with Representative
13 Dally, about the Pennsylvania Investment Principles,
14 which, I understand, resulted in Pennsylvania
15 divesting from about \$1.2, I think, \$1.2, \$1.5
16 million, in two particular companies that were doing
17 business in the Sudan. Can you just briefly explain
18 the principles and why they resulted in that
19 divestment?

20 MS. WIESSMANN: Certainly.

21 The Pennsylvania Investment Principles were
22 established to reflect the fact that as we invest, as
23 institutional investors invest in the marketplace,
24 they have to take other considerations into affect
25 beyond the traditional factors, such as earnings per

1 share and price per earnings, that there are a lot of
2 other factors, qualitative factors, that are now
3 being articulated by many investors.

4 So this was a recognition that Treasury, in
5 order to invest prudently and judiciously and
6 consciously, would have to take a lot of other
7 factors into account.

8 The principles consider geopolitical risk,
9 which is not new to institutional investing, as well
10 as environmental as well as corporate governance,
11 which is extremely important. If we do not know what
12 companies are, how transparent companies are, or if
13 they are not transparent with us, we don't know what
14 we are invested in, and that's the most important
15 rule for investors.

16 So to be brief, that particular divestment
17 that we undertook was really the first application of
18 these investment principles, and in that \$1.2
19 million, there is actually one company, and there
20 were two that we determined we would engage with in
21 terms of whether or not we felt comfortable with the
22 governance of the companies, and they were just the
23 first application of these principles.

24 REPRESENTATIVE SHAPIRO: And I certainly laud
25 your efforts to divest from those companies who are

1 doing business in Sudan, and I think the atrocities,
2 indeed the genocide in Darfur, is something we should
3 all care about.

4 But I want to make sure I understand, when
5 you say it's the first application, that means as you
6 apply the new test, that could result in divestment
7 from other terror-sponsoring nations like, for
8 example, Iran. That could come. Is that correct?

9 MS. WIESSMANN: The short answer is, sure, we
10 may divest from any security. I think it's really
11 important to emphasize that we have adopted these
12 investment principles in order to preserve and
13 protect Treasury's portfolio.

14 There are very strong economic underpinnings
15 to this policy. And when I say it was the first
16 implementation, it's because we are now ramping up,
17 if you will, the screening, the prospective screening
18 and the screening for potential divestment from
19 securities or companies that we are not comfortable
20 with.

21 REPRESENTATIVE SHAPIRO: Okay.

22 MS. WIESSMANN: But I want to assure you that
23 any application that we have will be done very
24 carefully and very prudently with the interests of
25 the Treasury's funds first and foremost.

1 REPRESENTATIVE SHAPIRO: Okay.

2 And just so I'm clear, you divested just
3 Treasury funds, and you don't have the authority
4 single-handedly to divest from PSERS of SERS, the two
5 primary pension funds. Is that correct?

6 MS. WIESSMANN: That's correct. I'm just a
7 board member of those two.

8 I am, however, urging other entities inside
9 the Commonwealth to adopt the principles, to make
10 sure of all of these extra financial factors, and it
11 is really an enhanced analytical approach to
12 investing.

13 REPRESENTATIVE SHAPIRO: Okay, and I
14 appreciate that.

15 As I know you know, I have sponsored three
16 bills, HBS 1085, 86, and 87, which indeed Chairman
17 Evans has cosponsored, along with, I think, 50 or 60
18 Democrats and Republicans in the House, to try and
19 force Pennsylvania's two primary pension funds, PSERS
20 and SERS, which invest \$116 billion annually, of
21 which they claim their number is approximately \$10
22 billion of that which makes its way into companies
23 doing business with terror-sponsoring nations like
24 Iran, like in Sudan, and I fundamentally believe we
25 should be getting those dollars out of that process.

1 And I just ask, as I close, perhaps for your
2 expert opinion, your thoughts, on that type of an
3 approach, certainly going beyond what you are able to
4 do as Treasurer, being constrained, appropriately so,
5 by the Prudent-Person Standard, about taking into
6 consideration the larger geopolitical issues when we
7 look at our broad range of investing practices in
8 PSERS and SERS primarily.

9 MS. WIESSMANN: I think there are two ways
10 for me to respond to that.

11 One is, I would suggest that Treasury's
12 investments and, frankly, the Commonwealth's overall,
13 however it relates, should be principles based. I
14 think it is very difficult to make an
15 across-the-board judgment about particular sectors.
16 I think you have to look at the investments
17 individually.

18 However, having said that, I do think these
19 principles should be applied, frankly, to other areas
20 of the government, and I would certainly applaud them
21 for considering establishing this principle-based
22 investing.

23 REPRESENTATIVE SHAPIRO: All right. Thank
24 you, Madam Treasurer.

25 Thank you, Chairman Evans.

1 CHAIRMAN EVANS: Representative Brian Ellis.

2 REPRESENTATIVE ELLIS: Thank you very much,
3 Chairman Evans, and, Madam Treasurer, for coming
4 today.

5 If I can follow up just real quick on
6 Chairman Evans's remarks. It seems we are on the
7 same page today.

8 One of my major concerns is the debt issuance
9 that we have experienced in the Commonwealth in the
10 last few years. Now, I realize that your department
11 doesn't dictate the policy as far as debt management,
12 but you were a former investment banker. Is that
13 correct?

14 MS. WIESSMANN: I am an investment banker.

15 REPRESENTATIVE ELLIS: You still are.

16 MS. WIESSMANN: Yes.

17 REPRESENTATIVE ELLIS: Exactly; sorry.

18 In your opinion, is it wise for our debt
19 issuance to so far outpace our debt retirement? We
20 are not talking about natural disasters or
21 emergencies here; we are just talking about new debt
22 that we are incurring.

23 MS. WIESSMANN: I want to preface my comments
24 by indicating to you that I have been a very
25 independent officer of the Commonwealth, and I do not

1 represent, I am not part of the determination from
2 the Governor's Office about how much debt should be
3 issued. I have not been privy to those
4 conversations, so I don't represent that.

5 I will respond to you as an investment
6 banker, and I think, as an investment banker, as I
7 mentioned before, you have to be very concerned about
8 your capacity to repay, but the Commonwealth's
9 capacity to repay is very, very strong.

10 It has been reflected. There are a number of
11 elements that are considered, and one is where you
12 rank relative to other States, and I think the
13 Commonwealth ranks 24th out of 50, and that is
14 certainly a much larger State than 24th. The rating
15 agencies have given the Commonwealth a AA rating as
16 well as, I think that the debt service as a
17 percentage of the debt ceiling is so low that you
18 really do have capacity to move and invest in
19 things.

20 And I note on your comment about them not
21 being emergencies, I think what you want to do is
22 make sure that you don't ever end up with
23 emergencies, and that's the preventative. That's why
24 proper investing is appropriate.

25 REPRESENTATIVE ELLIS: You know, Madam

1 Treasurer, I agree with that statement. I do have a
2 couple of problems, though.

3 MS. WIESSMANN: Sure.

4 REPRESENTATIVE ELLIS: One, you talk about
5 the number, and the same number that the Governor has
6 been propagating to the media, that we are 24th right
7 now, that is our ranking, and in all due respect,
8 that doesn't include a lot of the other debt that the
9 other States have. That is specifically our debt.
10 It doesn't take school district debt or anything into
11 consideration.

12 So we are not really comparing apples to
13 apples there; it is apples to oranges whenever we are
14 talking about that debt, and over the next few days,
15 certainly this is going to be a more prevalent part
16 of the conversation to get the real picture.

17 But, I mean, essentially what I'm asking is
18 and as I look at the Governor's budget, we are going
19 to be outpacing the retirement of debt by about \$3.5
20 billion. Now, can we afford to do that? You as an
21 expert said yes, but my question is, is it good
22 fiscal policy? Because isn't that just like saying,
23 we are going to borrow \$3.5 billion more than our
24 home is worth and then pay it off, because we can
25 afford to do it.

1 MS. WIESSMANN: On the home comment, I would
2 say that is assuming that you don't ever keep it up
3 or make further improvements to it. The value should
4 increase over a period of time. And in fact we do
5 know that over a period of time, everything
6 generally, we have ebbs and flows in the marketplace,
7 but generally our investments in hard capital do give
8 healthy returns.

9 I understand your comment about debt
10 capacity. When the rating agencies look at the
11 capacity of any entity to issue debt, specifically
12 the States, they do look at all of the other
13 overlapping debt.

14 And I have not currently been looking at how
15 the Commonwealth's is, but my guess is that even with
16 any overlapping debt -- and there is no direct call
17 on this debt; a lot of it is for student loans, a lot
18 of it is for housing, things that are quite
19 self-sustaining -- that I just have to say
20 respectfully that I really do think there is a lot of
21 room to move in the Commonwealth.

22 REPRESENTATIVE ELLIS: Okay. Well,
23 certainly, you know, the Governor believes that we
24 can continue to issue the debt. I mean, he has laid
25 that position out quite clearly.

1 And when I talked about the \$3.5 billion, I
2 wasn't including the Jonas Salk or the Energy
3 Independence Fund. So these are some borrowing
4 schemes where the Governor and a certain handful of
5 people in this Commonwealth will be able to--- It is
6 like a hedge fund almost, where they are going to be
7 able to go out there and pick winners and losers of
8 how we spend that money.

9 I don't think there's anybody on the
10 Appropriations Committee or throughout the entire
11 chamber of the House of Representatives that doesn't
12 agree that we have an infrastructure problem, and
13 that is something that we have to take a look at, but
14 do you see a difference between debt issuance for
15 stuff like infrastructure or for, you know, these
16 hedge bets on what is going to happen down the future
17 in a certain industry?

18 MS. WIESSMANN: Well, one comment I will make
19 is that obviously with \$3.9 billion, you are talking
20 about large dollars, and everybody always is
21 concerned about large dollars, but the scale of the
22 State operations is large and it's all relative and
23 proportionate.

24 I'm not sure it's appropriate in my
25 Appropriations hearing to really start discussing the

1 financial markets. The conversation on hedge funds,
2 all that is really, really not something that I'm
3 equipped or prepped for for today.

4 REPRESENTATIVE ELLIS: Okay.

5 MS. WIESSMANN: I would be happy to discuss
6 it with you at some other time.

7 REPRESENTATIVE ELLIS: Fair enough.

8 MS. WIESSMANN: But I just think it is such a
9 long conversation---

10 REPRESENTATIVE ELLIS: It certainly is.

11 MS. WIESSMANN: ---and I have been advised
12 that we don't have that much time.

13 REPRESENTATIVE ELLIS: Okay. Well, thank you
14 very much.

15 And if I could just--- Mr. Chairman, just
16 indulge me for a second here. I would just like to
17 say that in my opinion, and certainly I'm going to be
18 paying attention as we meet with the Budget Secretary
19 on Wednesday and the Finance Committee to try to get
20 an understanding of this a little bit better, but to
21 me it seems like bad fiscal policy at this point
22 whenever you are borrowing so much at such a fast
23 rate.

24 The amount of money that was borrowed before
25 this Administration versus the money that has been

1 borrowed since this Administration has taken over is
2 astronomical, and I think that it is certainly going
3 to be part of the conversation for the next few
4 months.

5 Thank you very much, Mr. Chairman.

6 CHAIRMAN EVANS: Thank you.

7 Representative John Siptroth.

8 REPRESENTATIVE SIPTROTH: Thank you very
9 much, Mr. Chairman.

10 Treasurer Wiessmann, good to see you again.

11 MS. WIESSMANN: Thank you.

12 REPRESENTATIVE SIPTROTH: Representative
13 Shapiro had talked about some divestment, and I
14 understand that the State has divested the \$1.2
15 million in holdings in the China Petroleum & Chemical
16 Corporation. Can you tell us why specifically you
17 did that and what impact that might have on the
18 State?

19 MS. WIESSMANN: I'm going to answer the
20 second question first.

21 It will not have any impact on the returns
22 for the General Fund. One thing that people often
23 ignore when they talk about divestment is the fact
24 that asset managers or investors on a continuing
25 basis invest and disinvest. It's just a small,

1 little piece of a very, very, very big pie. And I
2 think people also tend to forget that you aren't just
3 eliminating an investment; you are reinvesting in
4 something else. There are alternative investments.

5 So the short answer is, there will be no
6 impact whatsoever, and the reasons for it are
7 compounded. They are colored, obviously, by the fact
8 that this is a company that is operating in a country
9 which is war torn, and I think it is accepted that
10 it's fostering genocide.

11 But from Treasury's perspective, we need to
12 make sure that the companies we invest in are going
13 to be stable, that they will give us a good return,
14 and that they will be transparent and tell us how
15 they are governing their companies. These are public
16 companies.

17 It's complicated in China because there's so
18 much, and in many of the other parts of the world,
19 there is such an interplay between the government and
20 the companies themselves. But suffice it to say that
21 it is a combination of factors in terms of the lack
22 of transparency, the lack of willingness to negotiate
23 -- well, not negotiate but communicate -- and also
24 concern about the efficacy of the company operating
25 in that particular country.

1 REPRESENTATIVE SIPTROTH: Thank you very
2 much.

3 Thank you, Mr. Chairman.

4 CHAIRMAN EVANS: Representative David Reed.

5 REPRESENTATIVE REED: Thank you, Mr.
6 Chairman, and thank you, Madam Treasurer, for coming
7 before the committee this afternoon.

8 Madam Treasurer, according to your hearing
9 book notes, the Office of the Budget granted a waiver
10 for your department to lapse funds in the amount of
11 \$509,276 of 2006-07 fiscal year funds that had been
12 appropriated for those sheets' program. Your hearing
13 book also notes that this dollar amount, the
14 \$509,000, would be available for use in '07-08.

15 My question would be, and it is a couple of
16 very quick questions initially, first, was there some
17 type of information technology project related to
18 that \$509,000 that was not completed in '06-07?

19 MS. WIESSMANN: Would you give me your other
20 questions as well about this so that I can put it in
21 context?

22 REPRESENTATIVE REED: Sure. Was there any
23 litigation related to that \$509,000? Were there any
24 construction or economic development projects
25 associated with that program?

1 And the reason I asked those particular
2 questions, statutorily, those are the reasons
3 permitted for the granting of a waiver that would
4 permit those funds not to be lapsed into the next
5 fiscal year, and if that waiver was granted without
6 those types of costs being associated, my question
7 would be to your department, what statutory authority
8 did you use to request that waiver?

9 MS. WIESSMANN: And what were the three
10 elements? Development, technology, and---

11 REPRESENTATIVE REED: Litigation or
12 technology.

13 MS. WIESSMANN: And litigation.

14 Well, I'm going to answer briefly, but I am
15 going to ask my counsel to come up. You are asking a
16 very technical question---

17 REPRESENTATIVE REED: Yes.

18 MS. WIESSMANN: ---that I think I have a
19 general understanding, but I don't know that I can
20 answer it completely accurately for you.

21 My understanding about waivers is that it is
22 a fairly well established protocol, and that there is
23 justification given and it is appropriate, and we all
24 know that spending has timing issues associated with
25 it.

1 I understood it to be correctly, you know,
2 correctly approved, and subsequently, that fund has
3 been utilized. But I would like to ask my counsel to
4 join me here.

5 REPRESENTATIVE REED: Well, that would be
6 fine, because I think it has certainly become a
7 standard practice under the current Administration
8 and the current Secretary of the Budget, and I guess
9 what we are looking at is whether that practice has
10 been used according to the actual statutory authority
11 granted to the Office of the Budget. So I would be
12 anxious to hear your Chief Counsel's interpretation
13 of that particular waiver.

14 MR. PANDELADIS: Along the lines of the
15 justification---

16 CHAIRMAN EVANS: Could you identify yourself,
17 please, for the record?

18 MR. PANDELADIS: I'm Leo Pandeladis with the
19 Pennsylvania Treasury Department, legal office.

20 Along the lines of the waiver request, I
21 believe it is subsection (m) of that section of the
22 Administrative Code, the standard in the provision,
23 the statutory provision, indicates that it is in the
24 best interests of the Commonwealth, which was the
25 justification that was provided to the Budget Office,

1 which then Secretary Masch had provided to the chairs
2 of the various committees. And while it's not
3 actually in the statutory provisions, I believe the
4 Secretary indicates a 10-day period to hear a
5 response from the Legislature when they are actually
6 requesting or notifying about a waiver.

7 So the actual request that the Treasury
8 Department submitted was in accordance with that
9 subsection (m), which the standard is actually the
10 best interests of the Commonwealth.

11 I think along the lines of the three areas
12 that you referenced are various areas where money
13 doesn't actually automatically lapse. If there's an
14 area where there's one of those three that you
15 mentioned, it carries forward. But the actual
16 standard that we submitted to the Secretary of the
17 Budget was in accordance with that best interests of
18 the Commonwealth.

19 And with the specific waiver in question,
20 there was a new statutory provision that was
21 implemented requiring legal advertising for unclaimed
22 property. So it was in contemplation of the change
23 in the statute and just anticipation of the
24 possibility of complying with the new statutory
25 provision, because when that statute was enacted,

1 there wasn't an appropriation attached to it, but the
2 department had a cost associated with it.

3 REPRESENTATIVE REED: Now, in actually
4 looking at the waiver request that a Mr. Keith Welks,
5 Acting Deputy Treasurer for Fiscal Operations, sent
6 to the Secretary of the Budget, it would appear that
7 those funds were initially appropriated for personnel
8 -- hirings, salary, and benefits, for those personnel
9 decisions -- but under the waiver request, you are
10 proposing to shift those funds from those personnel
11 operations to advertising operations, and if we are
12 reading the Administrative Code correctly, that
13 shifting is not actually permitted statutorily.

14 If you were granting a waiver for the
15 original intent of those funds, that waiver is
16 correct, but it is when you start shifting those
17 dollars to other expenditures, that waiver becomes
18 questionable statutorily.

19 MR. PANDELADIS: My understanding is that the
20 line item in the original General Appropriations Act,
21 that was the basis of the waiver, wasn't that
22 specific in that it didn't -- at least it wasn't
23 broken out as to personnel. It was, I believe, the
24 general government operational line item, and that
25 what the purpose of the waiver was requested fell

1 within the original line item, but I'm not positive
2 on that.

3 MS. WIESSMANN: I think one thing to bear in
4 mind is that, now that counsel has reminded me of the
5 facts and circumstances surrounding it, is that
6 Treasury was facing an unfunded mandate if it didn't
7 obtain some funding for something that the General
8 Assembly was requesting, and I think that was
9 important for Treasury to fulfill.

10 REPRESENTATIVE REED: Well, I guess just a
11 general response to that.

12 I'm not sure that is--- That may very well
13 be true, but I'm not sure that that's justification
14 for eluding the practices or the interpretation of
15 the Administrative Code. If that's the case, perhaps
16 what we would need to do is reevaluate that from an
17 appropriations standpoint through a supplemental
18 appropriation to the Department of the Treasury as
19 opposed to through---

20 MS. WIESSMANN: We also did have to request a
21 supplemental appropriation.

22 REPRESENTATIVE REED: Yes; I suppose through
23 the waiver process.

24 CHAIRMAN EVANS: Can we have one person
25 talking at a time? Go ahead.

1 REPRESENTATIVE REED: I apologize.

2 And just two quick follow-up questions, just
3 about general practices.

4 Has the Treasurer's Office ever declined to
5 issue a check in response to an expense associated
6 with a waiver that you deemed inappropriate? Now,
7 that may be a more historical question, because I
8 know you have only been Treasurer for over a year,
9 give or take. So that may be more of a historical
10 question for your staff, but has that ever
11 happened?

12 MR. PANDELADIS: To my knowledge, no, but I
13 would request--- We will get back to you just to
14 make sure we are not giving bad information, but I
15 don't believe so, as long as the procedure that is in
16 the Administrative Code has been followed.

17 I believe that the money is set aside, but we
18 will have staff check on that and make sure that if
19 it has been denied, we will notify you of that, or if
20 it has never been denied, we will notify you of that
21 as well.

22 REPRESENTATIVE REED: If you could also just
23 include in that information that you provide for us
24 what procedures your department goes through to
25 verify that they do meet the statutory authority, or

1 whether you rely upon the Office of the Budget to
2 make that decision.

3 MS. WIESSMANN: We have an entire department
4 dedicated to fiscal review.

5 REPRESENTATIVE REED: Okay. Well, we would
6 just like to see the procedures that you use.

7 Thank you.

8 MS. WIESSMANN: Sure.

9 CHAIRMAN EVANS: Whatever you submit, you
10 submit through the Chairman's office. I would
11 appreciate it.

12 MS. WIESSMANN: Certainly.

13 CHAIRMAN EVANS: Representative Gordon
14 Denlinger.

15 REPRESENTATIVE DENLINGER: Thank you, Mr.
16 Chairman, and good afternoon---

17 CHAIRMAN EVANS: I apologize, Gordon.

18 REPRESENTATIVE DENLINGER: Ah, it was a good
19 attempt. I have heard it all, believe me.

20 A question, Madam Treasurer, if I can, on the
21 tuition, the TAP program, the tuition assistance.

22 MS. WIESSMANN: Yes.

23 REPRESENTATIVE DENLINGER: In looking over
24 your budget, I notice your plans for advertising call
25 for the expenditure of a million dollars from

1 earnings off of the fund and a million dollars from
2 General Fund revenues.

3 I know that we went back out to parents and
4 participants some time ago to ask for additional
5 payments to bring some fiscal solidity to the system.
6 In light of the fact that we had to do that, do you
7 think it is appropriate to spend earnings to
8 advertise the program to the extent that we may draw
9 in participants who are not currently involved?

10 MS. WIESSMANN: Like all the other operations
11 of Treasury, we have taken a very, very careful look
12 at the Tuition Account Program and are enjoying
13 increased enrollments, positive financial results,
14 and very good administration with the rebranding of
15 it.

16 To that end, we think improving, continuing
17 to improve the solvency of the fund will depend on
18 its growing, and its growth is contingent on more
19 contributions as well as more participants.

20 So we do think it's very important to
21 advertise, make it more relevant to the residents of
22 Pennsylvania, make sure they are aware of it, make
23 sure they are aware how much it can make college more
24 affordable.

25 The other thing I should say is that this is

1 a program that really should become self-sustaining
2 and to the extent that it needs to advertise, which I
3 think it does. It should be able to advertise within
4 its own resources. It's not inconsistent with any
5 other type of investment fund. They should carry,
6 just like mutual funds carry their own expenses, and
7 you try and keep that down as low as possible, but
8 you certainly are justified in doing that.

9 And the other comment I should make is that
10 we are constantly monitoring the performance and the
11 actuarial status of the Tuition Account Program, and
12 to the extent that we were concerned about there
13 being any deterioration, we certainly would pull back
14 and look at it. And we are also evaluating the
15 reserve that we have on a continuing basis.

16 REPRESENTATIVE DENLINGER: Very good.

17 Thank you, Mr. Chairman.

18 CHAIRMAN EVANS: Representative Douglas
19 Reichley.

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

22 Madam Treasurer, I'll try to make the
23 questions as succinct as possible.

24 Although Chairman Evans has conducted the
25 hearings so far in a way that would lead one to

1 believe that things are going to go swimmingly this
2 spring for the budget and everything is going to work
3 out in a very hunky-dory way, last year we had a bit
4 of a hiccup in that in that we weren't able to get
5 the budget done by July 1.

6 And it sort of reminds me, there was a bit of
7 a disagreement within the building on the issue as to
8 whether you were legally able to issue paychecks to
9 the State employees. There was some controversy as
10 to whether, when the Governor said, I've got to lay
11 people off, even for temporary periods of time, if
12 that was a situation in which you were able to pay or
13 had to suspend payment.

14 So I guess my question is, looking into the
15 future this year, come July 1, if the Legislature and
16 the Governor have not reconciled any disagreements on
17 the budget and the budget document has not been
18 signed as of midnight, July 1, are you able to
19 continue to issue paychecks to the State
20 employees?

21 MS. WIESSMANN: No. Without an
22 appropriation, Treasury constitutionally cannot make
23 payments.

24 And I want to just step back for a minute to
25 last year, last year's process. Treasury wanted to

1 be as responsive as possible and actually went
2 through quite some Herculean efforts to make sure
3 that when the impasse was over, that employees were
4 paid as quickly as possible. That is why you heard
5 all of the information that came out of Treasury, was
6 because we wanted to be able to pay, make payment as
7 soon as it was feasibly possible after enactment of a
8 budget.

9 But the short answer is -- and I am aware of
10 the legislation that is going through the Assembly --
11 the short answer is no.

12 REPRESENTATIVE REICHLEY: And just to refresh
13 everybody's recollection, is there a set period of
14 time in which after July 1, State employees can
15 continue to be directed by the Governor to show up
16 for work? Because the paychecks are sort of 2 weeks'
17 post after the period of employment that they are
18 being paid for, I think. Is that correct?

19 MS. WIESSMANN: Yes, although I'm going to
20 ask my Deputy of Fiscal Operations. It's a complex
21 question, so if you would like further clarification
22 of it in terms of how long there actually is from---
23 I will tell you that from the time we receive the
24 requisitions, if you will, for the employees'
25 payroll, it takes us about 10 days, and we did it in

1 about, you know, through and round the clock, I don't
2 know if it was 2 1/2 or 3 days the last time.

3 But if you would like more clarification, I
4 will have my Fiscal Deputy come up.

5 REPRESENTATIVE REICHLEY: If you don't mind.
6 I mean, I don't think anybody is trying to take your
7 office to task on this.

8 MS. WIESSMANN: I didn't say that.

9 REPRESENTATIVE REICHLEY: We're just trying
10 to---

11 MS. WIESSMANN: I'm totally comfortable with
12 that.

13 REPRESENTATIVE REICHLEY: So that we don't
14 get mislead---

15 MS. WIESSMANN: I'm totally comfortable with
16 that.

17 REPRESENTATIVE REICHLEY: ---mislead by the
18 Governor or something like that, so.

19 MR. WELKS: Good afternoon.

20 REPRESENTATIVE REICHLEY: Hi.

21 MR. WELKS: I'm Keith Welks. I'm the
22 aforementioned Fiscal Deputy.

23 REPRESENTATIVE REICHLEY: Congratulations;
24 okay.

25 MR. WELKS: Exactly.

1 I was slinking as much as I could---

2 REPRESENTATIVE REICHLEY: That's all right;
3 sorry.

4 MR. WELKS: ---but it looks like your request
5 got me here.

6 REPRESENTATIVE REICHLEY: Sorry.

7 And I think as Ms. Wiessmann indicated, there
8 is a period of time that elapses in which the
9 Treasury can continue to forward the paychecks for
10 employees. But I guess the question comes down to,
11 if we are chastised, scolded, threatened, whatever
12 word you might choose, that employees are going to
13 have to be laid off from the State if a budget is not
14 adopted by a certain date, what is the legal
15 circumstance under which the Treasury can continue
16 to pay employees after a budget is not settled on
17 July 1?

18 MR. WELKS: Yeah; as the Treasurer said, this
19 is actually a fairly complicated area. There's a
20 complex interplay here between State law, the State
21 Constitution, the Federal Labor Standards Act, and
22 the Federal Constitution and the Supremacy Clause,
23 all of which are, to some extent, crashing around
24 this particular issue.

25 The response to the direct question you asked

1 I believe would be, so long as employees are getting
2 paychecks that are attributable to activity they
3 conducted in the prior fiscal year, and therefore, if
4 the appropriations dollars that are being expended
5 are also attributable to the prior fiscal year, they
6 can be paid.

7 As the Treasurer suggested, the Constitution
8 limits our ability to make payments only where there
9 is an appropriation authorizing them. So long as the
10 payments come out of that prior year appropriation,
11 we are fine.

12 How long that takes us into a new fiscal year
13 tends to be a function of the calendar and where
14 those respective pay dates fall in any given calendar
15 year.

16 REPRESENTATIVE REICHLEY: But I take it then
17 that employees can continue to go to work on July 1,
18 July 2, July 3, because they are going to be paid as
19 of, say, July 10 for work prior to July 1?

20 MR. WELKS: Well, at that point, and I don't
21 want to get out much further on this ice before I
22 fall through it---

23 REPRESENTATIVE REICHLEY: Okay.

24 MR. WELKS: ---but certainly their pay into
25 July may relate back to dates and work done prior to

1 July 1.

2 It is my understanding that the convention
3 has been, so long as there is going to be a budget
4 passed, that they will get paid for July 1 forward,
5 and that is what we are operating on. At some point,
6 that convention is no longer observed.

7 REPRESENTATIVE REICHLEY: Okay.

8 Well, I appreciate your frankness in this
9 discussion, and hopefully you will keep in touch with
10 the Legislature, because we would appreciate an
11 independent legal advisory as to what the ability is
12 for the State employees to continue to go to work
13 after the constitutional deadline for the budget.

14 And the last point I will make to the
15 Treasurer is---

16 MS. WIESSMANN: Thank you.

17 REPRESENTATIVE REICHLEY: Yes; thank you, Mr.
18 Welks.

19 I heard Representative Shapiro reference you
20 to his legislation to request divestiture from Iran
21 and Iraq, and I think there may be one other country.
22 I think, frankly, that's the low-hanging fruit, and I
23 have put an amendment on each one of those bills
24 which would call for the Commonwealth and other
25 agencies to divest from companies which have

1 investments in Mainland Communist China, because I
2 believe they pose as much of a threat to this nation
3 based upon any number of different circumstances,
4 whether it is lead-tainted toys, whether it is
5 persecution of people of various religious sects,
6 whether it is the use of Chinese steel to construct
7 the wall along the southern U.S. border instead of
8 American steel and the impact on American workers.

9 So I would hope that in your encouragement of
10 State agencies to use a principles-based policy
11 toward those kinds of investments, you would take
12 that same approach toward those investments from
13 Communist China as well.

14 MS. WIESSMANN: I will be utilizing the
15 principles on all of the investments of Treasury.

16 REPRESENTATIVE REICHLEY: Okay. Thank you.

17 CHAIRMAN EVANS: I hoped to have it done
18 earlier, Representative; take my word for it. If it
19 was up to me---

20 I would like to thank the State Treasurer.
21 Thank you for coming before this committee and
22 answering our questions. We appreciate that.

23 This meeting is now adjourned, and we can
24 now take 1 minute and move the Secretary of Banking
25 in.

1 MS. WIESSMANN: Thank you very much. I will
2 enjoy working with you this coming year.

3 CHAIRMAN EVANS: Thank you very much.
4

5 (The hearing concluded at 1:49 p.m.)
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1 I hereby certify that the proceedings and
2 evidence are contained fully and accurately in the
3 notes taken by me on the within proceedings and that
4 this is a correct transcript of the same.

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Jean M. Davis, Reporter
Notary Public

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