

HOUSE OF REPRESENTATIVES  
COMMONWEALTH OF PENNSYLVANIA

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Independent Fiscal Office  
(Contained in Act 50 of 2009)

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House and Senate Finance Committees

North Office Building  
Hearing Room 1  
Harrisburg, Pennsylvania

Wednesday, March 10, 2010 - 9:00 a.m.

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BEFORE:

Honorable Patrick Browne, Majority Chairman  
Senate Finance Committee  
Honorable Jane Earll  
Honorable John Eichelberger  
Honorable Pat Vance  
Honorable Anthony Williams  
Honorable John Wozniak  
Honorable David Levdansky, Majority Chairman  
House Finance Committee  
Honorable Rick Mirabito  
Honorable Florindo Fabrizio  
Honorable Dan Frankel  
Honorable Jaret Gibbons  
Honorable William Kortz  
Honorable Chris Sainato  
Honorable Josh Shapiro  
Honorable Sam Rohrer, Minority Chairman  
House Finance Committee  
Honorable Scott Boyd  
Honorable Michael Peifer

ALSO PRESENT:

Stacey Connors, Esquire  
Majority Executive Director  
Senate Finance Committee

Stephen Bruder  
Minority Executive Director  
Senate Finance Committee

Bonita Lane  
Secretary  
Senate Finance Committee

Bob Kassoway  
Majority Executive Director  
House Finance Committee

Bill Jordan  
Majority Research Analyst  
House Finance Committee

Jenny Stratton  
Minority Executive Director  
House Finance Committee

C O N T E N T S

SPEAKERS	PAGE
Honorable Patrick Browne . . . . .	4
Opening remarks	
Honorable Mary Soderberg, Secretary . . . . .	7
Office of the Budget	
David Donley, Director . . . . .	7
Governor's Budget Office	
Robert Powell, Senior Advisor . . . . .	76
Government Policy	
Cansler Fuquay Solutions, Inc.	
John Wheatley, President . . . . .	100
International Consulting Services, LLC	

SENATOR BROWNE: Good morning, everyone. We thank the members, everyone in attendance, for joining us today for the third in a series of hearings between the Senate and the House Finance committees, to consider testimony, suggestions, ideas, criticisms regarding the language in Act 50 of 2009 to create a legislative fiscal office in the Commonwealth.

And I just briefly re-emphasize, the purpose of the legislative fiscal office is to give the branches of this government, similar to efforts in other states, a means to develop and adopt revenue estimates, pursuant to our budget process in a collaborative basis, as well as a means to improve our decision-making process on spending, appropriations and tax policy through the use of independent nonpartisan fact-finding analysis.

During our last hearing, the Congressional Budget Office, an agency widely respected in serving its role on fact-finding analysis for the federal government, gave us a valuable review of how its history and

composition have been continuing to influence its ability to provide value to the law and budget-making process in Washington.

It was clear from their testimony and discussion with members that the value of their office, and by extension the value of a fiscal office in Pennsylvania, is continued on, one, the level of independence the office is able to maintain from the current fiscal role served by the appropriations committees and the Governor's Budget Office, and two, the quality and expertise of the staff charged to perform the functions stipulated for the office.

Of interesting note, given the value of the shared resources and perspectives between the GBO and Congressional Budget Offices and what this can bring to a complete and accurate fiscal analysis, the staff of the CBO believe that prospective duplication of effort between current appropriation staff and the legislative fiscal office is not a detriment but a benefit, since it can ultimately lead to better decision-making, which, of course, is the ultimate goal we all

are trying to achieve.

Today we welcome the perspective of the Governor's budget secretary, as to how we can improve our budget process in the wake of last year's challenges, and her opinions on the language of the legislative fiscal office, as well as other experts who will provide us their insight on how to improve and best implement the responsibilities charged to the legislative fiscal office under Act 50 of 2009.

Before I turn the mike over to Representative Levdansky, Chairman of the House Finance Committee, I want to introduce the members of the Senate who are with us today. We have Senator Wozniak, Senator Earll, Senator Eichelberger and Senator Vance. With that, I will turn the mike over to Chairman Levdansky.

CHAIRMAN LEVDANSKY: Thank you, Senator Browne. Also to my right is Representative Boyd, the Republican co-chair of the committee; Representative Sam Rohrer. On the very far left, Representative Bill Kortz. Working the way towards me,

Representative Fabrizio; Representative Frankel and Representative Sainato. I think that's -- And Representative Mirabito from Lycoming County. Sorry, Rick.

I just want to welcome the budget secretary. And I don't have any prepared remarks. This is the third and I think the final hearing of the joint House and Senate Finance committees regarding the legislation to create an independent fiscal office.

We will, after the hearing concludes today, Senator Browne and I will, and our staffs, will sit down to begin the process of issuing a report, which is also, I think, required by the Fiscal Code language contained in the budget last year. So we will get to work on that report and issue it as expeditiously as possible so that we can move forward in addressing the legislation that was passed in the context of the budget last year.

So with that, you know, I want to welcome the Budget Secretary, Mary Soderberg.

MS. SODERBERG: Thank you very much. It's a pleasure to be here this morning. I want to introduce, to my right,

David Donley, who is the Director of the Governor's Budget Office, and has put in a lot of hours over the last few years on the budget process.

I want to thank the Chairs for pulling this session together, Senator Browne, Representative Levdansky and Representative Rohrer. I think this is a good opportunity to talk about the budget process and try to find ways that we can improve it .

This morning, I would like to talk just for a little bit. I do have some handouts that have been distributed and I will refer to them as I go along.

But first I would like to just talk a little bit about the budget process in Pennsylvania and the people who are intimately involved in the budget on a day-to-day basis.

The Governor's Budget Office is a staff of about 35 people. We are engaged year-round. In the past year, we were engaged year-round on finalizing the budget, it seemed.

But normally we are also involved in preparing fiscal notes, and that is an



analysis of the cost of pieces of legislation that are being dealt with both in the Senate and the House. We share those with the appropriations committees.

We also provide spending oversight over all of the agencies as well as working closely with them in developing the Governor's proposed budget through the fall and culminating in the Governor's proposed budget that is introduced in February of each year or in the first year of a new administration in March.

We work closely with the Department of Revenue. The Department of Revenue has seven or eight analysts that are responsible for monitoring the revenues and preparing the revenue forecasts.

In addition, there are four committees for the Appropriations Committee. Each caucus has a very professional staff who is preparing the fiscal notes on behalf of the committee for each piece of legislation that is being addressed by the committee, as well as monitoring what's going on in the agencies.

Normally each analyst has the

responsibility for a specific number of agencies, and my experience has been that they are actively involved in, you know, paying attention to what's happening in those agencies throughout the year; so that when the budget season kicks off in February, they are very knowledgeable about the budget issues.

Pennsylvania's budget process is not that much different than other states. And I have handed out a small timeline that just shows the budget process. And it traditionally begins late in the summer when the Governor's Budget Office sends out guidelines to the agencies and then the agencies submit their budget requests in early fall.

For us, in Pennsylvania, they are required to have them submitted by November 1st, then that's per the Administrative Code.

We then work with the agencies, look at revenue assumptions to determine what can be afforded; and also work with the Governor on what his or her initiatives might be to fold into the number; and then that is all packaged together and presented to the

General Assembly on the first Tuesday of the first full week of February or in March.

There are times when there are opportunities specifically for a dialogue between the General Assembly and the executive side. One of the critical dates is in the beginning of December, the Administrative Code requires that the Governor and the budget secretary give a briefing to the leaders of the House and Senate, on giving an update on what is happening with revenues or what's happening with the budget. And so, that's done in December.

In February, of course, the Governor introduces his budget. And then, most significantly, following the Governor's budget address, we traditionally have a series of hearings. And prior to those hearings, each agency submits very detailed information to the four caucuses, the four appropriations committees. So they really have a lot of information.

And I should say, one of the things that Senate Bill 1 mentions a number of times is that there needs to be access to data. And

the four appropriations -- the staffs of the four appropriations committees not only have access to the more public documents that we produce, but they actually have access to our financial management accounting system, SAP. So they can pull out expenditure data, complement data from that system on a daily basis.

So anyway, so the budget process, in Pennsylvania, really is not that different from other states. And Act 50, or Senate Bill 1, has a similar process but there are a number of differences from what is currently in statute for the budget process. And I have handed out a -- just a side by side that shows on the left -- on the right hand -- On the left-hand side, excuse me, it shows the proposed legislative fiscal office, what is proposed in the law. And then next to it, the Administrative Code, which lays out the current budget process, and that is current law.

So you can see, just going through section by section, what is being proposed and what is already in place. And I think what

you will find is that a lot of what Senate Bill 1 is proposing is already laid out to happen.

And in fact there are some areas where there is an odd little mix-match with regard to the timing of when things would happen. You know, if you decide to move forward, that these are things that could be corrected.

But, you know, this new office would be required to provide revenue estimates. And right now the Department of Revenue, in conjunction with the secretary of the budget, provides the revenue estimate. By January 1st, the new office would provide a baseline budget. Right now what happens is that the Governor's Budget Office provides to the Governor the draft framework of cost-to-carry budget and then we add into it the different initiatives on top of it.

While we are doing that, the appropriations committees are actually doing their own, what we call, cost-to-carry budget. Under their responsibilities of understanding what the cost drivers are and what the

budgetary stresses are, in any given year, they do a cost-to-carry budget. And they will look at things like Corrections, what are the trend lines for the number of inmates, Medical Assistance, what's happening with the case load, what's happening with revenue. So they are very much engaged in looking at the budget before the Governor's budget comes out.

You know, so this new office would be analyzing all aspects of the executive budget. And, you know, as I have mentioned, in current practices, we have four professional staffs in the General Assembly already doing that as well.

Develop and use econometric models to forecast state revenues. We have a joint contract with the four appropriations committees to -- with Global Insight. They are economic adviser to the Commonwealth. And they provide us updated information on the economy, provide us information for our economic models. And the four appropriations committees have access to that information as well.

The revenue analysts in the

appropriations committees are actually doing revenue forecasts with econometric models as we do in the Department of Revenue.

Going down, by November 15th, assess the current fiscal condition projections for the next five years. And as I mentioned, the Admin. Code requires that in December of each year that the budget secretary and the Governor's Office do a briefing for the leaders of the General Assembly.

Anyway, I am not going to go through this whole piece. But what we have tried to do is just lay out, for the members of the committee, what's being proposed and what is already in current law. And I think the overall theme, what you will see, is that a lot of what is being proposed is already happening in some format. The timing might be a little bit different and who is responsible for what might be a little bit different, but for the most part, it, the process, is already in place.

I would like to talk a little bit now about the revenue estimates, and I know

that that's a significant shift that is being proposed by this legislation, is that the official revenue estimate would be done by this fiscal office.

All states do it differently. We are different from the federal government, in that we are required to have a balanced budget. Not all states are required to have a balanced budget. According to the National Association of State Budget Officers, 44 states require that the Governor submit a balanced budget to the general -- to the legislative body. Forty-one states require that the legislative body pass a balanced budget, and it goes down to 37 states that require that the Governor must sign a balanced budget.

We are one of those states where the Governor must sign a balanced budget. And if there is spending that is above what is in the certified revenues, then the Governor must move only those portions of the budget that are above that spending level.

In addition, if/when we do an update on our revenue numbers, like last year



at the mid-year briefing in December, and again this year when we stepped back and we looked at our revenue numbers, we did what we call -- we put funds into budgetary reserve. Meaning that, we are concerned that if we spent everything that had been appropriated, we might be spending more than what the final revenue numbers are. So we go through the different line items in the budget and put money into budgetary reserve so that those funds cannot be spent and just to ensure that we end the year with a balanced budget.

You, Senator Browne, you had talked about the testimony by the Congressional Budget Office at one of your earlier hearings, and I was not able to see that hearing.

But as a result of that, I want to go back and take a look at our revenue numbers and see what the variance has been year by year. And then I did that over a 20-year period. And then I went back and I took a look at the Congressional Budget Office, because the Congressional Budget Office also does revenue projections on behalf of the federal government, to see what their

variations are. And one of the things that is different is that we do a projection for 12 months. The Congressional Budget Office does two projections, one is for a nine-month period and one is for a 21-month period.

But we took a look at both of those periods, and one of the handouts I have for you is a line chart that just compares those revenue estimates and how they vary from year to year.

The blue line is our own Department of Revenue and their estimates for -- on a year-by-year basis and how much over or below the estimates that the revenues actually come in. And the green line is the Congressional Budget Office. The green line represents their nine-month forecast. And you will notice, over the 20-year period, the green and the blue line are very similar.

When I was having the Department of Revenue pull this information, I asked them to do a little bit further analysis and just determine what the standard deviation was for both the Congressional Budget Office and the Department of Revenue. And for the Department

of Revenue, they determined that the standard deviation over that 20-year period was 4 percent. Congressional Budget Office was 3.9 percent. So very, very close.

Interestingly enough, when you look at the red line, those are the projections that are more long term; and the deviation from what actually occurs as to what was projected is much greater; and that is because it's more difficult to project long-term revenue estimates; it's difficult to know -- forecast out, in the future, exactly what the economy is going to be doing.

But what you can see through this, the very first year on this chart is 1989-1990, which of course was a period of recession that we were in, and you can see at that point the revenues came in below estimate. An estimate would be zero percent line on this chart.

And, once again, as you move forward to the year 2001-2002, that period of time, once again, another recession. Revenues for both Congressional Budget Office and for the State of Pennsylvania came in below what

the original estimate was.

And then again, the very end of the chart where you see 2007-2008 numbers, you can see, once again, the revenues coming in below, below estimate.

With regards to revenue estimates, I would like to point out again that the Department of Revenue and the Budget Office, we prepare revenue estimates, but the revenue analysts for each of the four appropriations committees are also doing revenue projections as well. And they look at the very same data that we look at.

And in fact during the negotiations process, we will bring together the four revenue analysts. They will talk. Then, frequently, it's the four executive directors of the four appropriations. And then we may end up with having meetings with the leaders and the Budget Office and the Governor's Office on revenues.

Another area that I think I refer to, but I really didn't specifically say when I was going through the chart with regards to Senate Bill 1, is that a lot of what is being

proposed in Senate Bill 1 is already occurring in the current process.

But more significantly is that it would create another level of bureaucracy. And Senator Browne mentioned that when the Congressional Budget Office was here, that they indicated that it was -- it would probably be good to have more people looking at the numbers.

We currently have six offices within state government that are dedicated to looking at the overall Commonwealth budget. There's the Governor's Budget Office, Department of Revenue, and then the four staffs of the appropriations committees.

As I mentioned, we have got about 35 people in the Governor's Budget Office. But the four appropriations committees have about, combined, about 40 professional analysts working for them.

These are staff -- long-term staff in the caucuses. They are each specialized in different areas. They have specialties such as in health care, capital budget, education, revenue. And so, they have a great deal of

expertise as they are looking at the budget numbers on an annual and a daily basis.

So Senate Bill 1 would propose that we create a new office, a new independent office. And just using as a proxy the annual cost of what it costs for us in the -- to manage the Governor's Budget Office, you know, I estimated that, assuming that there might be 35 staff, that would be a cost of about -- an additional cost of \$4.2 million per year to have this additional office working on the budget.

Another area of duplication in the bill is that it requires the new office to collect performance measures and performance areas. This is something that, in the last few years, we have been very aggressive in expanding our efforts on performance measures.

For many years, we have had a system in the Governor's budget book where we have a lot of performance data, a lot of, what I would like to call, discounts, number of people served, the cost of providing certain services.

But we have been working with the

agencies, for them to really focus on what their missions are and what their outcomes are and to what extent they are having an impact as a result of their expenditures. And for the -- in the Fall of 2007, we created an Office of Performance Measures in the Office of the Budget. And we have since produced two annual reports and a third annual report is being finalized as we speak.

Finally, before I open up to questions, you know, there is -- the Budget Office produces a lot of numbers. A lot of what we talk about in the budget process is the General Fund budget.

But the General Fund budget is less than half of the overall budget. There is a number of special funds--Motor License Fund, Lottery Fund, Tobacco Fund, Gaming Fund--a variety of smaller funds that roll up into the budget.

We work on providing detailed projections and models for a number of these funds. And a lot of that is put together and finalized in the Governor's budget book. So this is -- The Governor's budget book is not

only a great resource for information with what the Governor is proposing, but there is just a lot of excellent information on state government in this book.

And the constitution requires that we provide information not only for the current year, the proposed budget year, but it also requires that we include information in four planing years, both on the spending side and on the revenue side. And all of that information is in this book. And this is available on the website.

We are one of the few states in the country that have been routinely recognized by the Government Finance Officers Association for having a comprehensive budget document that meets all of the requirements that they believe are necessary to have in a comprehensive budget book.

In addition, we have a -- in our comptrollers operations office, we produce the comprehensive annual financial report on an annual basis. This is also a document that for 23 years the State of Pennsylvania has been recognized by the Government Finance



Officers Association for producing a quality, comprehensive report that meets the highest standards in government accounting. This also is on our website for access to anyone.

I have mentioned our new report on performance measures. This is also on the website, and we were just recognized last year by the Association of Government Accountants for our performance measures report.

In addition, we have a lot of other information that is just routinely put out there. Whenever we do a bond issue, we put together what is called an official statement for the rating agencies to review. And this is an update on a number of economic factors, spending issues. They look at fund balances, our investment practices, just a number of different things. This information is compiled with every bond issue and is also on the web.

In addition, I had mentioned that the appropriations committees have access to our integrated financial accounting system. In addition to that, we put up information for each appropriation on the status of

appropriations as to the spending by month. And that is available on the web as well as the stats of appropriations for special funds throughout the budget.

In addition to the spending side, on the revenue side, we have recently -- I guess it was two years ago, we converted to using our integrated accounting system for revenue accounting as well. And as I mentioned, the four appropriations committees have access to that information on a daily basis on the collection of revenues.

But on a monthly basis, the Department of Revenue posts a summary of their revenue collections for the prior month. And this includes not only the General Fund but also Motor License Fund, there is Lottery information in here, some information on key economic indicators, and that is all posted on the website as well. So there really is a lot of information out there.

In addition, I mentioned that each agency prior to the hearings, the public hearings that the appropriations committees hold every year, each agency compiles

comprehensive information. And this is at the specific direction of the appropriations committees. They, the committees, send us a letter, every December, saying this is the kind of information that we need to have prior to the hearings.

And for the Department of Revenue, they call it their bluebook. And it is a book that is actually thicker than the Governor's budget book. And for those of you who are on the appropriations committees, I know you are very familiar with the mass of material that you review every year.

So, you know, I really want to thank you for taking this on. I know your ultimate goal is to improve the budget process.

I thought about Senate Bill 1 a lot, and I honestly -- I don't believe that if Senate Bill 1 would have been in place last year, it would have had any impact as to what happened.

In the end, we knew what the revenue shortfall was. We knew it was 3.25 billion. We knew that we had to be very

conservative in our revenue estimates. There wasn't any will to raise taxes. We worked very closely with the four appropriations committees and the leaders to reduce spending.

And in the end, we had a number that we called the spin number. And we knew what the revenue situation was. It was, how do you fill that gap? And a lot of discussion, last summer and well into the fall, were what are the options, and are there one-time funds that we can tap into, are there recurring kinds of revenues that there is a will by the General Assembly to pass?

I mean it was a lot of debate on sales tax on theater tickets, for example. And that didn't go any place. And then there was a lot of debate on gaming. And as we were discussing gaming, it wasn't so much about what are the numbers, it's, what's the tax rate going to be, when is it going to be effective?

And as we delayed that -- the negotiations process, we actually reduced some of our opportunities. Because some of these revenue sources, we were not able to implement

as soon as we would have liked and so we ended up getting less revenue in the current year.

So I don't know that, you know, having an independent office saying that this is the revenue would have made a difference last year. I really don't.

I think there are -- I think the goals of Act 50 are good. I think the intent is that we need to restore the confidence of the public in what we do here in Harrisburg, and there is no question that we need to do that.

I think the way that the bill is crafted, it's getting to the point that we need to be more transparent, talking about this independent office having access to data. In fact, as I have mentioned earlier, the committees do have access to that data. But we need to make certain that the public has access to as much data as possible.

We have a lot of data out there. I suspect a lot of people don't realize it's there. Or if they do, they don't know how to use it. So, you know, we, collectively, we need to think about how we can make it more

transparent and more useful.

So with that, you know, I 'll answer your questions.

SENATOR BROWNE: Thank you, Madam Secretary, for your honest assessment on the language of the bill.

MS. SODERBERG: Okay.

SENATOR BROWNE: Members for questions? Senator Vance.

SENATOR VANCE: Thank you, Mr. Chairman.

Madam Secretary, in no way does this legislation have anything to say negatively about your integrity. I want to say that.

And I almost got the feeling, as you talk, that you felt that this was a threat to your office. And any budget secretary, regardless of who is governor--and this is nonpolitical--tends to have some political tinge. And it is not a rival or a threat, nor should it be to a budget secretary. And I do think we need to restore the confidence.

So I am not sure, all of this effort put into saying, well, we don't need it

because we do all of this, if in fact everyone is doing a wonderful job, it should not seem to be such a rival or a threat to the Budget Office. And I just want to tell you, it has nothing to do with your integrity.

MS. SODERBERG: I don't consider it a threat to the Budget Office.

SENATOR VANCE: Well, it certainly came across that way.

MS. SODERBERG: I -- What I really wanted to do was to show the amount of information that is out there and the quality of work that is being done by many professionals in this Commonwealth.

I am concerned that it is -- would be a redundant effort to have in place a Budget Office, to have in place four appropriations offices, and then to create another office doing the same budgetary analysis, providing documents and providing information.

SENATOR VANCE: I understand your feelings. That was pretty obvious. Thank you very much.

MS. SODERBERG: Okay. Thank you.

SENATOR VANCE: Thank you, Mr.  
Chairman.

SENATOR BROWNE: Thank you.

Senator Wozniak.

SENATOR WOZNIAK: Thank you, Mr.  
Chairman.

I think the big issue out there is nobody trusts anybody any more. We have four caucuses, we have four caucus numbers; and we have a Governor's number; and everybody is trying to find out which one is the accurate number. In the final analysis of it all, we knew there was a deficit. The issue was, how large was the deficit and how do we fill the gaps?

Now, Senate Bill 1, with that being said, is probably out there because people said that's a good idea. Let's have an independent agency that makes up a number that we can all agree with.

And I don't have a problem with that either, except for the fact that this is going to cost us money. And you came up with a number. What was that number that you came up with, about how much you think it would



cost?

MS. SODERBERG: About 4.2 million.

SENATOR WOZNIAK: I think what we ought to do is we move forward with this. If we agree, by both the Senate and the House, and the four caucuses, and, you know, votes, 26 votes in the Senate and 102 in the House and the Governor's signature, that we find that money. We pull it out of the other four caucuses so that we have a net zero impact on the budget, so that we are pulling that money from some place else, not creating another -- How much money was that again?

MS. SODERBERG: 4.2 million.

SENATOR WOZNIAK: \$4.2 million. And that's when I say, if we want to create this, all five, but make sure it's running (phonetic) in neutral.

Thank you, Mr. Chairman.

SENATOR BROWNE: Thank you.

Senator Eichelberger.

SENATOR EICHELBERGER: Thank you, Mr. Chairman.

Madam Secretary, I am a little surprised at your testimony this morning. I

really thought that you handled the fundamentals of the proposal very well, but you missed the intent of the legislation.

The intent really is that we don't trust the information we get from other sources. And I think that's been evident in the legislature and that's why there are four separate appropriations staffs for each office because we don't necessarily believe anybody else's information. I don't think there is anything wrong with that. It's unfortunate, but that's the world we live in today.

This is a model that works at the federal level. This isn't anything new. That's why we brought in the Congressional Budget Office, to hear from those folks.

Certainly, the President of the United States has the Office of Management and Budget. They do their own projections. They do their own tracking. And the legislative branch has their own source for information. And they don't always agree.

And oftentimes, we have seen in the news recently where health care proposals and other things, where the President makes

statements, and then the CBO comes out, and says, well, that isn't exactly the way we deal with it. And I think that's good for America. I think this office will be good for Pennsylvania.

We can -- One thing you said--it had some merit, in my view--was that maybe we can cut back. And we have had some discussions about that. And maybe we can cut back on some caucus appropriations staff. If we are going to have an office here, that's a joint office that maybe we have some faith in, maybe we don't have to have quite the staff in each four caucuses.

But again, as Senator Vance says, this is no personal affront to you, but governors, historically, have withheld information. There is not a lot of transparency.

We have had -- I have been here for a little over three years. And I am not on the Appropriations Committee, so I don't see things as upfront as some of the members that are here this morning. But I can recall many examples of people testifying in various

hearings where they don't have the information, they promise to get back to us with information, they don't. We have considered subpoenas to get information. We don't know what are in certain accounts that we have looked at in the budget process. I mean the list goes on and on.

We need to have -- We are dealing with a 27, 28, 29 billion dollar budget. To spend \$4 million so that we have appropriate tracking mechanisms in place, I think is a very small price to pay. And I consider \$4 million a lot of money.

But I think this is one of the best ideas I have seen since I have been in the legislature. And I think that you get the fundamentals, but you miss the intent. And the intent is very clear, that we need good information we can trust.

Thank you.

SENATOR BROWNE: Thank you.

Chairman Rohrer.

REPRESENTATIVE ROHRER: Thank you,  
Mr. Chairman.

Mary --

MS. SODERBERG: Um-hum.

REPRESENTATIVE ROHRER: -- thank you for your testimony this morning.

A couple of thoughts as well. I think everything is -- everything people are saying are kind of adding together here, somewhat.

MS. SODERBERG: Um-hum.

REPRESENTATIVE ROHRER: I appreciate very much the amount of data that comes out. And I don't think anybody perceives or believes that the data -- that there is not sufficient data, because there really isn't.

In most cases, the real challenge is figuring out how to use the data. And oftentimes, there is so much that it's very difficult, often, for many folks to understand what it is and to interpret it. I think we have more of a problem with interpretation of the data that we have than perhaps the fact that we don't have sufficient information.

Now, in my case, I have been on the Appropriations for 14 years and on Finance for six, or whatever my time. So I have seen it

on both sides of the equation.

I think Senator Eichelberger was correct. I think the problem is, is that the process has been so -- over a number of governors, has become far more political than it has been fiscal and fiscally sound. Yet in the preparation of the budget, as we have come before us, I mean we have got to be able to believe the numbers and not have them spun or twisted.

That's my background. That's the way I come at it. I think numbers ought to speak for themselves. And we make our policy based on the numbers, not have policy direct what the numbers say.

And I think the last few years have been -- have really brought a lot of this forward. Or, in fact, in my opinion, the revenue estimates have been grossly overstated and expense numbers grossly understated in order to produce balanced budgets.

And I don't -- You know, my personal opinion is, is that the last several budgets have not been balanced. And I think a number of folks have employed that as well.

And the revenue numbers I have put together myself would indicate that the revenues were very -- very unidentified, that they were not going to be where they are.

And I have often wondered, over the past, you know, where the information is coming from. Is that Global Insight that is failing to provide accurate data or is that the result of folks inside this building who take data and take a different direction?

Now, I have a -- That's just my perception here, as I go forward. I think the whole goal here is, perhaps, is to get data that we can believe. And as much as possible, separate it from the political influences that tend to spin data rather than to let data drive.

Now, in that regard, I just have a question for you, just to get your perspective on it. Because both of the proposals here, Act 50 and the current law, actually the current constitution, it says that when budgets are projected or presented, there is to be a current year. There is the next year and then the four succeeding years.

MS. SODERBERG: Um-hum.

REPRESENTATIVE ROHRER: What -- Can you speak to me on the what you think the reason for that is? Why do we do that?

MS. SODERBERG: Oh, that's very clear to me. It is -- Although it is very difficult to project what the out years might be, you need to have a sense of what are the one-time expenditures or the one-time sources of revenue. And when you take a look at the out years, you see how that all folds together.

When we put together the out-year numbers, it is quite clear what the cost drivers are. Things like Department of Corrections, we start looking at the projections in the out years in the Department of Corrections. We look at health care costs.

You know, we look at the cost drivers and then we look at the areas where there is more discretionary and where we can level funds in some areas in the out years. So it really helps to have a more comprehensive picture so that you are not just looking at one year in a vacuum. Because



whatever you propose this year, you are going to have to pay for in the next year.

But I would also like to follow up on a point that you made about revenues.

REPRESENTATIVE ROHRER: Um-hum.

MS. SODERBERG: Nobody was projecting the economic downturn, the financial turmoil that happened on Wall Street in 2008, in the Fall of 2008. You know, nobody was projecting that.

REPRESENTATIVE ROHRER: And I would agree that the projection of 2008, being as far down as it was, was not fully known at that point, but it was projected by many, many people for many, many months before then.

And I know our state revenue, month to month, year to year, has been going down for a year and a half before we ever got to the Fall of September '08. So the trend line hasn't been down, but we weren't making adjustments so --

MS. SODERBERG: That year, the 2008-2009 budget, we actually -- The budget that was passed was actually less than what the Governor had proposed. We did pull it

back that year.

Normally, in an average year, the budget gets increased through the legislative process. But that year, we actually consciously brought it down.

REPRESENTATIVE ROHRER: All right. I appreciate that. Those are just a couple that when I looked at that four-year budget thing, back to that issue, in all of my years that I have been here, I have not ever found or heard, at least as I can recall, for instance, that during the budget presentations in February, or even through the process, that there has ever been any reference of that to say, well, this is what we thought. You know, this is what actually is. How did we do? How did we compare? Or and actually lay it out, and say, now in this budget, we anticipate three years out, everybody, that this thing is coming due.

MS. SODERBERG: Um-hum.

REPRESENTATIVE ROHRER: And so, this is what we say.

I never remember, other than reading in the budget book, I don't remember

of ever any kind of actual benefit of compare, contrast, how we did, how we think. Look back and say, well, we were off. We were off the year before, so we are going to have to readjust this, or whatever.

And that's why I wanted this from the standpoint of, we can put anything into law that we can, it's oftentimes how we actually take and use it that is the issue. And there, I think, that's been something that's been there for a long time.

Yet from a practical sense, as far as this on the legislative side, I have not ever seen anything that had been developed (phonetic). Although I would believe that for instance a benefit of that would be, in fact, almost producing a five-year budget, with a focus on one, that then you take and then you roll it forward. And actually if you look back, and say, well, how did we contend we do, where did we miss, did we overshoot, why, and then you make adjustments as you go forward.

But I haven't seen that so that's why I ask you what the real practical benefit of that is, as you see it.

MS. SODERBERG: I think -- Numbers are always changing in the budget on the spending side and on the revenue side. The revenue side, the economy has an impact on what you might think sales tax collections will be this month compared to what you thought they'd be for this month a year ago. It's always going to be slightly different. The spending side is the same thing.

Your point about not -- nobody not -- nobody really has focused on the out years, I think you are right in many cases. But I think this is the year that people are focusing in on the out years.

When we put this budget together, we very carefully looked at what's happening this year, what's happening in areas such as the pension spike, what's happening with the federal stimulus funds that we are using, like all other states, to help meet our budgetary requirements.

And when you put those numbers together, you can see that we have a budget that works in 2010-2011. It works. There aren't a lot of bells and whistles here, but

it works. In 2011-2012, it isn't going to work. We are looking at a shortfall of 2.4 billion.

Now, that's our estimate, as of when we put the budget together in January of 2010. When we step back and the budget is finalized, hopefully this June, you know, those assumptions will all change.

But I have no doubt that there is going to be, still, a very significant gap. And it's going to be a huge challenge for the next administration. So it is very important that we are looking at those numbers and that the gentlemen that are running for governor are also looking at those numbers.

REPRESENTATIVE ROHRER: Mr. Chairman, I just have one comment on this. Just briefly, to finish up--I didn't want to go any further on that--because it focuses on this independent group here.

MS. SODERBERG: Um-hum.

REPRESENTATIVE ROHRER: I am wondering if the -- that the --

You know, as you are saying, you are now looking towards -- Not you. I am not

talking to you. The administration --

MS. SODERBERG: Um-hum.

REPRESENTATIVE ROHRER: -- is now looking forward to the out years. That's a good thing.

But these things have been in place for a long time. The outlook, the out years, the consideration that you are talking about were known three or four years ago. Yet they seemed not to have been factored in. And so, I would put that forth, the potential that an independent office, in fact, may have called some of those out years. Because the stimulus fund is running out. It was known before then.

MS. SODERBERG: No, they weren't known three or four years ago.

REPRESENTATIVE ROHRER: Well, the stimulus fund is running out. It was known before then.

MS. SODERBERG: Well, we only received the stimulus funds, it was only passed a year ago.

REPRESENTATIVE ROHRER: I know.

MS. SODERBERG: Three or four years

ago, we had a very robust economy. We were seeing increases in our revenues. So, no, we -- our numbers -- our numbers --

REPRESENTATIVE ROHRER: I understand. I understand what you're saying. I don't want to go any further on that.

MS. SODERBERG: Okay.

REPRESENTATIVE ROHRER: I just want to, on this issue, the independents, perhaps, I think, as was referenced earlier, you know, that is one value. And in looking at what is being projected here is that, perhaps, that could have. I don't think it is the sole solution.

MS. SODERBERG: Um-hum.

REPRESENTATIVE ROHRER: Because I think, again, as we said earlier, the data is there. I think it's how -- It's the quality of the interpretation of the data when it comes, regardless of who does it. So I think that probably is the heart of it.

Mr. Chairman, thank you.

SENATOR BROWNE: Thank you.

Senator Earll.

SENATOR EARLL: Thank you, Mr.

Chairman.

Madam Secretary, I really do appreciate what is obvious, that you have given really sincere consideration to this proposal. And I do share your concern that in a time where our resources are so limited, is it wise to be spending limited resources, creating a new bureaucratic structure that may or may not be value-added to the process.

So, on that, I do appreciate your sincere concern about that. And I am not on Appropriations. Although, I have been here for a while, so I think I understand a lot about what goes on.

But I do have a question. In your comparison chart, it says, current practice, appropriations committees have direct access to revenue collection and budget expenditure information due to integrated financial and accounting system. Can you explain to me a little bit more, in detail, what that is?

MS. SODERBERG: That's a -- It's a IAT system that --

It's an SAP accounting system. It was implemented in -- at the end of the last



administration, 2002-2003. And so, we, by integrating the system, we are talking about our payroll data is in there, our expenditure data. It really rolls up from a lot of different agencies and sources of information, our expenditure information.

SENATOR EARLL: But in other words, this is raw data that every appropriations committee has access to?

MS. SODERBERG: Um-hum.

SENATOR EARLL: They can extrapolate from that data --

MS. SODERBERG: Sure.

SENATOR EARLL: -- and form their own opinions?

MS. SODERBERG: Sure.

SENATOR EARLL: And then that forms the basis of the negotiation that occurs for the administration.

MS. SODERBERG: Yeah. For example, the Department of Corrections, using that as an example, they would have information on what the Department of Corrections is spending on payroll. They would have information on what they are spending in operating. And they

can look into operating, at the detail, of what's being spent.

SENATOR EARLL: And likewise, you, the Commonwealth, has as an adviser, you said Global Insight --

MS. SODERBERG: Um-hum, yes.

SENATOR EARLL: -- that helps you determine a revenue projection?

MS. SODERBERG: Correct.

SENATOR EARLL: That the appropriations committees already have the ability to have their own advisers, in terms of advising on the revenue projections. And again, that still is ultimately going to be a negotiated product.

MS. SODERBERG: Most likely.

SENATOR EARLL: But we already have access to independent information, if we so choose --

MS. SODERBERG: Um-hum.

SENATOR EARLL: -- as does every appropriation committee.

MS. SODERBERG: The fact that we have this joint contract with Global Insight, we all have access to the same economic data.

And Global Insight updates it every month for us.

SENATOR EARLL: I mean I am concerned that there is this perception being created that all of the information that we deal with in the caucuses is force fed through only one single conduit of the administration and that's really not true.

MS. SODERBERG: It is absolutely not. I have -- And I'm -- In Pennsylvania government, I started out on the Appropriations Committee. I was an analyst. And I just have absolute respect for the staffs of those committees. They are very bright people, work very hard. And they challenge us all the time, they really do.

As soon as the Governor's budget comes out on that Tuesday, the phones start ringing off the wall. They want to have -- You know, with all of the information that's in this book, they want to have the detailed assumptions for the tobacco model. They want to know all the assumptions for Medical Assistance or Adult Basic or whatever the issue is. And they are really digging into

the numbers in great detail, in great detail.

SENATOR EARLL: Well, thank you.

And again, I do appreciate your -- what I think is a very sincere consideration of this and sharing your opinions with us.

MS. SODERBERG: Okay. Thank you.

SENATOR BROWNE: Thank you.

Representative Boyd.

REPRESENTATIVE BOYD: Thank you, Mr. Chairman.

And, Madam Secretary, thanks. It's good. I appreciate your forthrightness in your presentation.

I think one of the things that when we had folks come in from the Congressional Budget Office, there was a -- everything worked on how the House focused on the budget process and that one element. But one of the things that the CBO emphasized was they provided an additional role, in that they do analysis on proposed legislation. And I find that the benefit of this office may be less oriented towards the budget process and more towards some of the things that are proposed.

We have had tremendous debates in

the House over various proposals. I think it was House Bill 1. But a health care proposal before the national model is out there. Representative Eachus, Leader Eachus, had a bill out. And that became very politicized as to what adding 300,000 people to a new program that the state would develop, what the costs of that would be and what the tax implications and where the money would come from.

And I see one of the benefits of an independent financial office to be that it would be--try, hopefully--a non-politicized agency where we could get sort of independent data as opposed to my spin--because I was one of the lead questioners for Representative Eachus--my spin on what those numbers would be. And I use that term specifically to indict myself because I believe he had his debate.

MS. SODERBERG: Um-hum.

REPRESENTATIVE BOYD: And I believe the debate politically was, what's the cost of that?

I think we see that in Washington right now, that same process. So the question

is, will this office --

And I guess my question for you is, do you see benefit of an office like that on areas like -- And I will give you one last, quick example. We are debating a bill in the House right now on requiring CO2 detectors, and we have had testimony -- we have had people on the Floor say it's going to cost up to five hundred million and somebody said seventy-five million. Wow, what's that, a four hundred and twenty-five million dollar difference.

So is there room for an agency like this to try and actually provide independent data that would give legislators the tools to make policy decisions with more fundamentally -- or let me just put it this way, less political information? Do you think that that's possible in this crazy business that we are in?

MS. SODERBERG: I honestly don't know.

I mean I look -- As you were talking, I was trying to think of the different entities that we already have in

place. You know, the Legislative Budget and Finance, the Standing Committees, the Health and Welfare Committee. I mean the appropriations committees, the Budget Office, the agencies. I mean there is -- You are right, there is a lot of information out there and a lot of it's good information.

And using your term spin, you are right, a lot of the information becomes politicized. And I honestly don't know if by having a separate entity that comes up with some numbers for a proposal, if that eliminates some of the partisanship. I really don't know.

REPRESENTATIVE BOYD: Thanks.

That's it. Thank you, Mr.

Chairman.

SENATOR BROWNE: Thank you.

Chairman Levdansky.

CHAIRMAN LEVDANSKY: Thank you.

Secretary Soderberg, just a few questions in a couple of areas.

MS. SODERBERG: Sure.

CHAIRMAN LEVDANSKY: You mentioned that the Governor's Budget Office, you have a

staff of about 35 people.

MS. SODERBERG: Um-hum.

CHAIRMAN LEVDANSKY: What's the total annual budget cost for the Governor's Budget Office?

MS. SODERBERG: For just the Governor's Budget Office, it's about 4.2 million.

CHAIRMAN LEVDANSKY: Four point --

MS. SODERBERG: -- two million.

CHAIRMAN LEVDANSKY: Okay.

MS. SODERBERG: And that really was the basis for projecting what it really would cost for this independent office.

CHAIRMAN LEVDANSKY: Okay. I have a question about fiscal notes. You mentioned I think earlier that it's the Governor's Budget Office that provides the fiscal notes. But my understanding was, historically, that the fiscal analysis and the fiscal notes for bills, at least under the House rules for bills in the House and amendments to bills in the House, that the fiscal notes were actually done by the revenue department. That Department of Revenue personnel actually do



the costing-out of a fiscal note for any bill or amendment. And then that, essentially, then that information from the revenue department flows through the Governor's Budget Office to the four appropriations committees. Am I correct in my understanding of that process?

MS. SODERBERG: The Department of Revenue --

When we get -- When we are aware that a bill is coming up for a vote, or sometimes the appropriations committees will actually ask us, they say, you know, would you pull together some numbers for us on this, this piece of legislation, our office, we coordinate with all of the agencies. So Department of Revenue, we work with the Department of Revenue on revenue numbers for tax legislation. But if it's a bill dealing with the Department of Health increase --

CHAIRMAN LEVDANSKY: Mandatory minimum sentencing, you would have to --

MS. SODERBERG: Right.

CHAIRMAN LEVDANSKY: -- talk to people in the Department of Corrections?

MS. SODERBERG: We would -- Right. Absolutely, we do.

And so, we work with all of the agencies, pulling the information together. And some pieces of legislation, we are talking about multiple agencies. So we coordinate with all of the necessary agencies, pulling the information together, preparing the official fiscal note on behalf of the administration and then we share that with the appropriations committees.

Interestingly enough, one of the first things that I was trained on when I was an analyst was that doing a fiscal note is probably one of the best ways of learning about public policy and learning about the agencies. And I can remember my boss at the time saying, you know, I want you to look at that fiscal note from the Budget Office, but I want you to do your own fiscal note. Meaning that, he wanted me to be very familiar with what the Department of Corrections was doing or what the Department of Health was doing, whatever the agency associated with that piece of legislation was, so that I could do my own

assumptions.

CHAIRMAN LEVDANSKY: Okay. And --  
But go, for example, to the tax code changes

MS. SODERBERG: Um-hum.

CHAIRMAN LEVDANSKY: -- like  
expanding the sales tax to different products  
or services that up to this point haven't been  
taxed. That estimate on what expanding the  
sales tax to include different products and  
services, that would essentially be costed-out  
(phonetic), that analysis would be done by the  
Department of Revenue?

MS. SODERBERG: Right, yes.

CHAIRMAN LEVDANSKY: Okay. So most  
of the tax code changes --

MS. SODERBERG: Yes.

CHAIRMAN LEVDANSKY: -- come  
through. But, you know. So essentially the  
majority of appropriations in both the House  
and the Senate are really dependent upon the  
Governor's Budget Office to do the revenue  
estimate -- to do the fiscal notes on  
different proposals that's under consideration  
in both chambers?

MS. SODERBERG: We work very closely with the Floor appropriations committees. And, yes, we have -- Yeah, we are routinely sending over fiscal notes for them to use.

CHAIRMAN LEVDANSKY: And I am not making this -- I just want to put this scenario out there but not because I think that it has happened under your watch or under this Governor.

MS. SODERBERG: Um-hum.

CHAIRMAN LEVDANSKY: But it would seem to me that under that flow of information that if a governor liked a particular idea in the legislature, or say he didn't like it, there may be -- there is an incentive to maybe overinflate the cost of it, or underestimate the true cost, based on whether or not you like the idea. And the reality is then that both appropriations -- the majority of appropriations in either chamber will be getting the same information from the Governor, from the Governor's Budget Office.

MS. SODERBERG: It isn't just the majority. It's the minority appropriations as

well. They do the fiscal notes as well. They are just not the official fiscal note that gets attached to the bill.

We try to provide honest information on what the cost is. Whether or not the committees use that information or how they might adjust it is up to them. I mean their fiscal notes are not necessarily a duplicate of what we provide them.

CHAIRMAN LEVDANSKY: But all of the appropriations committees then are dependent upon the Governor's Budget Office for the information on which to base their fiscal notes that they issue; and so, it would seem to me if they are all -- if they all -- if they all get --

MS. SODERBERG: They --

CHAIRMAN LEVDANSKY: -- get the same data from the Governor's Budget Office, why should there ever be a variance between a minority and a majority fiscal note?

MS. SODERBERG: But there is because we will include our assumptions. For example, Senate Bill 1, we used the assumption that it would be an office similar to the

Budget Office, and we laid that out in our fiscal note.

Somebody in the Senate, who is preparing a fiscal note, might say, well, that's interesting, the Budget Office thinks it's going to be more like the Budget Office. I think and analysts think it's going to be more like the Congressional Budget Office. Or I think it's going to be more like the Senate Appropriations Committee and when I look at the staffing of that office and what the salaries are, this is what I think the costs will be.

CHAIRMAN LEVDANSKY: So again, it's based on what assumptions you build into the models?

MS. SODERBERG: Um-hum.

CHAIRMAN LEVDANSKY: Which is always the --

MS. SODERBERG: Absolutely.

CHAIRMAN LEVDANSKY: Let me turn for a second to the revenue estimates. At the beginning of the budget process, the administration, you know, the Governor, whatever governor, my understanding is when

they produce their budget, they have already -- and it's not the Governor's Budget Office that you are telling me that it does the revenue --

Well, you issue the revenue estimate but essentially the data collection is, we use Global Insights. Years back, we used Work Econometrics. So the outside consultant that does the econometric forecasting then, the Governor's Budget Office reviews that. And based on the national trends, the national economy, for maybe business investment or consumer spending or, you know, you know, durable products, and perks, or whatever --

MS. SODERBERG: It's always a dynamic process. I mean using this year as an example, it's pretty amazing. In the last quarter of 2009, gross domestic product grew by 5.9 percent. I mean just much higher than anybody anticipated. And everybody knew -- know that that wasn't sustainable.

But at the time that that was happening, Global Insight was telling us that they were projecting that gross domestic

product was going to grow by about 2.2 percent in 2010. Then, in January, as we were finalizing the budget, they upped their estimate to 2.6 percent. Then, within days of us releasing the budget, they upped it again to 3 percent. So there is --

You know, it's a very dynamic process. When we are putting the budget together, we are looking at what's hap -- what are Global Insight's projections, what are their economic factors, and they update those, you know, on a monthly basis; but also what's the actual revenue collection that is occurring and what are the indications there that might give us an indication of something about to change.

And Dan Hassel and I--Dan Hassel is the Acting Secretary of Revenue--and I probably are on the phone, I don't know, maybe five times a week. We meet regularly and we work very closely.

CHAIRMAN LEVDANSKY: So you get the econometric forecasts from Global Insights --

MS. SODERBERG: Um-hum.

CHAIRMAN LEVDANSKY: -- and then



you issue a revenue estimate upon which the Governor bases his proposed budget --

MS. SODERBERG: Right.

CHAIRMAN LEVDANSKY: -- that he delivers to the General Assembly in February, correct?

MS. SODERBERG: Um-hum.

CHAIRMAN LEVDANSKY: Then when's the next time? So you certify a revenue estimate at the beginning of the budget process?

MS. SODERBERG: No. No, that is just a revenue estimate. It's not a certification in February.

CHAIRMAN LEVDANSKY: Okay.

MS. SODERBERG: Most -- The majority of our revenues in Pennsylvania come in in the last four months of the year; most significantly, March and April. Those are the big months, a lot of key tax -- business taxes come in in March and, of course, we have personal income taxes in April.

We are looking at a lot of different touch points on a monthly basis. The 20th of the month, sales tax collections

come in. That's a very important indicator, especially in this economy is, what's happening with that. Business tax payments. This month, you know, we have got all eyes on corporate taxes.

This year is a very unique year, in that we have got the amnesty program. Those payments aren't going in until June 18th. So at the very, very end of the process, we have got some significant dollars coming in.

CHAIRMAN LEVDANSKY: So you issue revenue estimates and revenue forecasts at the beginning of the budget --

MS. SODERBERG: And then --

CHAIRMAN LEVDANSKY: -- which the Governor bases his--just let me finish--which the Governor bases his proposed budget on; and then, on a monthly basis, you make adjustments to the estimates based on what actual collections are. At some point, at some point in the budget process, right before we adopt the budget, the budget secretary is required to certify --

MS. SODERBERG: Um-hum.

CHAIRMAN LEVDANSKY: -- the

official revenue estimate. Under existing law, when are you required to certify the revenue estimate?

MS. SODERBERG: That happens at a point in time when the Governor is actually signing the budget. And it is -- it's almost a three-step process because you have the expenditure document but you also might have some revenue documents. So the certification is only for those revenues that are in law. So if there is a tax change that is occurring in conjunction with the budget, we'll hold off and do the certification once that tax bill is also signed and is in law.

This last year, we did two certifications. We did a certification when the bridge bill was signed because we had to certify the revenues that were available at that point in time. And then October 9th --

Is it the 9th?

MR. DONLEY: Yeah.

MS. SODERBERG: -- when the final bill, the budget bill was finalized and there were some revenue changes associated with that, we did a second certification. And then

again, I have just been reminded of a third certification in January, when the table games bill was passed, we certified the revenues for that piece of legislation.

CHAIRMAN LEVDANSKY: So you do the certifications after legislation is passed?

MS. SODERBERG: Yes, yes.

CHAIRMAN LEVDANSKY: And after all the fiscal and tax code --

MS. SODERBERG: Yes.

CHAIRMAN LEVDANSKY: -- the bills and amendments are considered --

MS. SODERBERG: Yes.

CHAIRMAN LEVDANSKY: -- then at that point you do the certification of those items?

MS. SODERBERG: We don't do a certification assuming things will happen. We certify what has happened, what we know at that point in time.

CHAIRMAN LEVDANSKY: Okay. Okay. Thank you.

SENATOR BROWNE: We've imposed on you a lot longer than we originally said that we would. So I just would have a couple of

brief thoughts in relation to your testimony, and comments by the members, on your notes about the overall intent of that.

MS. SODERBERG: Um-hum.

SENATOR BROWNE: You know, the chairman of this committee when I started in 1994, Chairman Bort (phonetic), from Erie, used to have us -- used to say many times that sometimes where you stand depends on where you sit. And I think in regards to the negotiation process and your relative responsibilities and your powers in that process, you are going to stand in a different place.

It's my belief that our constitution stipulates equal responsibilities, on behalf of the Governor and the legislature, to pass a balanced budget. So in order for us to engage in those and execute on those responsibilities, it's my belief that both sides need to be in equal footing. I think anyone in the legislature would believe that, and I would hope that those who are negotiating on the other side would at least in principle believe that.

Now, the current process, which you had done very well on explaining how it tries to accomplish that, is built in a way that it can't. Because what we are talking about is ultimately an accommodation of the legislature on information available to one side and produced by one side.

We have all been here for a while and we get directly engaged in the process that we get comfortable with. But if you step outside this process and you look at any other large negotiation process where two different parties have equal responsibilities, one party is not going to be in equal footing, will not be able to make a decision that's best for them and to meet their responsibilities when all of the information available, in order to make that decision, ultimately comes and is verified by one side.

And what happens in those situations is those sides are accommodated and their responsibilities are accommodated through independent verification. So when you have a negotiation on a deal, say a large deal, a billion dollars, and one of the sides

has to rely on information from the other side, in order to make sure that it's correct, what is common practice is some sort of independent verification and, in most regards, an audit. So you have a third party, that's not connected with any of these parties, saying that that information is good so that both parties are comfortable that the information that they are relying on is as credible and as accurate as possible.

That's the part of our process that is missing, Madam Secretary. There is none of that going on. Because either side has information that they develop, and they offer in the process, without that independent party that can say, yes, the information is good.

Now, on revenue estimating, you had stated that we both have access to the same information. But ultimately, regardless of that, the decision lies with one party, and the power of that cannot be underestimated. And it has been used to drive the spending.

I will note one circumstance that we have both been through, back when the economy was booming and revenue was coming

into the assembly, very comfortably. When we finished a budget in April, it was the request of the administration at that time to certify the revenue estimate in April. Because they were afraid that, given the revenue run-ups that were going to happen in May and June, there would have been too much money to spend.

So we certified it equally and got it out of the place. That was the decision on one side of the aisle. Maybe it wasn't the best decision, but it was still a decision that was driven by one party in the negotiations, not both. That ultimately is the decision that, under our law, that unbalances the equation. And there's many other parts to it, too.

Your performance measurements and your performance evaluation process is laudable. However, it is still something that is engaged and produced by a party that has a very important stake in the process. It's not done by someone who can say that this information is independent and it is verified regardless of the intent of the parties to make open negotiations.



A performance measurement system cannot be credible and reliable unless it is produced by an independent party. You know, just from a standpoint of financial management, you can't have the party spending money being the only party who has the ability and the charge to evaluate performance evaluation; and that's what this office is engaged to do.

And lastly, what we are looking to do is have, as much as possible, a process of mutual accommodation. And you put the budget timeline on the table --

MS. SODERBERG: Um-hum.

SENATOR BROWNE: -- and noted that the process of one of the parties in negotiations only starts more than halfway through the process under our statutory budget process.

You can't have a process of mutual accommodation with equal rights and responsibilities when there isn't a mechanism to engage both sides throughout the entire year, a statutory mechanism to do that. Just getting the information before the

Appropriations hearings, getting them after they are developed into the budget proposal, is not enough when everyone balances the equation.

So the short point that I would like to make is, what our goal is to do is to make sure that both sides have equal ability to make the decisions they are constitutionally obligated to do, and even, and with the best intentions of this administration, provide information to us. The process in and of itself is not able to do that.

And it will result in efficiency. And it will result in a lack of accommodation, which is in our best interests to get our budget done. And that's the fundamental reason why this is different than the current process and why it's better than the current process.

And I appreciate your opinions today. Thank you very much.

MS. SODERBERG: Thank you very much for inviting me today. As I said, I commend the two committees for coming together, to try

to find some good solutions for improving this process. None of us want a repeat of what happened last year.

I have to continue to say that I think that we have a lot of knowledgeable people on both sides of the aisle, in the General Assembly, in the administration.

As you were talking about having access to data, and I was having a flashback to last summer, where we had analysts for discussing--from the General Assembly--discussing Medical Assistance. And they have a wealth of information and a wealth of knowledge. And they don't just pick up the gauntlet and go to work when the Governor's budget comes out. They are working year round, very knowledgeable about this budget.

Thank you for your remarks on performance measures. I think we have done a great job. And you're right, it's very important, when you're looking at performance measures, to measure against what's happening in the rest of the country. And we have worked very hard to identify benchmarks to represent standards throughout the country in

a number of our agencies.

You know, in the end, it may come down to just the leadership that is required to make the tough decisions and move the process along.

SENATOR BROWNE: And you have been there for that. I appreciate your hard work. It was a tough year, last year. We got through it. It was hard. And again--as you point out--my only intention with this and hopefully this joint committee, if we move this forward, is to improve that. So I appreciate it.

MS. SODERBERG: Thank you.

SENATOR BROWNE: Thank you very much. We are sufficiently behind. Understanding the -- That was a very valuable time period for all of us. So thank you for that.

The next testifier is Robert Powell, Senior Advisor from Government Policy in the Cansler Fuquay--is it--Solutions, Inc.

Robert, thank you.

MR. POWELL: Good morning, Mr. Chairman. I recognize you are running behind.

I will take guidance from you in terms of how to approach my presentation to you.

SENATOR BROWNE: If you could make it as -- without sacrificing substance, make it as brief as you can.

MR. POWELL: Well, then I will cut to the chase --

SENATOR BROWNE: Okay.

MR. POWELL: -- and give you what I think are the most important parts. I do have a narrative that has been submitted for the record, and I hope you will have an opportunity to read that. That will give you a little bit of background on the history of the legislative fiscal office in North Carolina.

Very quickly. While I am now a year-and-a-half retired, I spent my entire career in North Carolina state government, 37 years; 25 years in the State Budget Office; 12 of those years as Deputy State Budget Officer; one year as State Budget Officer; and the final seven years as State Controller. And I have a real appreciation for the conversation that you just had with your secretary of the

budget. So I think I have an understanding of the issues that you are facing.

As I said, two points. North Carolina has had a legislative budget office -- well, legislative fiscal office, as we call it, for 39 years. It started in 1971.

And the reason they started it was they felt like they needed to have their own independent staff, and advice, guidance and analysis for the budget issues. Not necessarily because there was any kind of conflict between the legislative and executive branch, but I think they had some legislators at the time who could see well in advance and understand that the future was going to be necessary to have that kind of a plus and minus discussion over a period of time.

The funny -- In 1971 when it was established, only two years later we had the first Republican governor in North Carolina in 100 years. So I guess those people sort of had an idea of what they were going to be looking at in the future.

The current organization has grown dramatically from the original concept. It

started out with less than 10 people. The staff now has grown to 38 people, 36 of those are professional people who are involved in budget review and budget activity of some nature.

The budget for that organization is \$4.5 million. They are -- They mirror the state budget office in many ways. They are divided into 11 functional teams, such as transportation, natural and economic resources, health and human services, general government. And each team has three to four members and they are involved with analyzing, year round, the activities of those agencies as well as their budgets.

The director of the commission -- I am sorry, the director of the division is hired by the Legislative Services Commission. The Legislative Services Commission is a group of legislators--equal House, equal Senate, Democrats and Republicans--and they are responsible for hiring that person. That person is responsible for making recommendations to the commission for staff. The staff has to be approved by the

commission, but they spend a lot of -- well, they put a lot of emphasis and a lot of support in the recommendation of the director.

As you move ahead with this process, I would encourage you to give serious thought to the director, the importance of that position, and how that position is ultimately going to interact between the elected body and the staff of the legislative -- of the legislative staff.

The primary functions of the staff. When the Governor submits their budget, they are responsible for staffing the various legislative divisions, or committees, within those functional areas.

They review, analyze, support, make presentations, and generally represent that budget to their various committees. That includes the continuation, expansion, capital improvements, information technology, and the revenue estimation component of the Governor's budget.

They aid in the development of legislation that has a budget impact.

They do fiscal notes. Those fiscal



notes have to be readable and understandable, and they are responsible for doing that five years out. You look at the current year spending and you project it out five years.

They are responsible for tracking federal spending and the impact that might have on state spending in the long term.

When the session is not in -- And by the way, we have a biannual budget, updated each odd year -- each even year. Our budget is adopted in the odd year. We are a full session. By that, I mean January to about July. A budget is adopted. And then the next year, they come in, around May, middle of May, and stay until about the end of July to update that budget.

So when the session is not in--ours is not a full-time legislature--the staff is required to be out monitoring agencies, monitoring spending, reviewing impact on programs, and staffing the standing committees and the ad hoc committees that are within the legislature. So they have a full-time job and they are full time in that environment.

They are also monitoring economic

conditions, revenue collections, and they are developing their own estimates of revenue for the current year, shortfalls for the current year, and estimates of revenue in the long term.

Now, that organization, as I said, has been in existence for 39 years. I have had the opportunity to observe them for 33 of those 39 years, and I can tell you that they have truly grown and become a viable part of the budget process in North Carolina.

In 2007, we created, or the legislature created, what's known as the Program Evaluation Division. And I should say that when they originally conceived a legislative staff, they wanted to have an evaluation component. In fact, they even considered bringing the state auditor's office into that environment. But the state auditor was a constitutional officer, and they didn't want to fight that fight, so they avoided it.

But in 2007, they did develop a Program Evaluation Division. And I think they feel like that that fulfilled the original intent of the legislative fiscal office. That

office has -- is basically the same framework of the fiscal resource office. They have eleven employees, \$1.6 million budget, and they have a director. The director is hired by the Legislative Services Commission, and he recommends the staff for that commission -- for that the division.

Very quickly. What that Program Evaluation Division is responsible for is to evaluate the merits of programs and the effectiveness that an agency has in carrying out that activity.

They are required to develop quantitative indicators for measuring activities and the extent to which those are achieved. They develop cost measures where measures do not exist for providing services. They determine compliance with law. They recommend improvements to the program. They determine compliance with those improvements that are adopted, and they provide written reports to the General Assembly on a periodic basis during the course of the year.

I am kind of running through this, Mr. Chairman, so bear with me, if you will.

SENATOR BROWNE: Okay.

MR. POWELL: Let me just mention to you the key issues that our legislature was faced with back in 1971. I wasn't there yet, but I have done some interviews on this, so I am providing you what I was told.

They wanted to ensure -- to assure themselves that this staff was professional, nonpartisan, working without the influence of politics. Now, somebody may be laughing up there, but let me tell you, when you go from 100-percent influence and you're able to reduce it down to about 30-percent influence, that's pretty good on a business. You know, when you are in the political environment, it's hard not to have some impact on what you say and are doing.

But, by and large, that staff is nonpartisan. They felt like that this was the way they wanted to operate. They particularly wanted to avoid having majority and minority staffs. They wanted to have one staff serving Republicans, Democrats, House and Senate.

They also felt like that would be a big benefit in the recruitment process, the

retention of employees, and the selection of people who could come to work for them. And I think that has proven to be a smart thing to do, over the years.

They were required and they did adopt legislation that requires agencies to provide any and all information that they have, whatever data bases they may be -- that they contain -- or they may be maintaining, to all fiscal staff. And that would include everything from programmatic data, to revenue data, to collections. Anything at all that they asked for, they had to be provided.

And the staff of the legislative office is not required to say why they are asking for that information or who wants that information. It's simply a matter of, this is what we want and you give it to us. And executive agencies understand that mandate and they comply with that 100 percent.

They did not want the staff to be in a position to make recommendations to the legislators. They wanted them to provide options, what if scenarios. And they didn't want the staff and they do not want the staff

to own an issue. They want them to be independent analysts, who provide unbiased and accurate information, and the decisions that were made are made by the legislators.

I mentioned fiscal notes, and they wanted those fiscal notes -- We have a citizen legislature. And so, you know, we have a variety of people in different walks of life who are in our legislature. They wanted those fiscal notes to be readable, understandable. They don't want a lot of economic indicators that take people through a big scenario of how you get to where you are going to. We want to know, what are you spending, how much is it costing, who is it serving, what's the staff requirement? Easily understood by every legislator, and they do a good job with that.

As they developed the legislative staff, they wanted to know what kind of impact was going to be on agencies. In other words, are you going to have to improve your data bases, are you going to have to improve your interfaces, what is it you are going to have to do. And they did a lot of work in trying to consider how that was going to affect the

agency.

Finally--and I think this is really important for us--we have in North Carolina what's known as a consensus revenue forecast, and it goes somewhat like what Mary was just describing to you.

In February when the Governor submits--in our case, she is a lady now--submits her budget, the Governor has to submit an estimate of the revenue forecast. The legislature receives that budget. They are doing their own analytics on the revenue forecast.

At that time a discussion is held between the state budget office and the legislative fiscal office, talking about what are the revenues going to be for the next fiscal year. They try to come to some decision on that. They are not always in agreement. But they move forward with the budget review process.

Now, when we get into April, we get through with our corporate collections, our individual collections, our sales tax for the year. They do another review in May. The

budget office, the legislative fiscal office sit down and they hammer out what's known as a consensus revenue forecast.

If they cannot agree, then the law requires that you take the lower of the two forecasts. That's the revenue forecast that the General Assembly adopts their budget based upon. And our budget is required to be adopted by June 30th, every fiscal year. It doesn't always make it, but that's what the law requires.

So the budget is based upon the lower of the two revenue forecasts. Most of the time, we come together with those forecasts. And once the Governor -- once the budget is adopted, it's up to the Governor to execute that budget. If the revenues come in lower than that, the Governor has to find a way to make it balance.

And I am going to, very quickly, give you my final -- my thoughts on the legislative fiscal office. I have seen the good, the bad and the ugly. I have been in the executive branch, most of my career, in the budget office. And you can imagine what



kind of head butting that can go on with the legislative staff.

But it's productive. I have to be honest with you, you learn to have a great deal of respect for each other. You learn how to talk to each other outside of the process. More often than not, we'd get together privately, talk about issues and figure out what's the best approach to try and make, provide options, representing the Governor and representing the legislature as well. It worked out. It worked very well.

If you don't have that, you have a lot a whole lot of dependency on the executive branch. And that was what was, you know, in the minds of the legislature back in 1971 when they adopted that, that approach.

Secondly, it has led to a great deal of transparency in government. The legislature, over the years, their staff has developed their own databases. They have developed their own relationships with media outlets, with stakeholders. You don't have to just depend on the executive branch now to provide information. There is information to

be had everywhere, in every system, and they are open to everyone in North Carolina.

So transparency has been a big thing that has evolved from that. It didn't happen in a year. Remember, this is a 39-year evolution that we have had.

Personally, as state controller, the state controller of North Carolina is nominated by the Governor and approved by the General Assembly. While it's under the executive umbrella, it's an independent office.

When I was controller, I needed moneys for an information technology project we were doing in the ERP. Our Governor had no interest in that. He didn't oppose it, he just didn't have any interest in it. He didn't want to spend his capital on it. So I used the legislative fiscal office as my sounding board. And they proved to be of extreme benefit to me, as a department head in the executive branch, where I couldn't get the ear of the Governor.

So they give you an alternative, as an executive agency, that's outside of the

Governor's purview. Remember now, we have Council of State Offices. We have 10 Council of State Offices. So it gives you an alternative approach to entering the legislative budget process. So I found that to be extremely helpful.

Now that the Performance Evaluation Division and Fiscal Research Division are both together, they are a strong force in North Carolina budget development and execution. They work well together, they complement each other, and they are putting a lot of pressure on the executive branch to come up with better performance measures and better budgeting techniques.

The final thing I want to mention to you is it brings -- a legislative staff brings continuity of transition. When the legislative leadership changes, when appropriations chairs change, when the membership changes, the stability of a legislative office brings continuity through that transition so that historical institutional knowledge, institutional information can all be shared with whoever

happens to rise to the top.

My final note is that you want to be really, really careful of the legislative fiscal office. Because there have been times, and this can easily happen, when the staff becomes a little bit -- or feels themselves to be a little bit more important than they are. You don't want to get them in a position where they are dictating policy or they are telling you what you should be doing. Remember, and remind them at all times, that they are staff, and don't let them develop their personal agendas.

Mr. Chairman, I have given you a 40-minute presentation in about 15 minutes.

SENATOR BROWNE: Thank you.

MR. POWELL: And I will tell you this. I forgot to tell you at the beginning. I have no preference, one way or the other, on the issue. I am just giving you my observation of the legislative staff in North Carolina.

I have a world of respect for Mary and her staff, and I have worked with her through NASBO, during my years at NASBO. So I

don't know how my presentation comes across, but it's supposed to be unbiased.

SENATOR BROWNE: Thank you. I appreciate that. And that's one of the things we are hopefully looking for in this legislative change. And we have never had any circumstances in Pennsylvania where staff believe they are bigger than the -- We have no experience with that one.

MR. POWELL: Okay.

SENATOR BROWNE: Members, questions? Yes, Senator Williams.

SENATOR WILLIAMS: Thank you. Thank you, Mr. Chairman, both chairmen.

I have a few questions. And I came late and I apologize. So I guess I missed something, I think. I walked in and I saw a number in here where the current secretary of the Office of the Budget suggested that the independent office would cost, I guess, \$4.2 million to operate. How much is your office?

MR. POWELL: It's not my office.

SENATOR WILLIAMS: Well, not your office.

MR. POWELL: It's the legislative fiscal office has a staff of 38 people at 4.5 million. And there is a complementary office that was established in 2007, which is the Performance Evaluation Division, which has 11 staff members at 1.6 million.

SENATOR WILLIAMS: Okay. How big is your budget?

MR. POWELL: The legislature's budget?

SENATOR WILLIAMS: Yes.

MR. POWELL: Well, you are testing my memory now. I think it's about 11 million.

SENATOR WILLIAMS: Eleven million?

MR. POWELL: Yes, s i r .

SENATOR WILLIAMS: Okay. As opposed to -- or compared to ours at 28 billion?

MR. POWELL: Oh, you mean i t ' s the state budget?

SENATOR WILLIAMS: For the cost to do it (phonetic). Which one are you reviewing now? No, I am sorry. What's your opinion?

MR. POWELL: Oh, the state budget is about 19 billion general fund. And, in

total, it's about 38 billion and falling.

SENATOR WILLIAMS: Okay. Thank you. Hopefully ours is, too.

And you told me the list of the size, so it's comparable to yours. Has that office either -- Well, the Governor has similar construct there as compared to ours and then this would be similar to what we would ultimately have happen in that office. Does that body, does that office, that independent office, review not only the budget considerations of the legislature but the efficiency of the legislature, at all? Or have they ever been requested to say, for instance, should we do -- or should we downsize the legislature or be operating more than one division?

MR. POWELL: I am assuming you are talking about the Performance Evaluation Division.

SENATOR WILLIAMS: Exactly.

MR. POWELL: It's been in existence since 2007. And I haven't seen their list of priorities to review, but at this point I don't think the legislature is right there at

the top. So I have not reviewed the legislature at this point.

SENATOR WILLIAMS: Okay. Thank you you.

MR. POWELL: Yes, s i r .

SENATOR BROWNE: Yes, Chairman Levdansky.

CHAIRMAN LEVDANSKY: I just appreciate your testimony.

MR. POWELL: Sure.

CHAIRMAN LEVDANSKY: Now it comes across pretty straight forward and about as objective as you could be.

Just one question, in terms of when they set up, you know, the Fiscal Research Division of the legislature, when it was established. I think, obviously, I mean besides the qualifications for the individual staffers, for the analysts, probably the most important decision is the appointment in hiring the director. How, in North Carolina, how is that arrived at?

Obviously the -- Obviously, that the caucus leaders, in both chambers, had input into that. But assuming that, you know,



you have, you know, two on each side of the aisle, to an appointment structure, how do you arrive at appointing a chairperson or a director?

MR. POWELL: Well, I will answer it two ways. The first way. The first director of that division was actually the former state budget director. The legislature had a great deal of respect for that person, on both sides of the aisle. I am talking about the House, Senate, Republican, Democrat. They engaged that person to begin the process of instituting a culture in that organization. That culture took almost 10 years to really get engrained.

Now, if you ask me that question today, what are they looking for, first of all, they are looking for somebody who has the right qualifications, somebody who is capable and competent. Secondly, they are looking for somebody that people within the power structure know and trust and believe to be honorable, integrity, have the understanding of the process, and has an appreciation for the culture of the organization that would

maintain that nonpartisan environment. And finally, I think they are looking for somebody -- Trust is a big factor on that.

CHAIRMAN LEVDANSKY: Let me put this a little bit of a different way. Let's say, you know, you have Democrats and Republican leaders in both chambers. Say they both have -- all of them have equal appointees to a committee that's going to select the director or the chairperson. So say there's equal votes on equal sides and they can't reach a consensus. You know, that magic person --

MR. POWELL: Right.

CHAIRMAN LEVDANSKY: -- that perfect person doesn't exist. How then do they reconcile their differences and come up with an appointed chairperson or director?

MR. POWELL: Well, to begin with, the body that's making that selection is not equally Democrat, Republican. While they are all members on that body, at the current time the Democrats have more members so they can control who is going to get that office.

But I can tell you, over the years,

that the person who has held that office has come up through the Democratic ranks some time and up through the Republican ranks at other times, so it hasn't exclusively been one party or the other who has controlled that environment. And every person that has held that job has maintained that culture of nonpartisanship.

CHAIRMAN LEVDANSKY: Okay. So the committee -- The appointing process isn't equal for all caucuses?

MR. POWELL: No.

CHAIRMAN LEVDANSKY: It's based on who has a majority?

MR. POWELL: Yeah. There is a Legislative Services Commission that's a body of about 20 legislators who are made up of House members and Senate members, of Republicans and Democrats.

CHAIRMAN LEVDANSKY: But not equal?

MR. POWELL: But not equal, that's correct. And that's because at the present time the House Speaker is a Democrat, the president pro tem, who is in charge on that side, is a Democrat. There have been times

when the House member was a Republican. I can't remember ever a time when a president pro tem was a Republican.

But at that point, they were able to come together. The speaker and the Senate pro tem came together with a solution. Now, was I in the back room of whenever that decision was made? I was not. I think it's just a matter of two bodies coming together, and saying, you know, we want to do what's right for the legislature.

CHAIRMAN LEVDANSKY: I think once you get the culture of bipartisanship established, it's a lot easier to keep it going. But I am just anticipating the potential struggle of getting it established.

MR. POWELL: Right. Well, I would say, it's 39 years old, so, you know, so it's been around a while.

CHAIRMAN LEVDANSKY: Yeah. Okay. Thank you.

MR. POWELL: Yes, s i r .

SENATOR BROWNE: We are butting against an 11:00 Senate session that starts up. I wanted to thank you, Robert, for your

testimony.

MR. POWELL: Yes, s i r .

SENATOR BROWNE: And hopefully we will have a chance to talk later about suggestions for improving i t .

We can move on to our final testifier, John Wheatley. John, thank you very much. Thank you for your patience. He is the President of the American International Consulting Services.

MR. WHEATLEY: Thank you, Senator Browne, members of the committee. Obviously, we have about three-and-a-half minutes left.

SENATOR BROWNE: I think we are okay with going to about 11:15.

MR. WHEATLEY: About 11:15?

SENATOR BROWNE: Yes.

MR. WHEATLEY: Okay. You should have a copy of the presentation. I wanted to do this one thing in front of you, so I am going to skip right into the middle of it and try to be prudent with your time and see if we can get to the pieces that you really need to hear.

So if you could skip forward to --

Probably on your copy, it will be slide nine.  
And it should be headed up, PA  
Recommendations.

And the premise of why I am here  
this morning, really, is I was here back in  
August with Jane Kusiak, the Executive  
Director, Counsel on Virginia's Future, where  
we had, I think, a much longer period of time  
to be able to address the committee.

And that presentation should have  
been distributed to you, as well, prior to  
today's meeting. So therefore you will have  
that as backdrop, as to where Virginia is as a  
whole in their approach to performance  
management. Which is, again, the piece I am  
really going to focus in on, which inside your  
legislation is Section 504 (a), Duties of the  
Office, and specifically section -- or item 7.

Cutting to the chase, what was  
prior to this, is some of the things that have  
been achieved inside Virginia and the issue of  
do you measure performance, do you not measure  
performance, how do you do it, et cetera, et  
cetera, so. And that really, to a certain  
extent, is a no-brainer. Yes, you have got to

measure performance, is my opinion, so.

So coming back to looking at the legislation specifically that you have of my recommendations for Pennsylvania, that's basically what I am going to go through, as quickly as I can, at the moment.

So the first recommendation I would have is you need to provide overall direction. Without an overall strategic direction at some level, we don't know what we are tying things to when we are looking at performance measurement, when we are looking at money, et cetera, et cetera. And I will go into some of that in more detail in a moment.

What I would say you need to do is to establish an authority, or a board, that's going to do that strategic direction. It may be the independent fiscal office, it may hang off of the independent fiscal office. One way or another, I believe you need to do that.

You need to develop a vision and a set of goals for Pennsylvania. And again, if you go to Virginia's website, Virginia's performance, you will see that articulated very clearly, where the legislature and the

administrative branch have come together, and the change of each administration, they reiterate what those goals are.

You need to establish, I believe at the upper level, again at this committee level, you need to establish societal outcomes. And I am going to talk to that in a moment, again societal measures, which are going to drive and help you think about that, that vision, and the goals, and are you achieving where you need to be going in that area.

And again within there, I think when we talk about, oh, when I say the legislation talking about establishing goals for the executive branch, I would caution you away from that. And I will talk about that a little bit later. Because again, I think you can drive quite easily from the societal side and look at alignment coming back out into there from the executive side. But again, we'll get into that. I have a model for you, in a moment.

And again, what you need to ensure, obviously, is transparency in the system.



Again, if you look at Virginia's model--and it's not just unique to Virginia--you can go to Virginia's performance and from there you can dive down from a societal level, all the way down to a programmatic level. And of which time you are looking at outcome, you are looking at productivity, you are looking at the number of different indicators. So again, you can make that tie in real easy.

If we direct entities to establish their own plans and establish their own measures and align them with where Pennsylvania is going as a whole, one of the things you will get out of that, I believe, is ownership. If you turn around and you dictate to people what's going to be measured and how it's going to be measured, you are setting yourself up, I believe, for failure. Because we know how that game is played and we know people can make the data look however they need it to look.

At the end of the day, what we are looking for is a level of maturity that comes to the table where that ownership is there, and all levels within an organization, they

are using performance management as a tool to do business on a day-to-day basis. That's the point where we need to be with any performance management system, okay?

And then we need to, from the revenue side, or the budgeting side as you have been talking about, is understanding where are we investing as far as our strategic vision and goals are concerned. And where do we put that money? Based upon performance, maybe, et cetera, et cetera. And again, I am going to talk to that again in a second.

Moving on real quickly to the next slide, understand how the data is to be used. You talked this morning a little bit about that. But the use of the data on both sides of the fence, executive and legislative, it is very key.

When we set up Virginia's performance management system there, the one thing we were very cautious about, especially -- well, not especially. But with the legislature, with the secretariats, with everybody, is if you use this by, with, as a fortitude to beat the agencies around the head

and the program areas around the head, you will lose the validity of that data and the ability to have the data that you need to work with because people will shy away from it. Okay. So, so you just be aware of it.

Again, make the measures transparent--in Virginia, it's transparent all the way down, out to the public--so that the agencies are very cautious about exactly what level of integrity those measures are.

And remember, there is going to be a lot of work involved in maturing that system. The prior speaker talked about a 10-year period in North Carolina.

The system does mature over time. When the first set of performance measures are put in place, don't expect something that is to be all and end all. Because people really start thinking about performance measurement and will come back, and say, no, that's not quite right. We need to change that. You know, if it was tweaked this way, it would be better. So you get, especially in the early days, you get a number of fits and starts, if you like, that happen before you get to that

true value performance measure.

Moving onto the next page, societal measure examples. If I look -- And I did a little bit, quickly, a little of research where I went out to the web and pulled down some statistics to do with educational attainment for Pennsylvania. And as you can see on the slide there, this comes from census data from the organization that I have listed as the source on there.

But if you look at an age group, inside Pennsylvania, ages 25 to 34, you will see in there that only 33 percent of those individuals has a high school diploma; only 8.4 percent have an associate's degree; and only 2 point -- sorry, only 21.4 percent have a bachelor's degree.

Now, I am only pointing this out purely as an example. I am not trying to pick on Pennsylvania in any way, shape, or form. I am saying this as an example.

And if we are looking at the societal indicator, okay, and looking at our vision and goals of where we are going, we can move to the next slide. And on the next

slide, you will see a presentation that was done. This is a slide I extracted from a presentation that was done last December, to the Council on Virginia's Future, about educational attainment.

The interesting thing on this slide, more than anything, is the four quadrants that relate educational attainment to income and wealth within a state. And as you can see on there -- You know, obviously, this was made for Virginia, so Virginia is in the top right quadrant. Where would you expect to see it? Pennsylvania is listed on there. And in the center, it is the U.S. in general. But I wanted you to get a feel for that because, again, that is a societal indicator that you can miter.

Now, if we move to the next page, where you have got societal measures continued, and I invented, for lack of a better word, a goal for Pennsylvania that says that Pennsylvania wants to increase educational attainment and citizens with associate's and bachelor's degrees.

Now, what is the benefit of doing

that? Well, if we drill it down--and again and obviously I have made this as simple as I possibly could--if we have a workforce within a state that is highly skilled, that's going to be very attractive. That's going to be very attractive to potential employers, industry, et cetera, et cetera. There are other things that attract them, obviously, such as tax breaks, when they set their organization up. But that would be one of the things that they would be looking for.

So if we have a highly skilled workforce and we can attract industry into Pennsylvania, or any other state, per capita income is going to increase. As per capita income increases so does disposable income at the same time, which probably means that there is going to be more jobs in the lower part of the job sector which is retail and service industries, which again it probably would mean more tax revenue which will give us more money to spend on education.

So as you look at those societal goals and you start to measure what's going on there from independent sources, you can start

to see, where do we need to invest our money as a state?

If you take that forward one more page, again, what we get down to at the end of the day is, can state government be responsible for educational attainment? Well, ultimately the answer is no because there are so many factors involved, but they can contribute significantly to what happens in this area.

So as we look at educational attainment, most people turn around and immediately think of the Department of Education. Well, actually, it's not just the Department of Education issue. It's also a social service issue, it's a family unit and family well-being issue; so, the Department of Health would probably come to the table.

So if you have a goal where you are looking to achieve better educational attainment, you can start to look, invest in those areas that are going to provide a family unit of, really, in the right place, to actually achieve that and get through the educational process, if you like, all the way

up through to the colleges, et cetera, et cetera.

And there is actual -- I didn't bring it with me today, but there are actual proven statistics that actually talk about the level of educational attainment based upon the existing educational level within the family units as well. So these things obviously tie together, real heavily.

On the next page, on the next slide, I put up there a slide to do with organizational structure, overall, on what could it look like within Pennsylvania. Again, if we have an organization that is establishing that strategic direction--where does Pennsylvania need to go and where does it want to be--that is monitoring those societal outcomes and overseeing the performance management process as a whole, all the way down into the executive branch, and not dictating but overseeing, and then making recommendations, I think you are going to get a lot more bang for the buck.

Hanging off the left-hand side there is the ability to enact legislation



that's going to support the strategic direction and align budget allocations.

And on the right-hand side, which is really the executive branch, is the alignment of activities to those societal outcomes. So that when the agency comes in and says it wants an increase in its budget, it has something to hook it to and say this is why we are doing this and what it's going to do for Pennsylvania.

Moving onto the next one, my final recommendations to you. Is that, again, I believe it would be considerable undertaking for the IFO to start looking at programmatic -- executive branch programmatic performance measures.

In Virginia alone, we have in excess of thirteen hundred performance measures. That is a lot of performance measures, one, to dream up and, two, to actually maintain and go forward. But they are very important. They are very important to the agencies. They are very important to the agency heads. They are very important to the managers within the agencies, and they are

very important to the legislators. And again, they have just laid out, at various different levels, within the organization as a whole. So I think my advice would be to think about how that whole all comes together for you.

Again, if we do turn around and say this is how you are going to be measured, there is likely not going to be that level of ownership so we are going to go miss the opportunity to change the culture of the organization to a true performance management organization.

So my final recommendations would be: set the direction; identify and monitor those societal outcomes and align what you are doing to that; allocate funding upon a strategic alignment and upon performance; have a program align their activities and report their performance back to whichever entities they need to.

Again, there is nothing inhibiting you from doing audits or doing IVV, Independent Verification and Validation, on the executive branch, to say, are they really -- is this data really good, where it

needs to be? You don't have to take on the job to do it yourself, I believe.

Monitor--and this is really important--monitor and mature the performance management system. That is most important as you go forward. It's not, what I would call, and if you excuse the expression, a launch-and-forget missile. You have to be there with it. You have to nurture it. We do it continuously within Virginia. I would have talked about that earlier, however time is not on my side.

The other thing a lot of this contributes to, as we have seen within Virginia as well, it helps immense -- well, not immensely, but contributes to things such as triple AAA bond rating, and that's taken into account when the state is looked at.

Also, the best state within which to start a business was rated -- Virginia was rated that by Forbes Magazine several years now in a row, and also the best managed state, by the Pew Foundation. All of these things help the state, as the state moves forward on not only a performance perspective but on the

fiscal perspective as well.

On the last slide, you will see that I have listed some web sites there, if you would like to go out and take a look at those at some point in time. It's a huge amount of information there that you can look at and also look at exactly what Virginia is doing as well.

The last thing that Virginia is doing at this point in time, there is a project running. To bring you up to date, there is a project running to bring in a new performance management system that will actually tie in performance- and program-level fund allocation to what is going on, and will also give us the ability to, a certain level, be able to model it. Okay, if we invest more money in this program, what is the outcome we are expecting to see from that? So it's based upon the way the performance matrix within Virginia is set up.

That concludes my presentation as quickly as I could do it.

SENATOR BROWNE: Thank you. You did tremendous. Thank you for focusing your

presentation. And sorry for the rush.

It's -- The one point just remaining, regarding the undertaking. No doubt, the 3800 (phonetic) performance measurement system is a significant undertaking. One thing that I think needs to be reinforced is that expenditure of resources. It is -- It has extraordinary value in terms of making the right decisions and also saving money.

MR. WHEATLEY: Absolutely.

SENATOR BROWNE: Because any private enterprise that puts the same system together, they don't do it just to do it. They do it in order to make sure they are meeting their goal. And ultimately, money that's not being spent wisely, is taken off the books.

MR. WHEATLEY: Absolutely.

SENATOR BROWNE: So without that direction, I would think that Pennsylvania's overall expenditures could only go up inappropriately and not be properly focused on the things we really want to accomplish.

So I am hopeful that we will all

see the wisdom in following Virginia's lead in this. Because in the end, I think it will be best, considering our tremendous fiscal challenges right now, the best we can do to make sure we are setting our priorities in the right direction.

Before we finish, any questions of my members?

(No response.)

SENATOR BROWNE: Thank you very much, Mr. Wheatley. We look forward to counseling with you in the future as far as what we can do to make sure this bill is drafted in the best way to meet our goals. But thank you.

MR. WHEATLEY: Thank you, Senator. Thank you.

SENATOR BROWNE: This concludes our final hearing on the legislative fiscal office. We plan to coordinate with staff on both committees, myself, Representative Rohrer, Representative Levdansky and Senator Ferlo, in putting together recommendations for changes, improvements to the bill, so that it can be considered in final form as part of --

as part of the issues.

But I want to thank everyone for participating. Thank you very much.

(At 11:15 a.m., the hearing was concluded.)

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