

COMMONWEALTH OF PENNSYLVANIA  
HOUSE OF REPRESENTATIVES

APPROPRIATIONS  
COMMITTEE HEARING

STATE CAPITOL  
HARRISBURG, PA

MAIN CAPITOL BUILDING  
ROOM 140

MONDAY, FEBRUARY 10, 2014  
1:32 P.M.

BUDGET HEARING  
DEPARTMENT OF REVENUE

BEFORE:

HONORABLE WILLIAM F. ADOLPH, JR., MAJORITY CHAIRMAN  
HONORABLE RYAN AUMENT  
HONORABLE KAREN BOBACK  
HONORABLE JIM CHRISTIANA  
HONORABLE GARY DAY  
HONORABLE GORDON DENLINGER  
HONORABLE BRIAN ELLIS  
HONORABLE GARTH EVERETT  
HONORABLE GLEN GRELL  
HONORABLE SETH GROVE  
HONORABLE ADAM HARRIS  
HONORABLE TOM KILLION  
HONORABLE DAVID MILLARD  
HONORABLE DUANE MILNE  
HONORABLE MARK MUSTIO  
HONORABLE DONNA OBERLANDER  
HONORABLE BERNIE O'NEILL  
HONORABLE MIKE PEIFER  
HONORABLE SCOTT PETRI  
HONORABLE CURT SONNEY  
HONORABLE JOSEPH MARKOSEK, DEMOCRATIC CHAIRMAN  
HONORABLE BRENDAN BOYLE

HONORABLE MATTHEW BRADFORD  
HONORABLE MICHELLE BROWNLEE  
HONORABLE MIKE CARROLL  
HONORABLE SCOTT CONKLIN  
HONORABLE MADELEINE DEAN  
HONORABLE DEB KULA  
HONORABLE TIM MAHONEY  
HONORABLE MICHAEL O'BRIEN  
HONORABLE CHERELLE PARKER  
HONORABLE JOHN SABATINA  
HONORABLE STEVEN SANTARSIERO  
HONORABLE JAKE WHEATLEY  
HONORABLE JAMES CLAY  
HONORABLE SCOTT CONKLIN  
HONORABLE PATRICK HARKINS

ALSO IN ATTENDANCE:

REPRESENTATIVE DAN FRANKEL  
REPRESENTATIVE MIKE TURZAI  
REPRESENTATIVE STEVE SAMUELSON  
REPRESENTATIVE MIKE VEREB  
REPRESENTATIVE MAUREE GINGRICH  
REPRESENTATIVE TIM HENNESSEY

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*Pennsylvania House of Representatives  
Commonwealth of Pennsylvania*

## COMMITTEE STAFF PRESENT:

DAVID DONLEY

MAJORITY EXECUTIVE DIRECTOR

RITCHIE LAFAVER

MAJORITY DEPUTY EXECUTIVE DIRECTOR

DAN CLARK

MAJORITY CHIEF COUNSEL

MIRIAM FOX

DEMOCRATIC EXECUTIVE DIRECTOR

BERYL KUHR

DEMOCRATIC CHIEF COUNSEL

I N D E X

TESTIFIERS

\* \* \*

<u>NAME</u>	<u>PAGE</u>
DAN MEUSER SECRETARY, DEPARTMENT OF REVENUE.....	6
DAN HASSELL DEPUTY SECRETARY FOR TAX POLICY.....	24
TOM ARMSTRONG, DEPUTY SECRETARY FOR TAXATION.....	28
SIL LUTKEWITTE EXECUTIVE DIRECTOR, PENNSYLVANIA STATE LOTTERY.....	89

SUBMITTED WRITTEN TESTIMONY

\* \* \*

(See submitted written testimony and handouts online.)

## P R O C E E D I N G S

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1  
2  
3 MAJORITY CHAIRMAN ADOLPH: Good afternoon,  
4 everyone. I'd like to call to order Appropriations budget  
5 hearing. With us today is the Secretary of Revenue, and I  
6 want to thank the Secretary and his staff for being here,  
7 and just a quick reminder to everyone present to turn off  
8 their iPhones, iPads and any other type of electronic  
9 equipment they may have with them. The budget hearing is  
10 being televised, and it does interfere with the telecast.

11 Without further ado, welcome, Mr. Secretary.

12 SECRETARY MEUSER: Thank you, Mr. Chairman.

13 MAJORITY CHAIRMAN ADOLPH: And before we get into  
14 some questions, would you like to have a brief statement  
15 and introduce your staff?

16 SECRETARY MEUSER: I'd be happy to, Chairman.  
17 Thank you.

18 We have submitted written testimony for your  
19 review. We've covered many details, which I'll take a  
20 moment to outline, within the testimony of the work that's  
21 been done in the Department of Revenue over the past three  
22 years, the past year, moving into this budgetary year, and  
23 of course, the strategic plan and successes of the Corbett  
24 Administration.

25 To my right is Tom Armstrong, the Deputy

1 Secretary for Taxation. To my left is Sil Lutkewitte, the  
2 Executive Director of the Pennsylvania State Lottery, and  
3 to his left is Dan Hassell, the Deputy Secretary for Tax  
4 Policy.

5 Chairman Adolph, Chairman Markosek, I very much  
6 appreciate, and to the Committee, the opportunity to be  
7 here to discuss Department of Revenue's budget plans for  
8 '14/'15, and of course, answer any questions related to  
9 Governor Corbett's budget.

10 Like Governor Corbett, we in the Department of  
11 Revenue set a strategy to improve the Department for all  
12 taxpayers. We also do our best to assure that we synergize  
13 with Governor Corbett in his approach to improve  
14 Pennsylvania for as many Pennsylvania families as possible,  
15 economically and in quality of life.

16 Our role is to assist taxpayers, and we do that  
17 by focusing on five core initiatives. First off is  
18 enhancing and improving customer services and building  
19 trust with taxpayers. I could probably spend the next 30  
20 minutes informing you of what the team, the Department of  
21 Revenue, has done to enhance those services. We also are  
22 focused on increasing efficiencies and overall  
23 effectiveness. We've reduced our operating overheads over  
24 the last couple of years by well over \$5 million. We  
25 reduced our complement by 170 individuals, only through

1 attrition, those retiring. And we can promise you, our  
2 taxpayer services and overall effectiveness and  
3 productivity has gone up.

4           We are focused, our third core initiative is  
5 enhancing revenues without raising taxes. Governor Corbett  
6 feels the taxpayers in Pennsylvania pay their fair share,  
7 and in some cases pay too much, and he charges us with  
8 collecting all the taxes that are due so as we maximize tax  
9 revenues, and we have been doing such. Over the last three  
10 years under Governor Corbett, tax revenues have gone up  
11 \$2.3 billion all the while taxes on the residents and job  
12 creators of Pennsylvania have decreased by slightly over \$1  
13 billion. We're also about trying to make the Department of  
14 Revenue the best place to work in Harrisburg. We believe  
15 our people should be treated with a high level of respect  
16 and have opportunity for career advancement. And we're  
17 also, as stated, very focused on helping Governor Corbett  
18 advance Pennsylvania for as many Pennsylvania families as  
19 possible.

20           Just this past year, one of the most important  
21 ways that we were engaged was in comprehensive tax reform,  
22 which took place obviously with the assistance of the State  
23 legislator, and we're very appreciative of that because  
24 those tax reforms are making a big difference now, more so  
25 in the future, for employers, employees and again,

1 Pennsylvania families.

2 So I certainly could fill up a few minutes here  
3 but I will leave it at that, Mr. Chairman, and thank you  
4 again for this opportunity.

5 MAJORITY CHAIRMAN ADOLPH: Okay. Thank you much,  
6 Mr. Secretary.

7 Before we start with the questioning, I'd like to  
8 acknowledge the presence of the Aging and Older Adult  
9 Services Committee Chairs, Representative Tim Hennessey,  
10 the Republican Chair, and Representative Steve Samuelson,  
11 the Democrat Chair. Good afternoon, gentlemen. I also see  
12 in the audience Representative Quinn from Bucks County, and  
13 I also see Representative Gary Day from Lehigh Valley has  
14 joined us.

15 I guess I might as well start it off. We had the  
16 Independent Fiscal Office in earlier today, and we started  
17 talking about revenues and projected revenues and so forth  
18 and so on, and I would be remiss to say that he's not quite  
19 as optimistic as the Corbett Administration is regarding  
20 revenues. I'm not sure, since you collect the revenues,  
21 how much input the Secretary of Revenue has in projecting  
22 our revenues, but I certainly am going to ask the question.  
23 How confident do you feel with the Governor's budget  
24 projections, with the revenue?

25 SECRETARY MEUSER: Well, Mr. Chairman, our

1 initial official estimates for '13/'14 were  
2 \$29,115,000,000. Through the first two quarters of this  
3 fiscal year, through December 31<sup>st</sup>, we were spot on.  
4 Revenues were actually \$2 million high. In January, we did  
5 have a deficit of \$43 million, I believe. There were  
6 various reasons for that. I think we all read the reports  
7 of some lackluster holiday sales, certainly the weather.  
8 There was a poor housing report. Unemployment hasn't  
9 necessarily kicked up. So a one-month downturn by no means  
10 makes a trend, but it did not come by surprise.

11           Fortunately, in the last two weeks, we've seen  
12 some new economic data. The second half of last year had  
13 some of the most significant growth in consumer confidence  
14 and spending, 3.3 percent growth, that has been seen in  
15 five or six years. Inventories were way up. Housing was  
16 maybe perhaps slightly disappointing but was relatively  
17 strong, and we saw some better unemployment numbers  
18 nationwide and in the Commonwealth, where we now have the  
19 lowest unemployment rate as well in five years of 6.9  
20 percent.

21           So we have the indicators in line with our  
22 official estimate. We also utilize, as you well know, a  
23 group known as Global Insight, one of the topic economic  
24 consulting firms in the world, that helps our Bureau of  
25 Research establish projections. We work with them every

1 year with very similar methodologies. We're always trying  
2 to improve those methodologies, but they give us a low  
3 standard and a high. Every year under Governor Corbett, we  
4 maintain the standard level of projections as we are this  
5 year. Global Insight agrees with our official estimate  
6 staying on focus, on course, of \$29,115,000,000 for  
7 '13/'14.

8           Rolling into '14/'15, I could really express much  
9 of the same. There are many economic indicators that  
10 absolutely support the projections that we have set, and it  
11 is at 3.6 percent growth. We work with the Independent  
12 Fiscal Office. I'm going to add, we work very much  
13 independently but we do our work, they do theirs. As  
14 taxpayers would probably appreciate, and you would as well,  
15 we don't operate in a vacuum, however. If you do look at  
16 their forecasts from last year, their forecasts for '13/'14  
17 as well as moving forward, the differences are not  
18 significant. Over an 18-month period, which is somewhere  
19 in the neighborhood of \$45 billion in revenues, our  
20 forecasts are about .4 percent different. They do have a  
21 somewhat more pessimistic outlook in the long run.

22           We're seeing GDP was very high in the last two  
23 quarters. There's no question, GDP is taking a downturn  
24 here in the first quarter of this calendar year, but we're  
25 anticipating growth in 2014 from 1.8 to 2.6 in GDP, and we

1 have a consensus of economists that agree with the fact  
2 that we should be expecting a stronger economy, which leads  
3 to stronger revenues in the Commonwealth.

4           There are some other factors, frankly, that the  
5 IFO maybe did not take into consideration in the manner  
6 that we did, and one of them is the Commonwealth's  
7 transportation bill that will have some positive revenue  
8 effects and some real positive economic effects.

9           MAJORITY CHAIRMAN ADOLPH: Yes. Thank you very  
10 much.

11           Also, the IFO specifically talked about the stock  
12 market in 2012, and as a result of some Federal tax  
13 changes, folks in their fourth quarter for the calendar  
14 year 2012, made their fourth-quarter payments in January of  
15 '13, and that this year's fourth-quarter payments for '13  
16 were significantly less than the year before. I asked him,  
17 could that possibly -- people are using the safe-harbor  
18 method of calculating their estimated tax rather than the  
19 exact amount that they're going to owe on their 2013 tax  
20 return, and he wasn't quite sure. Can you add anything to  
21 that as far as your expertise as far as the fourth-quarter  
22 payments, why they were so much less than the year before?

23           SECRETARY MEUSER: Well, there's a theory that  
24 you just outlined that by all means the tax changes that  
25 occurred on January 1, 2013, created more of a surge in the

1 sale of stocks, profit taking, and yielded higher levels of  
2 dividends, which translated, of course, into higher levels  
3 of personal income tax. Some States seem to have felt that  
4 impact more so than others. California, New York, perhaps  
5 Florida, Texas. We in Pennsylvania don't believe we had  
6 significant impact in that regard, but by all means,  
7 there's a number of factors that come into play that do  
8 affect our overall tax revenues. Unfortunately, personal  
9 income tax was below estimate through the end of the year  
10 and through January. We're hopeful that that will improve  
11 or at least hit estimate, and of course, personal income  
12 has a lot to do with sales and use. They go hand-in-hand,  
13 and they make up 72 percent of our revenues. So as a  
14 State, Governor Corbett is very focused on helping job  
15 creators and helping the people get employment and for  
16 personal incomes to increase so those important revenues  
17 can come in.

18 MAJORITY CHAIRMAN ADOLPH: Thank you.

19 Chairman Markosek.

20 MINORITY CHAIRMAN MARKOSEK: Thank you, Chairman  
21 Adolph.

22 Mr. Secretary, welcome.

23 SECRETARY MEUSER: Mr. Chairman.

24 MINORITY CHAIRMAN MARKOSEK: Thank you for  
25 coming, you and your staff, and look forward to your

1 testimony.

2 I have just a quick question about the use of  
3 lottery funds, and I know we have our new Director here, so  
4 welcome, sir.

5 MR. LUTKEWITTE: Thank you.

6 MINORITY CHAIRMAN MARKOSEK: Governor Corbett is  
7 planning to use \$452 million in lottery funds to balance  
8 his 2014/2015 General Fund budget, which is an increase of  
9 \$130 million. Now, I know the Governor a couple of years  
10 ago in his first, earlier budgets said well, you know, we  
11 have to do deal with these structural deficits, but isn't  
12 this type of one-time use of money -- and our staff has  
13 indicated that really it totals beyond this in other phases  
14 of the budget, upwards to \$1.2 billion in one-time use of  
15 other funds money to balance this year's budget. Doesn't  
16 that simply help keep the structural deficit going?  
17 Doesn't that create, in fact, compound the current problem  
18 and gets us by this year but then, the Commonwealth and  
19 those of us that will be here in future years will have to  
20 do with even greater structural deficits?

21 SECRETARY MEUSER: Well, what you're referring to  
22 is, first off, of course lottery funds are required to go  
23 for programs for older Pennsylvanians statutorily and that  
24 certainly is not changing nor would it change.

25 Our role, my expertise, if you will, is in the

1 end of revenue generation for the Pennsylvania Lottery as  
2 is Sil's and as is the lottery itself, not necessarily in  
3 the budgetary allocations. What you are referring to,  
4 however, is providing funds to DPW in the '14/'15 budget  
5 that will be used for long-term care, for keeping older  
6 Pennsylvanians, allowing those who can so they can age in  
7 place and remain in their homes and receive services within  
8 their homes. There is a total of \$162 million in lottery  
9 funds being directed to DPW for community-based services  
10 for older Pennsylvanians.

11 Now, that funding in the past would be directed  
12 towards the Department of Aging. As you know, the lottery  
13 fund supports the Department of Aging. I think it's 90  
14 percent of their budget. Because of other Federal funding  
15 that came in to support the Department of Aging, it seemed  
16 a reasonable approach to allow this funding to be used for  
17 older Pennsylvanians' long-term care.

18 As far as structural deficits go, we are very  
19 focused on pro-growth initiatives and on clarity and  
20 transparency in budgetary allocations. Now, nevertheless,  
21 there are various crises that exist out there. One of them  
22 perhaps is a pension crisis, and as these pro-growth  
23 initiatives, such as tax reform that we initiated last  
24 year, begin to take hold and we truly move into GDP growth  
25 of 3.5, 3.7, 3.9, and then actually get to general revenue

1 or revenue growth, General Fund growth of 4.9 percent,  
2 where it can get to, we must by law maintain a balanced  
3 budget, and if you will, in the private sector, it's known  
4 as you're simply watching your cash flow.

5 So as long as the funding is not being removed  
6 from one source to another, which certainly in this case  
7 it's not, it's going towards older Pennsylvanians, it seems  
8 like a reasonable allocation that taxpayers would support.

9 MINORITY CHAIRMAN MARKOSEK: Well, these items  
10 that we're using this additional Lottery Fund money for had  
11 previously been paid for from the General Fund so now  
12 instead of paying for those through the General Fund, we're  
13 taking lottery funds that are designed for the current  
14 programs that we have and we're applying them to these, and  
15 not everybody, I know most are senior citizens that use  
16 these new services, but not everybody in those services in  
17 long-term care or in community-based services are senior  
18 citizens, probably most but not all. But again, this seems  
19 to be another example, and there are others in the budget  
20 that perhaps we won't talk about here today, but where the  
21 Administration seems to be, as I've put it and used the  
22 vernacular, you know, robbing Peter to pay Paul, and it  
23 just creates more problems down the road once we get  
24 through this particular budget.

25 SECRETARY MEUSER: Well, it's being done in a

1 highly transparent way. The Lottery Fund, again, is to  
2 support older Pennsylvanians. Probably tax and rent rebate  
3 is in that same category, and as we do know, there are  
4 provisions for disabled at certain income levels, so there  
5 are those minimally outside of that macro goal that it fits  
6 into but, Chairman, as you well know, over the last 10  
7 years there's been allocations of dollars that this body  
8 has supported in budgets regularly, and here, due to the  
9 pension crisis and other matters, I think the Governor is  
10 doing his best and the Budget Office to assure that dollars  
11 are spent where they're supposed to be, being done in a  
12 highly transparent manner, and ultimately need the support  
13 of the legislator.

14           MINORITY CHAIRMAN MARKOSEK: Okay. I'll just sum  
15 up with a comment, that if we weren't taking these funds  
16 for these uses, we could enhance those other lottery  
17 programs that we traditional pay for, property tax, rent  
18 rebate, PACE, Penn Care, the former PACE program,  
19 transportation for senior citizens, all those things. So  
20 really, we're taking a fund now that had been funded and  
21 we're taking some of those funds that have been previously  
22 dedicated to those current senior citizen programs and  
23 using them for other programs that we used to use the  
24 General Fund budget for.

25           So with that, I'll thank you for your time and

1 effort here, and appreciate it, Mr. Chairman. Thank you.

2 MAJORITY CHAIRMAN ADOLPH: Thank you, Chairman  
3 Markosek.

4 Representative Grove.

5 REPRESENTATIVE GROVE: Thank you, Mr. Chairman.  
6 Good to see you, Secretary.

7 We just heard testimony from the IFO this  
8 morning. Basically, if we wouldn't have a pension issue,  
9 we would not have a structural budget, or a deficit within  
10 our budget. Would you agree with that assessment and urge  
11 this General Assembly to continue with an overhaul of our  
12 pension system?

13 SECRETARY MEUSER: Well, I agree with the  
14 Governor that we need pension reform. He has a proposal in  
15 this budget to make the pension issue and burden and  
16 escalation and funding requirements more manageable than it  
17 would be without the Governor's initiative.

18 REPRESENTATIVE GROVE: I appreciate that.

19 Another they hit on is how much revenue we've  
20 seen increase of income tax CNI. One thing I wanted to  
21 point out is, if you go back to 2003, that's really when  
22 the capital stock and franchise phase-out started. At that  
23 point it was 7.24 millage rates. It's down to .89. Now,  
24 if you look over that time period between 2003 and 2013,  
25 you'd see a reduction in revenue of \$594 million. At the

1 same time you would see an increase in the corporate net  
2 income tax of \$894 million and personal income tax of \$3.98  
3 billion. Would you say that the strategy of trying to make  
4 Pennsylvania a more business-friendly State, better tax  
5 climate has resulted in more tax revenue for the  
6 Commonwealth, a better, in fact, climate for people to live  
7 here and for business to grow?

8           SECRETARY MEUSER: Well, I don't think there's  
9 any question, rankings a few years ago for places to move a  
10 business were in the high 40s. We've made incremental  
11 gains, in some cases, some leap-frog gains moving into the  
12 rankings of 23, 24 and in some cases, as low as 14 for  
13 certain type of businesses. We're lowering the price tag  
14 on operating a business in the Commonwealth in a  
15 predictable manner. We're also doing it in a manner that  
16 particularly in the tax reform we just passed in lowering  
17 the rate but broadening the base with a couple of taxes  
18 such as single sales factor and sales factor marketing  
19 sourcing, and frankly, the amendments that were made to the  
20 bank shares tax. We were able to lower the effective tax  
21 rate for Pennsylvania businesses, extend the taxes out to  
22 businesses in other States that are competing for business  
23 within the Commonwealth, thus creating offsets, but doing  
24 what's the best thing to do in tax policy, and that's to  
25 lower taxes and broaden the base, and yes, the States that

1 are the most competitive, that are bringing in the best  
2 jobs, that are bringing in the high-tech companies,  
3 delivering on personal incomes and helping the most  
4 Pennsylvania families or following that formula, and that's  
5 part of the Governor's short-term but longer-term approach  
6 to advancing Pennsylvania economically.

7 REPRESENTATIVE GROVE: I appreciate it. I look  
8 forward to continuing working with the Governor, yourself  
9 and your Department on moving forward with a better  
10 business climate here in Pennsylvania.

11 SECRETARY MEUSER: Thank you.

12 REPRESENTATIVE GROVE: Thank you, Mr. Chairman.

13 MAJORITY CHAIRMAN ADOLPH: Thank you,  
14 Representative.

15 Chairman Samuelson.

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

18 Just to follow up on Representative Markosek's  
19 question about the transfer of \$450 million out of the  
20 Lottery Fund to the Department of Public Welfare, \$309  
21 million for long-term care and a new proposal for \$142  
22 million for home- and community-based services. I know you  
23 talked about increased Federal funding being available.  
24 The printout we're looking at shows that for those aging  
25 and lottery-funded programs, the Federal funding for the

1 current year is \$136 million, and the federal funding for  
2 next year is \$136 million, no change in the budget  
3 documents that we've received.

4 I know you also said that this has been going on  
5 for 10 years through different Governors. I know it's  
6 maybe even further back. There have been transfers out of  
7 the Lottery Fund. However, the current budget, the \$309  
8 million that Governor Corbett proposed in the current  
9 year's budget, that was all-time record for a transfer out  
10 of the Lottery Fund for the long-term care, and if now  
11 we're going to go from \$309 million to \$450 million, that  
12 shatters the record, and I think that the funds that are in  
13 the Lottery Fund are supposed to be for senior programs, as  
14 you cited, and if we're using the Lottery Fund to pay DPW  
15 programs, transferring money over to the Department of  
16 Public Welfare to help balance that budget, that's fewer  
17 funds that are available for the senior programs, which are  
18 specifically the property tax/rent rebate, the PACENET, the  
19 area Agencies on Aging and the senior transportation  
20 programs. Those are the four programs that the Lottery  
21 Fund is supposed to be earmarked for. So I'm very  
22 concerned about the significant increase in these transfers  
23 out of the Lottery Fund to DPW, and I believe that would  
24 just take resources away from our seniors that should be  
25 available for those programs.

1           SECRETARY MEUSER: Well, it won't take resources  
2 away from seniors. The allocations are set so that would  
3 not occur, and the funding again is earmarked for older  
4 Pennsylvanians for long-term care so as they can remain in  
5 their homes where many would prefer to be and in many cases  
6 can be most cost-effective.

7           Our role at Department of Revenue and at lottery  
8 is to provide the revenues so as the funding is available  
9 to service the various programs for older Pennsylvanians  
10 within the initiatives as you outlined, and we need some  
11 help, frankly, in order to do that moving forward. As you  
12 know, we had a private management agreement plan that no  
13 longer exists, and there's no looking back. We do have a  
14 number of requests of the legislator, tools, if you will,  
15 that we do need so as the lottery can advance, can move  
16 forward, can increase profitability so we don't have to  
17 have these difficult budgetary discussions. We think we  
18 can grow the lottery out of this problem.

19           REPRESENTATIVE SAMUELSON: And your reference of  
20 the private management agreement leads to my follow-up  
21 question: to state again that the Lottery Fund is supposed  
22 to go for programs for older Pennsylvanians. I was deeply  
23 concerned this past year that \$4.4 million of that Lottery  
24 Fund was used for lawyers and consultants that were working  
25 on this private management agreement. The figures that

1 we've received off the public Pennsylvania websites, \$3.3  
2 million going to a law firm from Baltimore, Maryland;  
3 \$210,000 going to a law firm from Philadelphia, \$850,000  
4 going to a consultant from Chicago. And I don't see how  
5 using the Lottery Fund to pay lawyers and consultants helps  
6 senior citizens.

7           That \$4 million that was taken out of the Lottery  
8 Fund could've been used for property tax/rent rebates,  
9 could have been used for prescription drugs, could have  
10 been used for senior transportation. How did the Corbett  
11 Administration think they had the authority to use the  
12 Lottery Fund to pay lawyers and consultants related to the  
13 private management agreement?

14           SECRETARY MEUSER: Well, we paid \$57 million to  
15 firms out of State to assist in networking and delivering  
16 the services and delivering the overall operation of the  
17 lottery system. We also pay marketing companies millions  
18 to help run the Pennsylvania Lottery. What we attempted to  
19 do was create a program that would deliver year after year  
20 after year, \$100 million in assured revenues for the  
21 lottery under our authority. If that would have gone  
22 through, the winning bidder would have paid any such bills.  
23 However, it did not go through. Those funds, although the  
24 4.3, your numbers are right, we are very transparent with  
25 our numbers.

1           What we are trying to assure you as well as the  
2 taxpayers and ourselves that we're going to use the lessons  
3 learned from this process just as we utilized the hundreds  
4 of thousands of dollars that we spend on research. The  
5 lottery is a big operation. All right; \$3.5 billion in  
6 sales. It's a big company that emits reasonably good  
7 profits that are used for important reasons. We have an  
8 obligation to assure that those revenues continue to come  
9 in. We looked at the options, we look at where older  
10 Pennsylvanians are going as far as population goes, and  
11 it's an enormous increase over the next 10 years, one that  
12 the lottery in its present state, would not keep up with.  
13 So we looked at what options were necessary and we felt  
14 that this was a good investment. Win or lose, we thought  
15 we had it so as we would enjoy another billion dollars in  
16 new revenues over the next five years, but since that  
17 didn't happen, we now bear the responsibility so we're  
18 using those lessons learned as our research in our  
19 strategic planning moving forward to do our best to achieve  
20 those same levels of annual profit commitments.

21           REPRESENTATIVE SAMUELSON: Last question, and you  
22 said the bills would've been paid by the contractor. My  
23 goodness, the documents we saw said that contractor was  
24 going to get \$100 million a year from Pennsylvania Lottery  
25 Fund. So that money was still coming out of the Lottery

1 Fund, so---

2 SECRETARY MEUSER: If they would have gotten paid  
3 anywhere near \$100 million, the numbers I said of what we  
4 would be generating would be triple, if not quadruple.

5 REPRESENTATIVE SAMUELSON: Have we seen the last  
6 of these bills? This \$4.4 million that's gone to the  
7 lawyers and consultants, are these contracts now  
8 terminated?

9 SECRETARY MEUSER: To the best of my knowledge,  
10 that's the last of the bills.

11 REPRESENTATIVE SAMUELSON: Thank you.

12 Thank you, Mr. Chairman.

13 MAJORITY CHAIRMAN ADOLPH: Thank you.

14 Representative Boback.

15 REPRESENTATIVE BOBACK: Thank you, Mr. Chair.

16 Mr. Secretary, Deputies, Executive Director,  
17 thank you for being with us today.

18 As most of us mentioned, when we heard from the  
19 Independent Fiscal Office this morning, we all noted that  
20 the projections on their part certainly weren't as  
21 optimistic as the Governor's projections, but I also noted  
22 that the job creation, particularly construction, and tax  
23 revenue, or lack thereof, were key factors in the equation  
24 that we heard.

25 But my question is something you alluded to

1 earlier, Secretary Meuser, and that was, was Act 89, the  
2 transportation bill, included in that projection? Because  
3 we all know that the Act is certainly going to generate  
4 many, many more jobs and purchases of materials to protect  
5 and to sustain and to improve our roads and bridges in this  
6 Commonwealth. So is there any amount that you can share  
7 with us of additional revenue that you feel might come out  
8 of Act 89 for the General Fund, and if so, which taxes are  
9 you looking at and which revenues would you be associating  
10 with this Act as per increasing funding for our budget?

11 SECRETARY MEUSER: Yes. Terrific question,  
12 Representative. Thank you.

13 Yes, there are revenue fiscal impacts from the  
14 transportation bill. Dan, do you have that handy?

15 MR. HASSELL: I do. Do you want me to speak to  
16 this?

17 SECRETARY MEUSER: Yes, please.

18 MR. HASSELL: Yes. The tax effects of the  
19 transportation package are incorporated in the budget  
20 projections. The tax effects are not just in income tax,  
21 although as you noted, because of new jobs created, that's  
22 a factor. But in addition, sales tax is also an issue  
23 because virtually all materials purchased to build roads  
24 are subject to sales tax. So we felt that it would have a  
25 noticeable impact, and in the budget here, that adds about

1 \$41 million in revenues. That is part of the explanation  
2 for the divergence between the IFO's figures and ours.

3 REPRESENTATIVE BOBACK: And that's what I had  
4 suspected. I'm glad you clarified that for us. So it was  
5 not included in the Independent Fiscal Office? They did  
6 not have that number included, whereas the Governor's  
7 office did when he presented his budget?

8 MR. HASSELL: Yes.

9 REPRESENTATIVE BOBACK: Thank you for the  
10 clarification. That is much more optimistic. Thank you.

11 MAJORITY CHAIRMAN ADOLPH: Thank you,  
12 Representative.

13 Representative Parker.

14 REPRESENTATIVE PARKER: Thank you, Mr. Chair, and  
15 welcome, Mr. Secretary.

16 Mr. Secretary, I want to turn to page 18 of your  
17 proposal, and it talks about the participation in the  
18 property tax and rent rebate program, and it shows that the  
19 numbers have been declining. I'm looking at the households  
20 provided property tax or rent assistance. We go from  
21 '12/'13, 598,000, and if we just move to '14/'15, it's  
22 587,000. I'm sure there is an explanation for this, but it  
23 really made me sort of pause with concern because earlier  
24 when we heard from the IFO, they had mentioned obviously  
25 that Pennsylvania was fourth in the nation in terms of our

1 eldest population, mentioning that Florida and Maine along  
2 with West Virginia were in front of us. So I was wondering  
3 if you could talk about the correlation of our State in the  
4 nation as it relates to our elder population along with a  
5 decline in those numbers.

6 SECRETARY MEUSER: Well, your latter point,  
7 there's no question that our State is, I believe, the third  
8 largest, perhaps the fourth largest population of -- thank  
9 you -- third older Pennsylvanians, and that is certainly  
10 accelerating of older folks. And that is accelerating, and  
11 we'll get to approximately 26 percent of the population  
12 within the next 10 years, and that is certainly where the  
13 concerns come in regarding the Lottery Fund and other  
14 matters concerning the Commonwealth, of course.

15 Related to PTRR, the property tax and rent  
16 rebate, yes, the number of participants, those who have  
17 been submitting applications and receiving the property tax  
18 and rent rebate refund has been declining, not a lot but  
19 declining, and it's somewhat concerning. It's completely  
20 driven by utilization. It's completely driven by those who  
21 apply and whether or not they're eligible. We at  
22 Department of Revenue issue many notices. We visit I think  
23 annually or pretty close all legislative offices to assure  
24 that everybody's got their PTRR paperwork and materials and  
25 applications, and the eligibility requirements. We do as

1 much as we can to promote it. The Lottery Fund can afford  
2 for the PTRR to be at a higher level of funding, and it's  
3 strictly driven by utilization. I believe it was six years  
4 ago, the PTRR eligibility requirements were lowered so it  
5 did---

6 REPRESENTATIVE PARKER: More?

7 SECRETARY MEUSER: Yes, so it increased the  
8 population of those who were applying and eligible by quite  
9 a bit, almost double.

10 REPRESENTATIVE PARKER: And so with that in mind,  
11 Mr. Secretary, so to hit the nail on the head for me, I'm  
12 thinking about all of the trends that you just described  
13 about sort of the eligibility pool widening, but then  
14 seeing a reduction in the number of those applying. Help  
15 me here from a practical standpoint. I know legislatively,  
16 Members from both sides of the aisle work extremely hard to  
17 promote the property tax rent and rebate program in our  
18 respective offices.

19 Tell me about the partnership that we have with  
20 partners like our AAAs and other groups that work to  
21 directly service seniors, and are we distributing this  
22 information to them in a timely manner? Is there sort of  
23 any delay in that process? I just want to make sure there  
24 are no sort of bureaucratic overlook snafus that take place  
25 that are preventing our partners outside of government from

1 promoting this program to potential participants.

2 SECRETARY MEUSER: Representative Parker, that's  
3 a great question. We've got a terrific team at lottery and  
4 at PTRR. I know my deputy here wants to speak on this,  
5 because the refunds do fall within his député, and it's of  
6 great concern to us. It's something that we talk about and  
7 we really would like to promote as effectively as possible  
8 so as anyone who is eligible does in fact fill out the  
9 application and submit and receives funds that are  
10 available for older Pennsylvanians that fall within that  
11 threshold of income.

12 MR. ARMSTRONG: And just to add, we do work with  
13 all non-profits, Department of Aging and a variety of  
14 groups. For instance, lately every year after June 30<sup>th</sup>  
15 deadline, we've done that for, I guess, probably over a  
16 number of years, we've extended to December 1<sup>st</sup> for those  
17 who did not apply by the June 30<sup>th</sup> deadline. We've extended  
18 it to December 31<sup>st</sup> so those who are eligible can come in to  
19 apply to that.

20 REPRESENTATIVE PARKER: Well, Mr. Secretary, let  
21 me extend an olive branch and say that, you know, again, I  
22 know that we're doing everything that we possibly can right  
23 now to ensure that we promote this program to as many  
24 eligible seniors as possible, but we will sort of try to go  
25 back to the drawing board and see if there are any ideas

1 that we can come up with to help to strongly encourage more  
2 people to participate, and you all, if you come up with any  
3 creative solutions, I would hope that you would communicate  
4 with both Chairman Adolph along with Chairman Markosek to  
5 tell us new ways that we as a legislative body that we can  
6 participate, so thank you.

7 SECRETARY MEUSER: We will. Thank you.

8 MAJORITY CHAIRMAN ADOLPH: Thank you,  
9 Representative.

10 At this time I'd like to acknowledge the presence  
11 of the Gaming Oversight Chairperson, Mauree Gingrich, is  
12 with us, and the next question will be by Representative  
13 Mark Mustio.

14 REPRESENTATIVE MUSTIO: Thank you, Mr. Chairman.

15 Mr. Secretary, thank you for being here today. I  
16 noticed in your written comments that you mentioned  
17 probably the most meaningful project the Department has  
18 undertaken in years is the Revenue Modernization Project,  
19 and I know the taxpayers have invested significantly in  
20 that process, particularly the last and current fiscal  
21 years, and I was wondering if you would please speak  
22 specifically to the return on that investment but then also  
23 I'd like to make sure that I noticed in your current line  
24 budget request, that there's a reduction in that line item,  
25 and I want to make sure that there's ample funds to

1 continue that modernization.

2 SECRETARY MEUSER: Well, thank you. I appreciate  
3 the question and the opportunity to address it.

4 Yes, the Revenue Modernization Project, as we  
5 call it, implementing an integrated tax system within the  
6 Pennsylvania Department of Revenue, went on contract in  
7 December 2010 where we hired Accenture as our tax  
8 integrator system, utilizing SAP as our software partner,  
9 and we have dedicated many resources, many taxpayer  
10 resources, \$55 million actually to the integrated tax  
11 partner, Accenture, and the other costs are borne by the  
12 Department of Revenue.

13 We frankly had some initial setbacks. When we  
14 came here into office, there were some leadership issues  
15 and we fell behind, but we quickly resolved those issues  
16 within the Department and with the vendors that we're  
17 utilizing and relying upon, and since then we've advanced  
18 very well, very steadily. One thing that I should point  
19 out is that even though we have these delays, we have not  
20 borne any new costs. We have not gone out of scope with  
21 the project nor have there been excessive costs borne upon  
22 the taxpayers because of any longer periods of time to  
23 finish certain projects. We went live with corporate taxes  
24 in March of last year, of 2013, and since then corporate  
25 taxes have improved quite a bit. Tax practitioners as well

1 as the general taxpayer are realizing the benefits. We're  
2 able to have speedier response times. Our quality overall  
3 is increasing. We're saving money. We saved \$500,000 last  
4 year. In this budget year, we will save \$1 million in  
5 legacy costs utilizing the system that has existed.

6 And by the way, the system that existed was truly  
7 on its last leg. It was very old. In some cases, it was  
8 being run using the old COBOL system that some of us used  
9 in high school. It had 30 different silos that really  
10 don't talk to each other, and a lot of manual additional  
11 work was necessary by the people at the Department of  
12 Revenue to keep things moving in the right direction.

13 But now we've got a system that is high quality.  
14 When I say "speedy," returns are being processed within  
15 days, not months or years, I mean, you know, very  
16 significant improvements. There's a consistency that the  
17 taxpayers will ultimately learn to appreciate, and it will  
18 drive voluntary compliance because of its consistency,  
19 which will be very meaningful to collections. As  
20 mentioned, it is cost-effective. Eventually it will save  
21 us \$4 million a year just in overhead savings from the  
22 operational overhead of the current legacy system. As  
23 mentioned, it's holistic. All the systems, the corporate,  
24 and we're next to go live with sales tax this coming  
25 October. Sales tax will go live under the integrated tax

1 system, and when that occurs, one taxpayer, when I say  
2 "holistic," if there is a tax owed in corporate taxes or  
3 personal income taxes and there's a refund due in sales  
4 taxes or in the personal income tax, those offsets will  
5 automatically be resolved, not after the fact. Right now  
6 it's virtually impossible for us to have that level of  
7 quality control and assure that such offsets take place.  
8 It'll help root out refund fraud.

9 We're very happy with where we are. From a cost  
10 perspective, we've stayed within budget, and we're looking  
11 forward to again going live with sales tax this October,  
12 and then that will be followed the following year by  
13 personal income tax, and then the following year by all the  
14 other miscellaneous taxes. It's exciting, and we are very  
15 appreciative of the continued funding for this effort.

16 REPRESENTATIVE MUSTIO: Are you comfortable with  
17 the line item?

18 SECRETARY MEUSER: As a matter of fact, yes, and  
19 I appreciate that question too. Perhaps our CIO might have  
20 said hey, you had an opportunity there to maybe express we  
21 could use a little bit more assistance, but the budget is  
22 within the needs and demands of this project.

23 REPRESENTATIVE MUSTIO: Mr. Chairman, may I have  
24 just one quick follow-up?

25 Do you feel that the information that you're able

1 to receive now gives you the ability to, I guess -- what's  
2 the right word -- detect any early warning signs of  
3 increases or decreases for this body to react a little bit  
4 more quickly? It just sounds like the new system enables  
5 you to have access quickly to so much more data that might  
6 be more credible, but am I making the wrong assumptions  
7 there?

8 SECRETARY MEUSER: Go ahead.

9 MR. ARMSTRONG: I think what you're asking is  
10 that based on our business rules that we've set up with the  
11 Revenue Modernization Project with the integrated tax  
12 system, we're able to detect any underreported income or  
13 overstated income and make those corrections up front and  
14 then send out assessments or bills for the taxpayers and  
15 then they voluntarily pay and make that correction itself,  
16 and so therefore you see a vast improvement in timing,  
17 quickness, accuracy that is done now relative to what it  
18 was in our legacy system, so the answer is yes.

19 REPRESENTATIVE MUSTIO: And your customers, the  
20 taxpayers, the feedback has been positive?

21 MR. ARMSTRONG: It has been positive. We have an  
22 advisory committee that we meet every three months, and  
23 that is the professional stakeholder organizations --  
24 PICPA, PSPA, et cetera, and they come in and they provide  
25 us and they provide us input in terms of what they're

1 seeing out there when they see billings, assessments or any  
2 other type of arrangements that occur, and then we work  
3 back and forth to correct it all.

4 SECRETARY MEUSER: We have a monthly interagency  
5 steering committee as well.

6 REPRESENTATIVE MUSTIO: Thank you.

7 MAJORITY CHAIRMAN ADOLPH: Thank you.

8 Representative Carroll.

9 REPRESENTATIVE CARROLL: Thank you, Mr. Chairman.

10 Mr. Secretary, thank you for being here today. A  
11 quick follow-up to Representative Parker's dialog related  
12 to the property tax and rent rebate program. I would ask  
13 you, Mr. Secretary, to take a second look at the  
14 distribution of the booklets to the district offices and to  
15 legislative offices. A quick sidebar at our table, and I'm  
16 familiar, we have yet to receive the actual booklets  
17 despite the fact that the citizenry that received the  
18 rebate in the past has received the booklet, and I see no  
19 reason really why the booklets can't be provided, the blank  
20 booklets, when the booklets are mailed out to the folks  
21 that received it in the past.

22 MR. ARMSTRONG: The booklet's going out as we  
23 speak today. What we do is, we send out the booklets to  
24 those who have had the property tax/rent rebate of last  
25 year to make sure they get their booklets first, and then

1 we send out all the other booklets to everyone who's  
2 requested it. So for all the General Assembly Members,  
3 they're going out as of today and you should be receiving  
4 them in your offices.

5 REPRESENTATIVE CARROLL: Fair enough, except that  
6 we've had the two-week lag and we've had person after  
7 person come into our office, talk to me specifically and  
8 others, you know, we'd like to have a booklet, and we don't  
9 have them to give them. We've sort of been cannibalizing  
10 the ones that we can steal out of the books that people  
11 bring in. It's a less than preferable system. I'm not  
12 sure why there's some marriage to the booklets have to be  
13 mailed out before the others are distributed. I'd ask you  
14 to take a second look at that. It seems like a minor thing  
15 but in the world of district offices, I can tell you that  
16 the availability of those booklets is critical. I don't  
17 see any reason why there should be a lag between the  
18 mailing of the booklets and the distribution of the blank  
19 booklets.

20 MR. ARMSTRONG: I can take a look at it. Thank  
21 you.

22 REPRESENTATIVE CARROLL: Thank you.

23 I'll shift gears, Mr. Secretary, to Keno, if we  
24 can, and the lottery. Mr. Secretary, do you and the  
25 Administration believe legislative approval is necessary to

1 go forward with Keno?

2           SECRETARY MEUSER: Legislative approval is  
3 necessary for many of the tools that we at the Pennsylvania  
4 Lottery require to maximize and optimize profits for the  
5 Lottery Fund. First and foremost, what is necessary is  
6 profit relief from the 30 percent threshold that was set.  
7 We received relief from that 30 percent threshold to 27  
8 percent in 2008, I believe, or 2009, and we received it  
9 again two years ago, allowing for the lottery to operate at  
10 a 27 percent margin. Why that is so important, and this  
11 year moving forward we're going to ask in legislation for  
12 something less than that so as we can deliver a high level  
13 of overall Lottery Fund profitability for older  
14 Pennsylvanians. By allowing us to focus on profit, on  
15 funding that goes to older Pennsylvanians and not be  
16 focused on an artificial profit threshold, we can engage in  
17 long-term planning and we can create the right games,  
18 instant games, as well as lower-marginal terminal games,  
19 which will allow again the lottery to flourish at levels  
20 much higher than it would without it. As a matter of fact,  
21 Representative, if you don't mind me just belaboring this  
22 point, if we do not receive the lottery relief -- and this  
23 was a lesson learned from the private management agreement.  
24 We saw in their bid how they were about \$800 million higher  
25 at a 27 percent threshold than they would be at a 30

1 percent threshold. It sounds counterintuitive but at that  
2 point it's more the sweet spot, if you will, that allows  
3 the level of profitability. Well, we took that one step  
4 further and we said all right, what if we were at 25, what  
5 if we were at 24, and the returns increase.

6 Now, the reason I belabor that point is A, that  
7 requires legislation. It will allow us to introduce some  
8 new games. It'll allow us to engage in higher-margin  
9 terminal games. Terminal games, the typical, that you see  
10 the draws on television, they have a profit range of near  
11 40 percent, which also means that their payouts are not  
12 necessarily great or as regular or much of payouts as the  
13 lower-margin games, the instant games. We need to find  
14 that better point in terminal games where they could be at  
15 a 28 percent, 30 percent, maybe 25 percent margin, which  
16 would drive terminal games and maximize profitability.  
17 Also to your point, it'll allow us to consider the game of  
18 Keno. We have looked at the various ways that we need to  
19 objectively -- we had a hearing last week on what needed to  
20 be done to try to achieve the levels of growth in order to  
21 meet the demands of older Pennsylvanians. We've laid that  
22 out, and it includes relief from the artificial profit  
23 level. It includes us adding some new games. It includes  
24 us optimizing retailers, not requiring legislation. It  
25 includes us improving upon our marketing, targeting our

1 demographics better, and by the way, these were all lessons  
2 learned again from the PMA. It includes focusing on lower-  
3 end or lower-margin terminal-based games, which Keno was  
4 one of. If you look at other lotteries that perform better  
5 throughout the country, they also have Keno as part of  
6 their portfolio. Since we have the authority under the  
7 Lottery Act, passed by the legislature, statutorily to  
8 promulgate terminal-based games, the authority exists for  
9 the lottery to initiate terminal-based games, which by  
10 definition a game like Keno is.

11 Now, we don't want to go down a path where we  
12 create problems. We hope for legislative support. But we  
13 are talking about something that is very significant to  
14 older Pennsylvanians that will deliver \$40 million, \$80  
15 million, \$120 million, \$160 million over time, of new  
16 revenues -- new revenues -- to, and will be cumulative over  
17 time, another 2,500 retailers for ultimately the increasing  
18 and achieving the levels for the Lottery Fund.

19 REPRESENTATIVE CARROLL: I appreciate the  
20 thorough answer. I think I just heard that the answer is  
21 no with respect to legislative approval then for Keno. Not  
22 to summarize too much here, but it sounded like embedded in  
23 your answer at the end there was the reference to  
24 legislative authority that exists that would allow the  
25 Department to go forward with Keno if it chose to despite

1 the profitability levels.

2 SECRETARY MEUSER: I'm trying to just be very  
3 objective, and what the law is currently, how it's outlined  
4 and what it reveals. If we receive legislative approval as  
5 well, that would be more than welcome, but how the statute  
6 is laid out, the authority exists for the Secretary of  
7 Revenue to promulgate terminal-based games. That's the  
8 answer I can give you.

9 REPRESENTATIVE CARROLL: Okay. Mr. Secretary,  
10 have you contemplated, assuming that Keno is advanced  
11 either legislatively or by the Department's decision, the  
12 impact that would have on the other lottery games that we  
13 have, on our casino revenues, on our small games of chance,  
14 in the taverns' revenues, on the universe of things that we  
15 do in the world of gaming? Have you contemplated, has the  
16 Department contemplated what impact Keno would have and the  
17 funds that are directed in the world of gaming to Keno,  
18 what that effect would be on the other revenue streams that  
19 we have?

20 SECRETARY MEUSER: Yes, very carefully, extremely  
21 carefully, and evaluated what other States, sort of impacts  
22 have existed to casinos and gaming. Frankly, it's been  
23 minimal, and I think that comes from the gaming industry.  
24 Taverns and bars and diners and restaurants feel this would  
25 be a positive. It would allow more customers to engage

1 more time and another attraction for them to be within  
2 their establishments.

3           As far as the overall impact on the lottery as a  
4 whole, yes, we do have some data on that, but by all means,  
5 it's an enormous net positive, and its effect on small  
6 games of chance, since you are dealing with very much the  
7 same sort of retailer base, we also believe there will be  
8 some effects. We do not believe that they will be  
9 necessarily dramatic or draconian but yes, it will have  
10 impact. They will impact each other. But again, the  
11 numbers that I'm quoting here we are prepared to provide  
12 take that into account.

13           REPRESENTATIVE CARROLL: So Mr. Secretary, do you  
14 envision, is it a stretch to imagine Keno being played in  
15 our Commonwealth sometime in the next fiscal year?

16           SECRETARY MEUSER: Well, that's not for me to  
17 decide. However, it's part of our plan that we offer very  
18 openly here to this Committee and in our hearing last week,  
19 and we will be discussing with legislators that in order  
20 for us to achieve the levels of profitability which goes to  
21 the Lottery Fund that we all know is needed for our growing  
22 older population, that is one of the devices, one of the  
23 strategies to get to that level of funding.

24           REPRESENTATIVE CARROLL: Okay, then Mr.  
25 Secretary. Then when I look at the Department's budget, I

1 see level funding for advertising and I see level funding  
2 for staff within the lottery. How in the world do we  
3 implement a new game of the magnitude of Keno with, as you  
4 just mentioned, hundreds and hundreds and hundreds of  
5 outlets without any kind of effort to advertise this new  
6 game above and beyond what we currently do for our current  
7 lottery program or to staff it, considering we're going to  
8 level-fund the complement at 259 folks? How do we  
9 reconcile that with the implementation of Keno?

10 SECRETARY MEUSER: Well, there are marketing  
11 contracts that exist. We're not in a position to change  
12 those. We have other contracts that exist. They're not  
13 essential to achieving our levels of growth this budget  
14 year. What we are talking about, though, is the outer  
15 years. The implementation of Keno, if, say, it went into  
16 effect six months after a contract was initiated with a  
17 contractor, would have a relatively slow rollout. Well,  
18 not necessarily relatively slow. We would be working on  
19 it, and it would add about 1,000 retailers within year one.  
20 Now, that would require added personnel. It's about one  
21 support representative per 100 retailers, so that would  
22 require 10 more individuals to assist in that effort.  
23 However, that's also being done by whomever the contractor  
24 might be for Keno. They would also provide that level of  
25 assistance, teaching, setup and so on. So that would be

1 part of that new contract.

2 REPRESENTATIVE CARROLL: And then finally, and  
3 I'll stop, Mr. Chairman, have you contemplated the rollout  
4 of Keno with respect to taverns and bars that don't have a  
5 lottery, a facility currently and how we unfold Keno  
6 relative to the universe of folks that sell lottery tickets  
7 as well as the universe of folks that have taverns and  
8 bars? I'm familiar with the Keno facilities in New York  
9 State. A lot of them don't necessarily offer an instant  
10 lottery ticket or a daily number lottery ticket but have  
11 Keno. Has the Department, have you contemplated in the  
12 lottery how we roll this out, how do we get to these  
13 thousands and thousands of outlets that provide Keno?

14 SECRETARY MEUSER: Well, it's not thousands and  
15 thousands necessarily. I think there's 11,000, 11,500  
16 prospects out there for Keno. There are 500 such  
17 establishments already that offer lottery, so the  
18 assumption is that they may want to also add Keno, and then  
19 after that it would be 500 new retailers a year. That's  
20 not even out of the realm of what the lottery has added on  
21 many good years consecutively. So we think it's pretty  
22 well planned, frankly, by management at lottery, and I've  
23 reviewed it a number of times as cynically as perhaps you  
24 are, Representative, and it seems like a very reasonable  
25 plan that we have.

1           REPRESENTATIVE CARROLL: Well, mine's not  
2 cynicism. It's more just trying to be analytical on behalf  
3 of the folks that I represent, Mr. Secretary.

4           And I will close by simply saying that I do  
5 believe that there's a role for people like me with respect  
6 to making a decision as to whether or not Keno is  
7 implemented in the communities that I represent, and  
8 despite your reference to the existing statute, I think it  
9 really is an open question, and I'd like to think that the  
10 members of the House and the Senate would have a voice in  
11 whether or not this policy for our Commonwealth advances  
12 and that the necessary legislative authority is granted to  
13 go forward with something like this because, as I mentioned  
14 with the IFO earlier this morning, we seem to be falling  
15 into a default situation in our Commonwealth where every  
16 time we need to generate additional revenue, we just simply  
17 come up with another game, a small game of chance, another  
18 casino license, another lottery game, and I think we have  
19 to be more thorough in our analysis with respect to just  
20 the continuation of gambling and its effects on the world  
21 of gambling that we have existing in our Commonwealth but  
22 also on the need for revenues that are predictable going  
23 forward.

24           Thank you, Mr. Chairman.

25           MAJORITY CHAIRMAN ADOLPH: Thank you,

1 Representative.

2 At this time I'd like to acknowledge  
3 Representatives Frankel, Sabatina and Bradford have joined  
4 us as well as the Majority Leader, Representative Turzai,  
5 and our Caucus Secretary, Representative Vereb.

6 It's also my understanding that celebrating their  
7 birthday today is Secretary Meuser and Representative  
8 Millard. I'm sure you're having a good day, Secretary. It  
9 will get better.

10 SECRETARY MEUSER: Thank you.

11 MAJORITY CHAIRMAN ADOLPH: Just to remind  
12 Members, keep your questions as short as possible, and yes  
13 or no answers, the Chair does not mind.

14 Here we go. Representative Ellis.

15 REPRESENTATIVE ELLIS: Thank you, Mr. Chairman.

16 Mr. Secretary, gentlemen, thank you for coming  
17 today.

18 I just had a couple thoughts. You recently have  
19 revised projections. Obviously as the year goes on we see  
20 some taxes coming in better and some coming in worse, and  
21 of course, March and April are historically forever the two  
22 largest months. Are there any thoughts about what we're  
23 going to see in the next two months that led you to change  
24 the projections? And I will point out that some Members on  
25 the Committee today have testified that one of the reasons

1 we're lacking revenue is because corporations aren't paying  
2 their share of taxes, but what I see in the numbers is that  
3 corporate taxes are actually the highest level they've been  
4 in over 15 years. So is that a trend that's going to  
5 continue to move forward? Are we going to see increases in  
6 sales tax? Where do you think it's going to come from?  
7 What are the surprises of March and April?

8           SECRETARY MEUSER: Sure. We do anticipate  
9 corporate taxes to hit estimate, which is slightly above  
10 the projections and revenues from last year. Of course, we  
11 do have the phase-down of capital stock and franchise tax,  
12 which went from .89 to .67 this January 1<sup>st</sup>, so that would  
13 likely cause some increases in that one tax category for  
14 corporate taxes, although I will add that last year even  
15 with the decrease in CSFT, our projections were off by 16  
16 percent, off in a good way. The CSFT came in 16 percent  
17 higher, and that's a very good sign of our economy and  
18 growing business and so forth.

19           March always brings the concern about gross  
20 receipts tax, the combination of taxes that come in from  
21 the utility companies as well as from the telecoms, and as  
22 telecoms continue to move more towards data-based,  
23 internet-based communication, if you will, or  
24 communications. Those by Federal law are not taxed, that  
25 portion of that business activity. We're not permitted to

1 tax Internet-based telecom. So that is creating some  
2 volatility as well as -- and this is a good thing -- the  
3 fact that electricity prices due to deregulation from a few  
4 years ago, but also due to the lower price of natural gas  
5 that are heating homes and delivering 30 to 40 percent less  
6 for homeowners. That's also bringing in some lower taxes  
7 and gross receipts, so as you noted, that is one estimate  
8 that was decreased by \$50 million.

9           Nevertheless, we're not changing our official  
10 estimate for '13/'14 of 29,115 because we believe those  
11 revenues will be made up elsewhere. So those are a couple  
12 of areas. We do have a bank shares tax issue. We amended  
13 the bank shares tax last year, and now this occurred before  
14 the amendments were made but there were some added refunds  
15 to the bank shares tax, refund requests, anyway, that are  
16 being evaluated. So there's a couple of uncertainties out  
17 there but with the economic indicators that exist, where  
18 GDP is going, where we see sales taxes, the increases  
19 there, and the improvements in employment, other factors  
20 within the State, the continued advancement of the energy  
21 industry, the transportation bill, the fact that more C  
22 corporations are moving into Pennsylvania. We feel very  
23 good about our estimate for '13/'14 and very good about our  
24 estimate for '14/'15.

25           REPRESENTATIVE ELLIS: Well, thank you for those

1 comments and kind of breaking it down into the different  
2 categories, and I think what we've seen today is the  
3 Independent Fiscal Office and the Governor's Office not  
4 being too drastically different, so a positive outlook for  
5 Pennsylvania.

6           That being said, we're always going to be looking  
7 for enhanced revenue wherever we can, and I was fortunate  
8 to work with a lot of your staff on the alternative fuels  
9 language. We were unsuccessful getting that into the  
10 transportation bill, but there was some money available. I  
11 would assume Tom would talk about that a little bit, about  
12 what we could do going forward as far as collection of  
13 alternative fuels taxes.

14           MR. ARMSTRONG: Currently, if you think about it,  
15 the alternative fuels taxes at the moment is written in  
16 another decade previously, and so we're behind in terms of  
17 catching up with technology, and so it's important to look  
18 at that as we go ahead forward and try to collect as best  
19 the alternative fuels due to us. You have hydrogen coming  
20 online, you have electric cars coming online, but you can't  
21 meter them. There is CNG coming online in terms of  
22 stations, et cetera, et cetera. At the moment we're moving  
23 towards as a gas equivalent and to a number of taxes but  
24 there are number of holes within the bills and within the  
25 statute itself that needs to be improved upon.

1           REPRESENTATIVE ELLIS: What kind of dollars are  
2 we talking about today, and if we don't do anything, a few  
3 years from now as far as what we're missing out on, taxes  
4 that are due?

5           MR. ARMSTRONG: Last year we collected  
6 approximately about \$600,000 there. Here we're collecting  
7 about a million. There is probably \$6.8 million that could  
8 potentially be collected if we improve upon the alternative  
9 fuels laws that exist.

10           REPRESENTATIVE ELLIS: So with an efficiency like  
11 that, if we update the language, we're talking about going  
12 from 10 percent collection to 100 percent collection  
13 possibly, I just want to---

14           MR. ARMSTRONG: Not 100 percent collection.

15           REPRESENTATIVE ELLIS: Well, I don't think  
16 anything's 100 percent.

17           MR. ARMSTRONG: I think we all would.

18           REPRESENTATIVE ELLIS: But I do appreciate the  
19 willingness of the Department to work with the legislature  
20 on these issues, and I appreciate your testimony today and  
21 look forward to continuing to work with you.

22           MR. ARMSTRONG: Thank you.

23           SECRETARY MEUSER: Thank you.

24           MAJORITY CHAIRMAN ADOLPH: Thank you.

25           Representative Wheatley.

1                   REPRESENTATIVE WHEATLEY: Thank you, Mr.  
2 Chairman.

3                   Happy born day, Mr. Secretary. Let me ask you a  
4 question, because the last few years I've been kind of  
5 confused. Your department, you are the Revenue Department.  
6 You collect and make sure our taxes come into our  
7 Commonwealth, right?

8                   SECRETARY MEUSER: Administrate, educate, enforce  
9 when necessary, so we collect all the taxes that are due.

10                  REPRESENTATIVE WHEATLEY: So taxes aren't a bad  
11 thing in and of themselves, are they?

12                  SECRETARY MEUSER: No.

13                  REPRESENTATIVE WHEATLEY: Yes, it helps  
14 government perform its business, doesn't it?

15                  SECRETARY MEUSER: Overbearing taxes are not  
16 favorable for a healthy, competitive State.

17                  REPRESENTATIVE WHEATLEY: But in general, taxes  
18 are a good thing, right?

19                  SECRETARY MEUSER: You know, I would say that  
20 what we do at Department of Revenue is enforce the laws,  
21 not to necessarily pontificate if those laws are good or  
22 not.

23                  REPRESENTATIVE WHEATLEY: And you could not do  
24 that without the use of taxes, correct?

25                  SECRETARY MEUSER: If you're saying that taxes

1 are necessary to pay the bills of government, I agree with  
2 that.

3 REPRESENTATIVE WHEATLEY: Okay. And so with  
4 that, what is overbearing becomes subjective, correct?  
5 That's a decision-making choice, what's overbearing or  
6 what's an unnecessary tax or what's too much tax.

7 SECRETARY MEUSER: Well, unless you're looking at  
8 it in a comparative, competitive manner.

9 REPRESENTATIVE WHEATLEY: I'm getting to that  
10 question, because one of the other things that became clear  
11 to me at least listening to the Director of the IFO this  
12 morning, listening to some of the conversation here, in  
13 your opinion, is the generation of our revenue keeping pace  
14 with our surrounding neighbors? Is our economy doing as  
15 well comparatively speaking as the Nation and our  
16 surrounding States?

17 SECRETARY MEUSER: Yes, we've got many indicators  
18 that show that Pennsylvania is advancing in some very  
19 important categories.

20 REPRESENTATIVE WHEATLEY: So as the Nation and  
21 some of our neighboring States show surpluses and we show  
22 deficits, even though our policy has been to be more  
23 fiscally conservative and austere, you view that as  
24 comparatively in line?

25 SECRETARY MEUSER: Well, it depends on where

1 those surpluses come from. If instead of having the second  
2 highest corporate net income tax in the country, we had the  
3 highest by five percent, we likely would have more revenues  
4 for one year, but then after that, we would see a  
5 significant decline, in my opinion.

6 REPRESENTATIVE WHEATLEY: Can you explain -- and  
7 I'm just interested, you know, because I'm trying to become  
8 a better legislative person. Do you know what I mean? I'm  
9 trying to make good decisions based off of what we have  
10 coming in and the fiscal realities of what we're dealing  
11 with. I keep hearing about a pension. I know that we just  
12 did transportation but it was a heavy lift doing  
13 transportation, and we only did the minimum on  
14 transportation, by the way, because the real needs of our  
15 infrastructure are probably \$3 billion to \$4 billion more.  
16 So as people celebrate the transportation, and I'm very  
17 happy we did it, but if you really wanted to spark our  
18 economy, we would have been much more courageous and did a  
19 larger thing on transportation.

20 But that being said, how much does it cost us  
21 each year to give the tax deduction to corporations through  
22 the continual phasing out of the corporate stock franchise  
23 tax?

24 SECRETARY MEUSER: Well, I believe we're the only  
25 State, one of two, that taxes income as well as assets.

1 That's one of the reasons that Pennsylvania has a business  
2 tax climate that puts us, or had us, anyway, at number 47,  
3 48 out of 50 States, certainly not an attractive position  
4 to be in if somebody's looking to relocate or start a  
5 business. So very often there's a theory that by lowering  
6 the tax rate, broadening the base, as I was mentioning  
7 earlier, making sure that we gain compliance from as many  
8 taxpayers as possible, if not all, that we enforce the tax  
9 laws thoroughly, that we invest in technology so we don't  
10 miss anyone, they know we're not going to miss them, and we  
11 allocate our internal resources at the Department of  
12 Revenue so as we are focused on customer satisfaction,  
13 taxpayer satisfaction, but on closing that tax gap that  
14 exists out there. That can deliver the sort of revenues  
15 that are necessary, particularly if you have more  
16 taxpayers.

17           There's a theory that what you want is not more  
18 taxes but more taxpayers, a broader base, and that's  
19 created via having a lower price. I'd even compare it to a  
20 store. Would you go to a store often and purchase a lot of  
21 goods if they had the predictably highest prices, or would  
22 you go more often if they had the predictably lowest  
23 prices? And those stores tend to be more profitable. It  
24 doesn't work exactly like that in government, but frankly,  
25 I think that analogy is a fair one.

1           REPRESENTATIVE WHEATLEY: And I appreciate that.  
2 I guess I was just looking for what the reduction costs us  
3 as a State, and in fact, did we broaden up, did we close  
4 out some of these loopholes and broaden our base? Not that  
5 you have to answer that. Really, my question was try to  
6 get to what was the numerical number that the reduction  
7 cost us, and then correspondingly, did we see the growth in  
8 business offset that, meaning was there more money coming  
9 in because we became a better business climate and our  
10 economy did better with the reduction, or was it kind of a  
11 wash?

12           SECRETARY MEUSER: Well, no, it's not a wash.  
13 We're moving forward. Our consumer spending is higher,  
14 jobs are being created. The energy industry is expanding.  
15 Technology companies are moving in. There's more  
16 manufacturing coming back to Pennsylvania, and I state that  
17 objectively. It would be nice to see personal incomes go  
18 up more but there's other factors related to that.

19           I promise you, Governor Corbett wants the same  
20 goals that you're outlining. He's just looking to set our  
21 initiatives up so it drives job creation, it drives  
22 personal income growth, and ultimately drives personal  
23 income taxes and drives sales and use taxes. The States  
24 out there that are doing better than us with revenues focus  
25 more on sales and use tax and personal income tax than they

1 do on corporate tax.

2 MR. ARMSTRONG: They'd have a better business  
3 climate so I would argue that with the General Assembly has  
4 agreed and voted upon to reduce the capital stock and  
5 franchise tax over time, you're going to see our rankings  
6 improve. You're going to see returns on investment become  
7 greater, and therefore greater business activity within the  
8 Commonwealth.

9 REPRESENTATIVE WHEATLEY: And I'm not going to  
10 belabor this point, it's your birthday so I'm going to let  
11 you out of here as quickly as I can, but I do want to say,  
12 you made a request to get some additional money for your  
13 enhanced collection department. You weren't granted that,  
14 but you were granted money into your general operation.  
15 Can you help me understand that tradeoff, what that will  
16 bring, or will you still transfer personnel into your  
17 enhancement? Because it seems like at least from my  
18 perspective, if we're not going to tax more, we should be  
19 very aggressive in going after those who owe us.

20 SECRETARY MEUSER: We are. I promise you,  
21 Representative, we are. The Governor told me enforce the  
22 laws to the best of our ability without being overly  
23 burdensome on the innocent, if you will, and so forth.

24 We closed loopholes. You know, many throughout  
25 the country and in Washington talk about closing loopholes.

1 We closed two loopholes last year, the 8911 real estate  
2 loophole as well as the so-called Delaware loophole. The  
3 Delaware loophole will bring in, providing an add-back  
4 provision, will bring in \$35 million more than was ever  
5 brought in before because of an add-back provision. We  
6 also, through the sales tax and marketing sourcing and  
7 other means, many didn't necessarily like it because it  
8 actually added revenues last year and will this year as  
9 well because although we might be lowering the tax rate,  
10 we're expanding the base. So where do those allocations go  
11 to? They go to our audit department, they go to our tax  
12 collectors, our RICA agents in the field. We utilize it  
13 to, for instance, we purchase audit software, which will  
14 deliver about four to one, an investment of a million  
15 dollars. We're anticipating this is very conservative. It  
16 will deliver back \$4 million. We added, because of the 3.3  
17 million or 3.7 million -- which was it?

18 MR. ARMSTRONG: 3.2.

19 SECRETARY MEUSER: 3.2 million to our GGO this  
20 year. We increased the estimates for the General Fund by  
21 \$24 million. So when the Governor sees that, when the  
22 Budget Office sees that, that's money being well spent,  
23 allowing us to enforce, allowing us to make sure all  
24 taxpayers pay what's due.

25 REPRESENTATIVE WHEATLEY: Thank you.

1 Thank you, Mr. Chairman.

2 MAJORITY CHAIRMAN ADOLPH: Thank you.

3 Representative Peifer.

4 REPRESENTATIVE PEIFER: Thank you, Mr. Chairman.

5 Thank you, Secretary, and welcome. I think it's  
6 only fitting that my questions, I'm going to try to keep  
7 them very short because there are birthdays in the room,  
8 and the Secretary of Aging is here next, so I know  
9 Representative Millard and the Secretary of Revenue's  
10 anxious to hear what the Secretary of Aging has to say.

11 Secretary, over the course of a number of years  
12 that you've been here, we've talked about tax fairness, tax  
13 fairness to brick-and-mortar stores, tax fairness to  
14 businesses on Main Street and trying to provide that level  
15 playing field in the remittance and collection of sales and  
16 use tax. You have aggressively gone out there after remote  
17 sellers defining nexus in this Commonwealth, and I'd just  
18 like you to elaborate on your successes there, and along  
19 those lines, to dovetail off of that, the Pennsylvania 40  
20 income tax return, you've actually added a line where  
21 individuals who can voluntarily report their use tax owed  
22 to the Commonwealth, and if you could just give us an idea  
23 of where you stand with those collections, that would be  
24 helpful as well.

25 SECRETARY MEUSER: Great. Thanks very much,

1 Representative.

2 Well, use tax has certainly been a difficult tax  
3 to collect from consumers. We've been very successful  
4 collecting use tax from businesses. We bring in \$400  
5 million from business use tax. We only bring in about \$4  
6 million from consumer, from individual use tax. Now, that  
7 is up a good \$3 million since the addition of the use tax  
8 line but it is a minimal amount compared to the overall use  
9 tax that should be collected, or can be collected or  
10 ultimately is actually due by law to the Commonwealth.  
11 Now, it's a Federal law that requires Internet-based remote  
12 sellers shipping into a State that do not have physical  
13 presence or nexus, it's a Federal law change that would  
14 require them to have to collect and remit sales taxes. But  
15 what we did under the direction of Governor Corbett was, we  
16 reviewed very closely the nexus and use tax laws that exist  
17 in Pennsylvania. We gained legal opinion and saw that it  
18 clearly stated without policy change or legislative change  
19 that having any sort of connectivity or physical presence  
20 within the Commonwealth establish nexus.

21 We sat down some very large retailers, say their  
22 names now, I think, Amazons and others, and let them know  
23 that we believe that they had nexus and they should be  
24 collecting and remitting tax in the Commonwealth, sales  
25 tax. We worked with the group of large remote sellers to

1 give a grace period so we could be reasonable stewards here  
2 in government, so we just didn't change their methodology  
3 for collection overnight and let them know that this is the  
4 policy, these are the laws. We offered a grace period.  
5 Anyway, September 1, 2012, the grace period ended, and  
6 since then we've collected an additional \$88 million in  
7 sales and use tax from over approximately 100 formerly  
8 remote sellers.

9           The Governor does support, certainly, these  
10 efforts, we're going to continue them, but we also do  
11 support the Marketplace Fairness Act, which would require  
12 Federal law change.

13           REPRESENTATIVE PEIFER: So you've collected \$88  
14 million from e-commerce remote sellers? That's fabulous.

15           Is there anything we can do? Because we ran into  
16 this interstate commerce buzz saw when we were working on  
17 it initially through the Finance Committee and through  
18 Appropriations here. Is there anything we can do to help  
19 you out? I know we've sent some letters to our Federal  
20 legislators talking to them about this issue and the need  
21 for basic tax fairness. If there's something that we can  
22 to help you out, we'd be glad to do that.

23           SECRETARY MEUSER: Thanks, Representative, and  
24 that's just it; it is about fairness. That was Governor  
25 Corbett's main focus here, that the brick and mortars were

1 simply put at a disadvantage. E-retailers, not that  
2 they're the problem or the enemy or anything, it's just  
3 that they had a competitive advantage over the businesses  
4 on Main Street that make up most of the economy in  
5 Pennsylvania, and he wanted a fair playing field, a level  
6 playing field. The added revenues are certainly important  
7 but it was initially about fairness, and I would say yes,  
8 discussions with our Congressional representatives  
9 informing that if the Marketplace Fairness were to pass in  
10 its current language -- it may have changed since I last  
11 saw it -- it would deliver an added \$200 million, \$210  
12 million, we estimate, in annual revenues to the  
13 Commonwealth.

14 REPRESENTATIVE PEIFER: Great. Thank you.

15 Thank you, Mr. Chairman.

16 MAJORITY CHAIRMAN ADOLPH: Thank you.

17 Representative Dean.

18 REPRESENTATIVE DEAN: Thank you, Mr. Chairman.

19 Good afternoon, gentlemen. I was here in the  
20 back of class so I was able to hear your testimony. Thank  
21 you very much. Happy birthday.

22 SECRETARY MEUSER: Thank you.

23 REPRESENTATIVE DEAN: As you know, we're here  
24 analyzing and debating and thinking about public policy as  
25 it relates to revenues we bring in and the spending that we

1 undertake, and so one of the things that I was noting in  
2 your opening comments was the idea of, you know, we have to  
3 test the efficacy of what we do when we pass tax credits,  
4 for example, to business, and the very bill you talked  
5 about, Chairman Benninghoff's bill that passed in October  
6 of 2012 when I just began here, was to provide 95 percent  
7 PIT withholding back to the employer under ramifications,  
8 if you had had 250 jobs within five years in certain  
9 sectors, and it was a \$5 million tax break, tax incentive  
10 to bring businesses or to incentivize businesses to hire  
11 here.

12 But I think you know that your report shows that  
13 no one took advantage of that. As of December of last  
14 year, not one dollar has been used through that fund. So I  
15 say we have to analyze the efficacy of what we do, and so  
16 when we sit on these committees and then we pass  
17 legislation like that, I wonder how effective we are being  
18 and how effective is that kind of a public policy in terms  
19 of bringing in extra revenues and incentivizing.

20 I saw that the Department is now offering PA Free  
21 File, which allows filers with incomes of less than \$58,000  
22 to file their taxes free, but I think at the same time, we  
23 are eliminating and phasing out the telefile and then the  
24 direct file, PA Direct File, within a year. I'm just  
25 wondering, is the \$58,000 for individual filer or joint

1 filer, or either? What's that maximum cap?

2 MR. ARMSTRONG: What was the question? I missed  
3 that. Sorry.

4 REPRESENTATIVE DEAN: For the free filing offered  
5 now under PA Free File, it says that it's for filers with  
6 incomes up to \$58,000. Is that individual or is it also a  
7 joint filer?

8 MR. ARMSTRONG: Yes.

9 REPRESENTATIVE DEAN: It's also a joint?

10 MR. ARMSTRONG: Yes.

11 REPRESENTATIVE DEAN: So it's both individual  
12 filers, or if my husband and I file, up to \$58,000?

13 MR. HASSELL: I believe it's whatever income is  
14 on the return, whether it's single or joint.

15 MR. ARMSTRONG: Correct.

16 REPRESENTATIVE DEAN: And I'm wondering who chose  
17 the \$58,000.

18 MR. ARMSTRONG: That's a determination between  
19 the IRS and the Free File Alliance, and they look at it  
20 every year to determine that amount.

21 SECRETARY MEUSER: It was established by the IRS.

22 REPRESENTATIVE DEAN: Established by IRS. And  
23 what concerns me is that I think an awful lot of people  
24 that I know anecdotally really enjoy the free filing,  
25 whether it is online or it is telefiling, and so really,

1 now we're saying that some people are making enough income  
2 where they should have to pay. Is that correct?

3 SECRETARY MEUSER: Well, we allow for what's  
4 called free fillable forms, so if your income is over  
5 \$58,000, you still can file for free using Free File but  
6 it's under the free fillable forms that are made available  
7 online.

8 REPRESENTATIVE DEAN: So you can still do free  
9 online filing?

10 SECRETARY MEUSER: Right. We were very careful  
11 in moving into this, as I hope you know we would be. We  
12 set it up because we believed it would be better for  
13 taxpayers. It allows them to file their Federal and State  
14 taxes at the same time. It will improve quality. It  
15 certainly improves efficiency. It saves us about \$500,000  
16 a year. Many States that are just modernizing themselves  
17 have moved in this direction already. The satisfaction  
18 rates on it are very high, and we're confident in it, but  
19 we did not want to jump into it too quickly. That's the  
20 main reason we're the first State ever that was allowed to  
21 maintain a PA Direct File for one year during the  
22 transition. But the telefile is truly quite outdated. The  
23 IRS disbanded their telefile eight years ago, and it's very  
24 cumbersome. The quality level of it requires quite a bit  
25 of manual effort and the quality of the overall system is

1 poor.

2 REPRESENTATIVE DEAN: And the PA Free File, is  
3 that done in partnership with any major national companies?

4 SECRETARY MEUSER: Yes, it is. Why don't you  
5 name them?

6 REPRESENTATIVE DEAN: And who is that?

7 MR. ARMSTRONG: Companies that are in the PA Free  
8 File are Intuit, Turbo Tax, TaxACT, Tax Slayer Online  
9 Taxes, 1040Now and H&R Block, so there are six vendors that  
10 are doing PA Free File with us.

11 REPRESENTATIVE DEAN: Okay.

12 MR. ARMSTRONG: And then for free fillable forms,  
13 there's one vendor, and that's Intuit.

14 REPRESENTATIVE DEAN: And free fillable forms, is  
15 that also offered in the same website?

16 MR. ARMSTRONG: Yes.

17 REPRESENTATIVE DEAN: And I go on to PA File and  
18 I have an income greater than \$58,000, I am then paying a  
19 fee to one of those vendors. Is that correct?

20 MR. ARMSTRONG: If you're going over the \$58,000  
21 AGI income level and you choose to file electronically, you  
22 would pay to those vendors, correct.

23 REPRESENTATIVE DEAN: Are people going to be  
24 advised that they could be doing this free on their own?

25 MR. ARMSTRONG: Yes. You'll see that going into

1 the web pages and whatnot. There's an opt-out.

2 REPRESENTATIVE DEAN: I hope so.

3 And then very quickly, in terms of the revenue  
4 side, what would the effect be if personal income tax for  
5 State employees was raised to \$10.10? What would increased  
6 revenues look like if we had our State employees' minimum  
7 wage at \$10.10?

8 SECRETARY MEUSER: I don't know offhand. If the  
9 minimum wage for State workers was at \$10.10?

10 REPRESENTATIVE DEAN: Yes.

11 SECRETARY MEUSER: We'll have to get back to you  
12 on that.

13 REPRESENTATIVE DEAN: That would be great. I  
14 know that's something obviously we as a State and other  
15 States across the Nation are looking at.

16 SECRETARY MEUSER: Okay.

17 REPRESENTATIVE DEAN: And then what would the  
18 dollars be if we had a State effective severance tax of  
19 three percent on shale? What dollars in revenues are we  
20 foregoing every year when we don't tax at the State level  
21 the severance of shale gas?

22 SECRETARY MEUSER: Well, I will say this,  
23 Representative, under Governor Corbett, of course, we've  
24 been collecting record-high corporate taxes from those  
25 companies engaged in the natural gas extraction business,

1 but because of Governor Corbett and the legislator were  
2 also collecting an added \$200 million in impact fees that  
3 wasn't being collected before, and I can also add that  
4 where the price of gas was, you know, the percentage from  
5 that impact fee is very close to the figure that you just  
6 mentioned.

7 REPRESENTATIVE DEAN: From the impact fee, but  
8 for the State, which we are collecting nothing, so if we  
9 were to go to a 2.9 or 3 percent, it would be somewhere in  
10 the area of about \$300 million State revenues. I'm not  
11 talking about impact fees.

12 SECRETARY MEUSER: I'll have to check. I think  
13 it would be a little bit less than that but I'd have to  
14 check.

15 REPRESENTATIVE DEAN: And my final question, you  
16 said, to be clear on the lottery, you don't see any other  
17 outstanding bills. Are we or is the Administration still  
18 pursuing other avenues for private management of the  
19 lottery?

20 SECRETARY MEUSER: It is not a priority right  
21 now. I outlined the strategy that we have to deliver for  
22 older Pennsylvanians. Certainly if our profits fall short  
23 of the needs of older Pennsylvanians, other options will be  
24 considered. But as of right now, as the plan, as I  
25 expressed, where we need the legislative relief, and what

1 we plan to do with that legislative relief, introducing new  
2 games, optimizing retailers, expanding our marketing and  
3 focus on terminal games, we are very optimistic we can  
4 achieve and meet the demands of older Pennsylvanians.

5 REPRESENTATIVE DEAN: And do you think the  
6 Administration would come to us and come to the seniors of  
7 Pennsylvania before expending any more dollars to  
8 privatize?

9 SECRETARY MEUSER: Well, not to look backwards,  
10 but during the process of the PMA, we did, Representative,  
11 hold a number of hearings and had well over 100 individual  
12 meetings with Representatives discussing the possibility of  
13 going in that direction.

14 REPRESENTATIVE DEAN: Okay. Thank you very much.

15 MAJORITY CHAIRMAN ADOLPH: Thank you.

16 Representative Christiana.

17 REPRESENTATIVE CHRISTIANA: Thank you, Mr.

18 Chairman.

19 Mr. Secretary, gentlemen, thanks for joining me.  
20 I would just like to just pick up where the previous Member  
21 was asking about the natural gas industry, and one of the  
22 most frustrating things that we're going to hear throughout  
23 this process, Mr. Secretary, is that the only way to  
24 generate revenue for the Commonwealth vis-à-vis the natural  
25 gas industry is to slap a national leading severance tax on

1 it. But the fact is, Pennsylvania for years, the General  
2 Fund has benefited from the natural gas industry due to the  
3 Oil and Gas Lease Fund. Can you comment about -- obviously  
4 the Governor is looking for an additional \$75 million in  
5 this budget, but before we look forward, can we talk about  
6 where we've come and how much revenue the State has seen  
7 through the Oil and Gas Lease Fund over the years?

8           SECRETARY MEUSER: Yes. The Governor obviously  
9 has asked for this years back, and he wanted a very narrow  
10 but realistic perspective of truly what was being  
11 generated, the tax revenues that were coming from the  
12 companies that were directly involved in the extraction of  
13 gas and the immediate distribution. So we ran NAICS codes,  
14 and we have maintained them over the years. We are looking  
15 at, on average, about \$300 million from four categories of  
16 businesses involved in the immediate extraction of natural  
17 gas, and that includes CNI, CSFT, sales and use tax, and  
18 withholding tax, not personal income from royalties. That  
19 would be another \$70 million a year, by the way.

20           REPRESENTATIVE CHRISTIANA: So Mr. Secretary, if  
21 we could just, for lack of time, agree that the \$300  
22 million that we just point to arbitrarily, and we will hear  
23 throughout the next few months, we can already point to by  
24 the decision to encourage business rather than just take  
25 the severance tax route. We are generating hundreds of

1 millions of dollars for the Commonwealth in revenue without  
2 leading the Nation in another tax, correct?

3 SECRETARY MEUSER: Correct.

4 REPRESENTATIVE CHRISTIANA: And actually, I think  
5 the previous Governor and the Minority Chairman of the  
6 Appropriations Committee was just reported recently talking  
7 about the \$400 million that Governor Rendell had spent from  
8 the Oil and Gas Lease Fund towards the last few years of  
9 his Administration. So it's not even just this  
10 Administration that has benefited from it but the  
11 Administration of the past as well.

12 And the frustrating part about this is that  
13 despite all the successes, for all the benefits that  
14 Pennsylvania has seen, and not just in Washington County or  
15 in Bradford County but the refineries in Delaware County or  
16 Williamsport or one of the largest corporations looking to  
17 build the first cracker plant in the Appalachian region,  
18 the first one in the United States here in Pennsylvania,  
19 despite all those wins, we still have to come up here and  
20 defend why we shouldn't lead the Nation in another tax.  
21 And this concept, if you could just also comment from your  
22 experience, that if we just slap a tax on industry, that  
23 there will be no ramifications to that industry, so let's  
24 just say arbitrarily you raise the CNI to a higher level,  
25 the idea that revenue's going to double just because you

1 increased the rate, I mean, that's not the case, correct?  
2 There are ramifications for putting tax increases, and  
3 while the drillers are here today, they necessarily may not  
4 be here if we lead the Nation in another severance tax,  
5 correct?

6 SECRETARY MEUSER: Yes, absolutely correct,  
7 Representative, and it's happened elsewhere. It happened  
8 in West Virginia a few years back when an additional 5.9  
9 percent severance tax was imposed there. We saw our rig  
10 drilling go up and our pipeline activity increase, and  
11 theirs decline. Many like to say how Texas has a 5 percent  
12 severance tax. Well, they do not have a 9.9. They don't  
13 have any. They have a zero percent CNI tax, so it's truly  
14 not an apples-to-apples comparison. We're bringing in all  
15 the revenues that are due, the taxes that are expected, and  
16 the impact fee as far as the Governor was concerned made  
17 sense because the industry did bear more of a cost on  
18 government services than other industries, and that was  
19 determined via the Marcellus Commission headed by  
20 Lieutenant Governor Jim Cawley, and so it seemed a  
21 reasonable approach so as counties receive back the impacts  
22 in costs that they needed to deal with and the quality  
23 control, DEP and enforcement funding was made available to  
24 assure that this industry moved forward with the highest  
25 levels of quality in the country.

1           REPRESENTATIVE CHRISTIANA: The previous Member  
2 made it sound like and almost explicitly said that the  
3 State wasn't benefiting at all from the impact fee and the  
4 revenues associated, but that's not true, correct? I mean,  
5 whether it's protecting the environment or other investment  
6 opportunities we have, the State is benefiting financially  
7 from the impact fee, correct?

8           SECRETARY MEUSER: In order to allow the industry  
9 to move forward in a responsible manner, those expenses  
10 would have needed to take place and those costs would have  
11 been felt elsewhere, likely from the General Fund.

12           REPRESENTATIVE CHRISTIANA: And one last point.  
13 Mr. Secretary, at the very beginning you mentioned the hard  
14 work of your Department to increase services but to reduce  
15 your operating costs. I think you mentioned your  
16 complement has come down by 170 positions. You've saved  
17 over \$5 million, I believe, in operating costs. I will  
18 say, the one area of opportunity looking at the budget for  
19 us to work on in the next few months, it does look as if  
20 there are 69 vacant positions that are obviously vacant but  
21 are funded. I think if we could -- because you also are  
22 requesting your GGO increase of \$3.2 million, if we could  
23 find a way in tough budget times to reduce those 69 vacant  
24 yet funded positions, I think that would be even more money  
25 for the programs you mentioned and to benefit the

1 taxpayers.

2 Thank you, Mr. Chairman.

3 SECRETARY MEUSER: Thank you.

4 MAJORITY CHAIRMAN ADOLPH: Thank you.

5 Representative Santarsiero.

6 REPRESENTATIVE SANTARSIERO: Thank you, Mr.

7 Chairman, and Mr. Secretary, happy birthday. As a fellow

8 February birthday person, it's a horrible time of year to

9 have a birthday. I'm sorry about that.

10 SECRETARY MEUSER: Well, happy birthday just the  
11 same.

12 REPRESENTATIVE SANTARSIERO: Thank you.

13 A couple points, and I have a few questions, and

14 I just want to follow up on a few things that were just  
15 said now.

16 The fact of the matter is, Texas may not have a  
17 corporate net income tax, but, unlike Pennsylvania, it also  
18 taxes property tax on the mineral rights that actually  
19 funds a lot of its schooling. So they have a much more  
20 robust tax when it comes to the natural gas industry. And  
21 I would say and I would note for the record that a 29-cent  
22 MCF tax, a per-volume tax, on the extraction of natural gas  
23 in Pennsylvania would not put us anywhere near the top  
24 Nationwide and would in this year alone bring in in excess  
25 of \$600 million into State coffers, which is about three

1 times what the current fee is under Act 13.

2 But, you know, let me talk a little bit for a  
3 second about the Delaware loophole, because there were some  
4 comments made about that earlier too. The add-back that  
5 was passed last year does not in fact close the Delaware  
6 loophole. I was curious to hear that it brought in about  
7 \$35 million in revenue, or that's the projection. We were  
8 wondering what that was. But the reality is that if we had  
9 actual mandatory combined reporting, which is the only  
10 thing that would close the Delaware loophole, and still  
11 then even decreased the corporate net income tax, which  
12 many of us who support closing the Delaware loophole and  
13 combined reporting also support, you would bring in about  
14 \$165 million in revenue, so significantly more than what  
15 the current provision is.

16 Another point I'd like to make is, one thing that  
17 concerns me a great deal is the tax policy that this  
18 Administration has been pursuing, namely, tax breaks for  
19 corporations, which have totaled about \$1.2 billion thus  
20 far, and the Administration is proposing roughly another  
21 \$800, \$900 million in those breaks in the coming fiscal  
22 year. You know, I would understand the argument for them  
23 much better and I think that argument would have much more  
24 resonance if it weren't for the fact that Pennsylvania is  
25 in fact lagging behind the rest of the country both in

1 terms of economic and job growth.

2           So those are points that I just want to put out  
3 there because I think it's important to consider as we go  
4 forward with this budget, but the questions I have for you  
5 today are more on the revenue projection side because the  
6 concern I always have when budgets are being done, and I  
7 had this concern as a local elected official as I do now as  
8 a Member of the State Legislature because it's the same at  
9 every level of government. This year's fantasy land  
10 projections of revenues can very well turn out to be next  
11 year's real-world budget deficit, and I think we want to  
12 try to avoid that to the greatest extent possible.

13           It's been noted earlier today in the previous  
14 hearing and also by some of my colleagues in this one that  
15 the Administration's estimates of revenues coming in in the  
16 next fiscal year are vastly at odds with what the IFO has,  
17 and that's even true for this fiscal year. In fact, I  
18 think for this fiscal year, the difference between the  
19 IFO's estimate and the Administration's is something like  
20 \$112 million, and for the coming fiscal year, it's on the  
21 order of about \$300 million. So together it's a little  
22 over \$400 million in difference, which is a pretty  
23 considerable amount of money.

24           Now, we heard earlier that part of that  
25 difference, at least from the Administration's point of

1 view, has to do with projected revenue from transportation  
2 projects that will be funded as a consequence of the  
3 transportation funding bill, and I'd like to get to that in  
4 just a moment. But what are the other differences? Where  
5 else is this revenue coming that the IFO's not seeing?

6 SECRETARY MEUSER: Well, there's a number of  
7 points in the budget that I do not believe that the IFO  
8 took into consideration, some non-tax revenue as well, so  
9 when all that is taken into consideration -- and we had a  
10 meeting with the IFO the other day -- it works out to be  
11 about a .4, .5 percent difference over the term of 18  
12 months. So I'd say about \$45 billion, that works out to be  
13 about a \$210 million difference, and that was the  
14 discussion we had with the IFO. So it is not, as you said,  
15 a vast difference, but that is important, but what is more  
16 important is, we do operate independently of the IFO, of  
17 course. The IFO operates independently of us. But as  
18 being rational public servants, we want to assure that we  
19 utilize every resource out there to match up the numbers  
20 and make sure we're not overlooking anything, which we do.

21 We have been using in the Commonwealth, Global  
22 Insight has served the Commonwealth very well, along with  
23 Moodys.com, Moody's Economics. We set our models, and we  
24 have since I've been here for the last three years, and  
25 it's been done in a very similar manner for years previous,

1 and come the end of the day with Global Insight, all data  
2 is carefully looked at. We have our Bureau of Research,  
3 and we work and we take in the State factors that Global  
4 Insight doesn't necessarily see and we come up with a low,  
5 we come up with a standard, we come up with a high.  
6 There's been Administrations in the past that have chosen  
7 to use highs. Perhaps some have chosen to use lows. We're  
8 always right in the middle. We're not pessimistic, we're  
9 not optimistic. We're realistic. We're right in line with  
10 where Global Insight and we agree. Nothing has changed  
11 this year. You know, we were spot on six months through  
12 for '13/'14. We were off by \$2 million out of a \$29  
13 billion budget, and we're confident that the estimate will  
14 be met. Can some things happen that will change that by  
15 \$30, \$40, \$80 million? Yes, they do happen, hopefully to  
16 the upside.

17           Now, as far as '14/'15 goes, there's many reasons  
18 to think that the economy can really begin to pick up  
19 steam. It seems like it needs to eventually. It's very  
20 difficult to predict when that turn will occur. Do we  
21 think we're going to necessarily have a breakout year that  
22 many economists do think we will? Unfortunately, not, but  
23 we do think that there's enough positives in the  
24 Pennsylvania economy and the national economy that will  
25 allow us to finally achieve revenue growth of 3.7, 3.8

1 percent, tax revenue growth, that frankly is less than the  
2 averages have been over the last previous 10 years to the  
3 Great Recession. So we feel good about it, and it's a  
4 data-based projection.

5 REPRESENTATIVE SANTARSIERO: Let me try to  
6 understand the numbers because you threw out a \$210 million  
7 number. You're saying right now for '14/'15 projections,  
8 after you met with the IFO that you, the Administration and  
9 the IFO are \$210 million apart in your projections?

10 SECRETARY MEUSER: When you take the budget items  
11 into account such as escheats, pensions, the tobacco  
12 transfer, the non-service impact drilling, when you add in  
13 some of the non-tax revenues, you remove that and you're  
14 only focused on tax revenue, you do take into consideration  
15 the SGOC -- I might be leaving one out -- as well as the  
16 revenues created from the Transportation Fund. Yes, that's  
17 what I'm saying. It's about a .4 to .5 difference over an  
18 18-month period.

19 REPRESENTATIVE SANTARSIERO: So \$200 million?  
20 That's what you're saying?

21 SECRETARY MEUSER: Well, let's say .5 of \$45  
22 million, so it's \$225 million.

23 REPRESENTATIVE SANTARSIERO: Okay. The \$41  
24 million, by the way, how was that calculated? I mean, most  
25 of the transportation work is probably not going to, by any

1 means, happen in the first year. As you know, that revenue  
2 stream ramps up over a period of years. So where did that  
3 \$41 million estimate come from? How did you calculate  
4 that?

5 MR. HASSELL: It comes from starting with the  
6 projection of Transportation Fund revenues that has been  
7 adopted in the budget, and looking at how much of that is  
8 likely to flow through to wages of people doing the work as  
9 well as how much is going to flow through to purchase of  
10 materials and doing a calculation on taxes that are likely  
11 to be paid on those activities.

12 REPRESENTATIVE SANTARSIERO: But I think the main  
13 point is there, what was the estimate in terms of the  
14 actual work? Because it seems like a big component of that  
15 is, when you talk about the wages of the individuals doing  
16 the work, well, what's the scope of the work? You talk  
17 about materials. What's the scope of the work? What was  
18 your estimate on that?

19 MR. HASSELL: I don't have the complete breakdown  
20 of that calculation for you right but we could certainly  
21 provide it.

22 REPRESENTATIVE SANTARSIERO: If you could do  
23 that, I'd appreciate that.

24 Thank you, Mr. Chairman.

25 MAJORITY CHAIRMAN ADOLPH: Thank you.

1 Representative Petri.

2 REPRESENTATIVE PETRI: Thank you, Mr. Chairman,  
3 and thank you, Mr. Secretary.

4 I just want to hit on a couple points. First,  
5 there was a number of questions that were you were asked  
6 about the fairness of the tax, and I think the implication  
7 was, is our tax heavy as a State or is it light or is it  
8 crushing. Can you assure the Members of this Committee  
9 that the Department of Revenue will be glad to accept any  
10 voluntary contributions by taxpayers who think they're not  
11 paying enough? Can you assure us that you would take that  
12 check, cash it and use it for the reasons as appropriated  
13 by this Committee?

14 SECRETARY MEUSER: Absolutely, Representative  
15 Petri, but we would rather not pay the interest if they  
16 seek a refund down the line.

17 REPRESENTATIVE PETRI: Okay. But let's assume  
18 they waive their opportunity to get a refund. You would  
19 definitely collect it, take it and spend it as directed.

20 By the way, how much does the Department of  
21 Revenue receive annually by way of voluntary contributions  
22 from taxpayers who just want to donate money to our cause?

23 SECRETARY MEUSER: I would say it's in the  
24 neighborhood of zero.

25 REPRESENTATIVE PETRI: Okay. I just thought I'd

1 check.

2           With regard to Act 52, I want to, on behalf of a  
3 number of practitioners and the issue on compliance and  
4 being able to resolve disputes with taxpayers. Having been  
5 in the situation myself where you represent somebody and  
6 all the sides have to go through the process because there  
7 was no method to compromise and maybe there's an audit  
8 mistake but ultimately you've got to file an appeal to the  
9 Commonwealth Court and hopefully then you get some chance  
10 to resolve it. Now that this new plan is in place, are you  
11 able to quantify the amount of revenue enhancements you've  
12 been able to collect? And then on the other side, are you  
13 watching to see how many court appeals and litigation are  
14 resolved successfully beforehand without going through that  
15 process?

16           SECRETARY MEUSER: We certainly are. As you've  
17 noted, we made some great improvements to the Board of  
18 Appeals as well as the Board of Finance and Revenue. We've  
19 made the appeals process for Pennsylvania taxpayers far  
20 better, more efficient, decisive, and in the perception of  
21 many, more independent than had been in the past. We have  
22 many Representatives here, particularly Representative  
23 Peifer, for his sponsorship of the bill. We do have data  
24 that I do receive at least once a month on the number of  
25 cases that both the Board of Appeals sees as well as BF&R

1 and those that are pending and on the docket. We've been  
2 doing a good job in that regard, particularly in Board of  
3 Appeals because we introduced last year the ability for  
4 compromise, so that's greatly improved, but we won't see  
5 the real improvements with BF&R until it goes into effect  
6 this April 1<sup>st</sup>. Dan, do you have anything else to add?

7 MR. HASSELL: Yes. There have been roughly 500  
8 cases that have been resolved through compromise at our  
9 Board. I don't know the dollars involved off the top of my  
10 head but my guess is that every one of those would have  
11 gone to court otherwise.

12 REPRESENTATIVE PETRI: Well, fantastic.

13 MR. ARMSTRONG: If I can add to that, the Council  
14 of State Taxation recognized all these improvements, and we  
15 went from last year from a D rating and they just came out  
16 recently to an A rating. So from a tax administration  
17 viewpoint, there's been significant advancements including  
18 what was passed in Act 52.

19 REPRESENTATIVE PETRI: Fantastic. And was that  
20 your birthday gift to the Secretary, the grade that you  
21 got, an A minus? That's phenomenal. It really is  
22 phenomenal, and it is a big changer when we talk about  
23 environment and how the business community perceives, at  
24 least the Department of Revenue and if not Pennsylvania.

25 MR. ARMSTRONG: Absolutely. Greater, more

1 efficient and effective and unbiased tax administration is  
2 a positive benefit to the business climate.

3 REPRESENTATIVE PETRI: Absolutely, and I would  
4 just add as a closing comment, I was watching a show, and  
5 apparently the problem that we have with demographics in  
6 Pennsylvania is recurrent throughout the country, and in  
7 fact, a bunch of national pundits were talking about the  
8 need for immigration reform and how immigration reform  
9 could resolve some of these problems where you don't have  
10 enough workers to pay the benefits that are received at the  
11 time of retirement, and obviously as a member of the  
12 Cabinet, I would hope you'd keep in mind as we try to  
13 develop policies and I'd like to hear your input, I would  
14 think that if immigration reform occurs, people are going  
15 to come to this country if it delivers the same promises it  
16 delivered for our parents and our grandparents, and that  
17 is, opportunities for prosperity, good living conditions,  
18 great schools and hospitals, wonderful infrastructure, and  
19 surprisingly, a tax policy. People are going to choose  
20 Federal, State and local based upon what our tax policy is.  
21 That's just a fact.

22 So thank you for your efforts.

23 MAJORITY CHAIRMAN ADOLPH: Thank you.

24 Representative O'Brien.

25 REPRESENTATIVE O'BRIEN: Thank you, Mr. Chairman.

1           Mr. Secretary, I'll try to be exceedingly brief  
2 if I can.

3           SECRETARY MEUSER: Okay. Likewise.

4           REPRESENTATIVE O'BRIEN: I do appreciate your  
5 comments through this hearing regarding openness and  
6 transparency because quite honestly, I feel that any time  
7 anyone deals with money, there should be a certain degree  
8 of openness and transparency.

9           But I have to say, Mr. Secretary, as we went  
10 through the whole process with the proposed sale of the  
11 lottery, I got progressively more confused. As the dominos  
12 started to fall and we had Governor Corbett trying to push  
13 us along when we weren't in session and lacking the vetting  
14 process with Governor Corbett reluctant to release the PMA,  
15 with Governor Corbett helping to reduce the number of  
16 bidders and with Governor Corbett only giving AFSCME two  
17 days to respond with a proposal on this, please help me.  
18 How did this process act to enhance the revenue for the  
19 people of the Commonwealth?

20           SECRETARY MEUSER: Well, the answer to your  
21 question is that because the process in the end, I'm  
22 starting at the end, and I do want to address a couple of  
23 the comments you made, and I'm going to be brief as well,  
24 the end of the day, the bidding process did yield a bid  
25 that would deliver in the neighborhood of \$100 million a

1 year additional above and beyond what the lottery projected  
2 we were going to be generating on our own, and there were  
3 assurances that that would occur, which in the Lottery Fund  
4 or any fund dealing with the Budget Office is a wonderful  
5 thing, that there was \$200 million put in reserve, \$150  
6 million in cash, \$50 million in line of credit that could  
7 be drawn from if in fact those level of APCs were not  
8 achieved.

9 Now, we set out with the PMA process to meet the  
10 demands of older Pennsylvanians. The House of  
11 Representatives Finance Committee gave us a report that  
12 said this needs to be looked at. The lottery is going to  
13 have a problem four or five years from now. We sat down.  
14 We looked at what some other lotteries were doing. We  
15 thought what was going to be best for us. We were not  
16 privatizing the lottery. We were hiring a sales manager, a  
17 business growth manager, if you will, that would make  
18 certain commissions early on but would only achieve their  
19 worthwhile levels of income for them to engage in something  
20 like this if they achieved these 9 percent levels, \$100  
21 million a year in incremental gains, they would earn a  
22 percentage beyond that. We set out following the exact  
23 contracting methodologies that we do for any bid within an  
24 agency and of course, following all the laws. We had  
25 discussions with the legislator. We put it out to bid. We

1 did in fact receive, initially, we had three vendors  
2 involved. One in the end true did bid but they did not  
3 know they were the only bidder. There was a second bidder  
4 that dropped out three days before the final due date with  
5 the excuse in writing that this bid was too one-sided for  
6 the Commonwealth. We still waited to see what that bid  
7 would look like. It exceeded our expectations. It met all  
8 the demands of what the future of the lottery would be. It  
9 maintained all the authority that currently exists within  
10 the lottery, and it had a number of positives.

11 Now, again, Representative, there's no reason to  
12 really look back, but some of the accusations and  
13 statements that you're making and that I continue to hear,  
14 frankly, by people still using the term that we were trying  
15 to sell the lottery and things like that, are completely  
16 false. That would be illegal under Federal and State law.  
17 None of that was taking place.

18 Now, that's in the past. We need to move  
19 forward. Could this whole process have been better? Yes.  
20 And we're going to take the lessons learned from the PMA to  
21 deliver for older Pennsylvanians, because you must  
22 understand, that's all this was about. Governor Corbett  
23 saw an opportunity to deliver big gains, do something  
24 innovative and creative in State government, to deliver on  
25 revenues without raising taxes, and those were the reasons

1 that we pursued it. That was the reason behind it, and now  
2 we're going to use from it everything we can to maximize  
3 funds for older Pennsylvanians.

4 REPRESENTATIVE O'BRIEN: But ultimately, the  
5 broad policy initiative failed. What was the cost of this  
6 failure?

7 SECRETARY MEUSER: By the way, on the secretive  
8 or clandestine, we had a number of hearings and well over  
9 100 legislative meetings. We made brochures. We put out  
10 pieces of literature, just doing all we could so people  
11 understood, stakeholders understood, where AARP testified  
12 and so forth.

13 REPRESENTATIVE O'BRIEN: I believe the question  
14 was, what did this cost?

15 SECRETARY MEUSER: The cost was, due to the  
16 complexity of the overall project that would have delivered  
17 \$100 million cumulatively a year, was about \$4.3 million.

18 REPRESENTATIVE O'BRIEN: The loss was \$4.3  
19 million?

20 SECRETARY MEUSER: The expenditure for this  
21 project was \$4.3 million.

22 REPRESENTATIVE O'BRIEN: Without mincing words,  
23 the loss was \$4.3 million.

24 SECRETARY MEUSER: I'm not mincing words. When  
25 we spend money on research, that could be \$400,000. We

1 have a \$37 million private marketing contract. We have \$54  
2 million private other contracts. This was really nothing  
3 new. It got very political.

4 REPRESENTATIVE O'BRIEN: Well, hopefully as we  
5 move forth for a discussion of Keno, the lessons of  
6 openness and transparency and vetting and avoiding a  
7 possible \$4.3 million loss will have been learned.

8 Thank you, Mr. Secretary.

9 SECRETARY MEUSER: Agreed. Thank you.

10 MAJORITY CHAIRMAN ADOLPH: Okay. Thank you for  
11 being brief.

12 Representative Bradford.

13 REPRESENTATIVE BRADFORD: Thank you, Chairman.

14 Mr. Secretary, I appreciate your comments about  
15 the lottery, and I just want to follow up, if only briefly,  
16 on what Representative O'Brien said, and I appreciate you  
17 conceding that obviously the process could've been better,  
18 and I think the issues of openness and transparency, you've  
19 put aside, and I understand your position. And you've  
20 thrown out to us additional marketing, expanded games,  
21 Keno, the need for margin relief, expanded retailers, going  
22 towards younger players as some of the improvements that  
23 have been learned by the process. If openness and  
24 transparency weren't the mistakes, what were the mistakes?  
25 You said it's been a learning process. Can you tell me

1 what did you learn that you did wrong on lottery that you  
2 won't make those mistakes going forward?

3 SECRETARY MEUSER: Well, what truly was the  
4 problem was the end result. In any business plan or action  
5 plan, you do cover all details so as the end result is the  
6 one that is in fact most favorable. So there is looking  
7 back.

8 REPRESENTATIVE BRADFORD: What was the mistake,  
9 though?

10 SECRETARY MEUSER: The mistake?

11 REPRESENTATIVE BRADFORD: I mean other than it  
12 not being legal.

13 SECRETARY MEUSER: Well, I would only have to say  
14 that there were many political issues that came into play  
15 here and special interests, and frankly, it's probably  
16 better I ask -- I'm not going to get into my own  
17 speculation on why it did not proceed. All I know is what  
18 the Governor cares about is delivering for older  
19 Pennsylvanians, and that's what we tried to do, and we had  
20 a plan to do so. Now we're learning from that plan so we  
21 can do it moving forward.

22 REPRESENTATIVE BRADFORD: And I guess what I'm  
23 asking is, what did we learn---

24 SECRETARY MEUSER: Well, we learned---

25 REPRESENTATIVE BRADFORD: ---in terms of mistakes

1 that were made?

2 SECRETARY MEUSER: We learned how to put together  
3 and execute a better business plan. We learned that we  
4 absolutely need from this legislature a profit relief. We  
5 cannot go back to the 30 percent threshold. Even the 27  
6 percent threshold does not allow us to maximize funding for  
7 older Pennsylvanians. We learned we're not working the  
8 demographic as well as we could. We need to focus on our  
9 marketing and games, on getting more people to pay  
10 regularly, or a little, as opposed to the same people  
11 playing a lot. We need to optimize our retailers.

12 REPRESENTATIVE BRADFORD: Secretary, and I don't  
13 mean to cut you off, I concede all those things, and I  
14 think there's some value to finding all those. Obviously  
15 there was an expenditure of \$4.3 million. The whole  
16 proposal was a disaster. My question was specifically as  
17 to mistakes were made. What were the mistakes? I'll give  
18 you some time to answer that at a later date if you want.

19 I just want to move on to the Keno issue, if I  
20 could, and use my time there rather than belabor the point.  
21 Keno, you said we're not going to make those same mistakes  
22 again. Keno's going to be under the lottery. The  
23 lottery's obviously to benefit older Pennsylvanians. How  
24 much will Keno bring in to the Commonwealth?

25 SECRETARY MEUSER: Well, we have estimates.

1           REPRESENTATIVE BRADFORD: What are the estimates?

2           SECRETARY MEUSER: The estimates are, the first  
3 full year would be \$40 million. Second full year, \$80  
4 million. Correct me if I'm wrong, third full year is --  
5 what do you have there, Sil? 140?

6           MR. LUTKEWITTE: No, no, \$82 million. The fourth  
7 full year is \$96 million.

8           REPRESENTATIVE BRADFORD: And that's new,  
9 reoccurring revenue?

10          MR. LUTKEWITTE: Yes, that's correct.

11          REPRESENTATIVE BRADFORD: Do we believe any of  
12 that is at the expense of additional lottery games and/or  
13 our current casinos?

14          MR. LUTKEWITTE: Again, as the Secretary  
15 mentioned earlier, what we're looking at in the Keno  
16 retailer, there are three classes. One is the restaurants  
17 and bars, 500 of which we have now. We're looking to add  
18 to that 500. And then the two other classes would be other  
19 similar facilities, those social environments that have  
20 tables, and then the third class would be existing  
21 retailers. We at this time can't gauge what sort of  
22 cannibalization there is from and among the...

23          REPRESENTATIVE BRADFORD: So we're looking at 40  
24 to 80 to 120, that kind of growth?

25          SECRETARY MEUSER: Yes.

1           REPRESENTATIVE BRADFORD: Okay. Reoccurring. So  
2 this year an additional \$40 million. How much is the  
3 Governor proposing transferring out of the Lottery Fund for  
4 the General Fund this year?

5           SECRETARY MEUSER: I'm going to have to get you  
6 those figures. I stated earlier that---

7           REPRESENTATIVE BRADFORD: Could it be \$120  
8 million?

9           SECRETARY MEUSER: Pardon me?

10          REPRESENTATIVE BRADFORD: Could it be \$120  
11 million this year, \$130 million, \$120 million, \$130  
12 million?

13          SECRETARY MEUSER: Give me a moment to look at my  
14 notes. Again, our role is to deliver the revenues for  
15 older Pennsylvanians, not in the allocation, so you'll have  
16 to forgive my some lack of knowledge as to the precise  
17 allocations. However, the '14/'15 budget provides DPW with  
18 a total of \$162.6 million in lottery funds to support home-  
19 and community-based services to older Pennsylvanians, \$21  
20 million to annualize the '13/'14 initiative to serve 1,550  
21 older Pennsylvanians, \$11.6 million to serve an additional  
22 1,764 older Pennsylvanians, \$130 million to support the  
23 cost to carry expenses of the HCBS program.

24          REPRESENTATIVE BRADFORD: Right, but they're  
25 General Fund obligations, are they not?

1           SECRETARY MEUSER: I didn't realize that was a  
2 question. They are allocations from the Lottery Fund to  
3 support home- and community-based services to older  
4 Pennsylvanians within the Department of Welfare, correct.

5           REPRESENTATIVE BRADFORD: Understood. No, I  
6 guess the concern that some of us have is Keno and some of  
7 these new revenues that are going under the Lottery Fund  
8 will actually be subsidizing the General Fund. You know,  
9 obviously we're selling Keno as to the best of older  
10 Pennsylvanians, but if it's going into the General Fund and  
11 we're just back-filling expenditures that we're obligated  
12 for, the concern is that Keno is not going to property  
13 tax/rent rebate, it's not going to anything like that.  
14 It's going to subsidize whatever our obligations that the  
15 Governor has identified in the General Fund.

16           MAJORITY CHAIRMAN ADOLPH: I believe you've  
17 answered the question. I mean, the truth of the matter is,  
18 is that there's various ways you can ask the same question.  
19 I believe the Secretary has answered how much money has  
20 been spent with privatizing the lottery and so forth and so  
21 on. For those of us who have been here since the beginning  
22 of the day, if you do not think that the growing population  
23 of Pennsylvania 65 and older is not a problem that we're  
24 going to be dealing with, you're only kidding yourself. I  
25 understand the Members of the General Assembly would like

1 to have a little input in the future decisions. I think  
2 the Administration understands that. But it's going to  
3 cost the Commonwealth an awful lot of money in years to  
4 come, and I know the Corbett Administration was trying to  
5 think out of the box. I think that if that company was  
6 from Delaware County or Montgomery County or Allegheny  
7 County, I think we'd all be jumping for joy. Great Britain  
8 might have been a far stretch from the Commonwealth of  
9 Pennsylvania but let's lighten up. They're not going there  
10 anymore so all the employees have been saved and the  
11 politics have to stop, and I think the Secretary has  
12 answered the question over and over again, and I do  
13 appreciate it.

14 I think Representative Christiana has one follow-  
15 up question, and I hope he's going to be brief because the  
16 Chairman wants to move on to the next hearing. Thank you.

17 REPRESENTATIVE CHRISTIANA: Thank you, Mr.  
18 Chairman, and I will be brief.

19 Mr. Secretary, this idea that because we would  
20 add a new game to the lottery, it may have an effect over  
21 current games or current sales. Other than surveying the  
22 customers and asking them if they chose Keno over something  
23 else, it's pretty hard to quantify that, correct?

24 SECRETARY MEUSER: It is. We review it, but it  
25 is hard to make a precise estimate.

1           REPRESENTATIVE CHRISTIANA: But what is easy to  
2 quantify is the growth of sales---

3           SECRETARY MEUSER: Aggregate growth.

4           REPRESENTATIVE CHRISTIANA: ---over the past when  
5 games have been added on and your projections of growth of  
6 sales which I actually think is fairly reasonable at 6.1  
7 percent growth. I think that was a very responsible  
8 estimate. What is your projected growth for the current  
9 fiscal year on sales without Keno, just the nature of  
10 increasing the business?

11           SECRETARY MEUSER: It's about \$45 million.

12           REPRESENTATIVE CHRISTIANA: Do you have a  
13 percent?

14           SECRETARY MEUSER: So percentages, just a touch  
15 under 4 percent.

16           REPRESENTATIVE CHRISTIANA: Okay. So clearly in  
17 your estimates, if Keno were added and we were get to 6.1  
18 percent growth in sales, we wouldn't be losing business or  
19 shifting business to a new game. We would be increasing  
20 revenue. And I think this idea that adding a new game just  
21 historically has never taken money away from the fund, in  
22 fact, it's increased revenue, and I would assume that your  
23 projections are accurate that Keno would do the same thing.

24           Thank you, Mr. Chairman.

25           MAJORITY CHAIRMAN ADOLPH: Thank you.

1           Representative Bradford has a very brief question  
2 he'd like to have answered briefly.

3           REPRESENTATIVE BRADFORD: Thank you.

4           On Keno, if it's being done under the lottery,  
5 how much of that will go to the issue of gaming abuse, if  
6 any? I mean, you're talking about a lottery every four  
7 minutes, as I understood it from the Senate hearings.  
8 You've been here two, three hours. You could have lost  
9 \$1,500 if you were at a terminal. Are we concerned at all  
10 about that issue?

11           SECRETARY MEUSER: Yes, absolutely. Two things  
12 on that. One, it's a terminal-based game, as stated. It's  
13 similar to Match 6. And one thing that you'd find of  
14 interest, Representative, is that even though you have that  
15 much play, these retailers will actually be bringing in  
16 less in commissions than a typical convenience store  
17 retailer that exists today. So even though you've got the  
18 high frequency of play, you're still not going to have the  
19 numbers that come in and buy lottery tickets as they do  
20 today in an establishment. Our numbers for these new  
21 retailers are much lower than they are for a typical  
22 retailer.

23           Now, when Sil came in, certainly under the other  
24 Executive Director, we spent a lot of time talking about  
25 the responsible approach. This isn't just any business

1 that's being run here. It needs to be done with the  
2 highest levels of integrity, highest levels of  
3 responsibility. It has to be run with good public policy  
4 in mind, and it's one of the strategic approaches or one of  
5 the main things that Sil is going to be focused on as the  
6 Executive Director, not just with Keno but overall.

7 Do you want to address that?

8 MR. LUTKEWITTE: I will, Representative. So as  
9 the Secretary noted, we take our social responsibility in  
10 this area, you chose Keno, but in the area of all of  
11 products very seriously. So in every product that we have,  
12 we identify a number to call if there is a problem. That  
13 number is to an organization that we assist in funding.  
14 It's the Council for Compulsive Gambling of Pennsylvania.  
15 We participate with the Horse and Harness Association, the  
16 Gaming Control Board in addressing these types of issues  
17 around the Commonwealth, and it's an area that we're  
18 looking at critically, what other States are doing,  
19 potentially other ways to increase our focus in this area,  
20 but again, not just because Keno's coming on but across the  
21 board with all the products we sell.

22 REPRESENTATIVE BRADFORD: Thank you, and thank  
23 you, Chairman.

24 Let me just conclude by saying this, because I  
25 guess my concern is, it seems like we're going down the

1 path, and in fairness, this is not unique to this Governor  
2 or this Commonwealth, but for every social problem -- or we  
3 create social problems with the gaming, but having said  
4 that, these continued expansions of gaming rather than have  
5 an honest discussion about revenue, and we can say we've  
6 got courage but at some point if we need revenue,  
7 extracting it through a regressive system where we take  
8 advantage of folks at these terminals, at some point we've  
9 got to have an honest discussion. If we need revenue in  
10 this Commonwealth, we have to have courage not to take tax  
11 pledges and such but to deal with real revenue issues. If  
12 we need revenue, we should find a better way than continued  
13 expansion of gaming to the point of the absurd, and I worry  
14 if we're getting very close to that point.

15 Thank you.

16 MAJORITY CHAIRMAN ADOLPH: Chairman Markosek.

17 MINORITY CHAIRMAN MARKOSEK: Thank you, Chairman.

18 Just very briefly, thank you, Secretary, and your  
19 staff. I think you did your best in trying to answer the  
20 questions. There was a question here earlier I just wanted  
21 to comment on about what mistakes have been made, and you  
22 know, asking somebody to admit to those kinds of questions,  
23 that's a tough thing. But rather than dwell on that, to  
24 use your term, looking forward, a suggestion perhaps, a  
25 word to the wise, if you will. I think one of the things

1 that did not happen there, or if you would have gone down a  
2 different path and at least contacted us, and I know you  
3 reached out to a lot of Members after you decided to go  
4 through with the privatization plan that you had. You  
5 know, we for the last few years, I don't want to say  
6 ignored but we don't have the votes, I get that, but  
7 there's been a lot of things that have gone on here where  
8 we've had no say, and so all of a sudden when something  
9 like the privatization that we had with the lottery earlier  
10 came up, quite frankly, I don't know that you even talked  
11 to people on the other side of the aisle all that much  
12 prior to this. My own assumption or feeling is that there  
13 wasn't a lot of support for this anywhere in the  
14 Legislature, Republican, Democrat, House, Senate, but yet  
15 the Governor and your office went forward with that plan  
16 and basically left a lot of people in the Legislature with  
17 not a whole lot of options other than to attack it, and we  
18 end up now where we've spent \$4½ million or whatever it is  
19 and we have nothing to show for it.

20           So I guess my comment would be, when moving  
21 forward, call us, keep us in tune with what you're doing.  
22 We want to be helpful. We want to be helpful. We're  
23 Pennsylvanians. We represent Pennsylvanians, just like you  
24 do.

25           Thank you.

1                   SECRETARY MEUSER: Thank you.

2                   MAJORITY CHAIRMAN ADOLPH: Thank you, Chairman  
3 Markosek.

4                   I want to thank the Secretary and his staff. On  
5 a professional note, I want to thank the Department of  
6 Revenue for establishing the PA-40X, which I know has been  
7 an issue that many tax preparers across this Commonwealth  
8 have been requesting over the years, and it took this  
9 Administration in order to make filing of the PA-40X much  
10 more efficient.

11                   And as we talk about courage, every time that I  
12 hear the word "enhanced revenue," please say "more taxes."  
13 Thank you.

14                   We will start the next hearing at four o'clock  
15 promptly. Thank you.

16  
17                   (The hearing concluded at 3:54 p.m.)

1  
2 I hereby certify that the foregoing proceedings  
3 are a true and accurate transcription produced from audio  
4 on the said proceedings and that this is a correct  
5 transcript of the same.

6  
7  
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9 Transcriptionist

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