

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE HEARING

STATE CAPITOL
MAIN BUILDING
ROOM 140
HARRISBURG, PENNSYLVANIA

THURSDAY, MARCH 10, 2016

PRESENTATION BY OFFICE OF THE GOVERNOR
EXECUTIVE OFFICES

BEFORE :

HONORABLE WILLIAM F. ADOLPH, JR., MAJORITY CHAIRMAN
HONORABLE JOSEPH MARKOSEK, MINORITY CHAIRMAN
HONORABLE KAREN BOBACK
HONORABLE GARY DAY
HONORABLE GEORGE DUNBAR
HONORABLE KEITH GREINER
HONORABLE SETH GROVE
HONORABLE SUE HELM
HONORABLE WARREN KAMPF
HONORABLE FRED KELLER
HONORABLE JIM MARSHALL
HONORABLE DAVID R. MILLARD
HONORABLE DUANE MILNE
HONORABLE MARK T. MUSTIO
HONORABLE MICHAEL PEIFER
HONORABLE JEFFREY P. PYLE
HONORABLE MARGUERITE QUINN
HONORABLE CURTIS G. SONNEY

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BEFORE (cont.'d):

- HONORABLE MATTHEW D. BRADFORD**
- HONORABLE TIM BRIGGS**
- HONORABLE DONNA BULLOCK**
- HONORABLE MARY JO DALEY**
- HONORABLE MADELEINE DEAN**
- HONORABLE MARIA DONATUCCI**
- HONORABLE STEPHEN KINSEY**
- HONORABLE MICHAEL H. O'BRIEN**
- HONORABLE MARK ROZZI**
- HONORABLE KEVIN SCHREIBER**
- HONORABLE PETER SCHWEYER**

ALSO IN ATTENDANCE:

- DAVID DONLEY, REPUBLICAN EXECUTIVE DIRECTOR**
- RITCHIE LaFAVER, REPUBLICAN EXECUTIVE DIRECTOR**
- CURT SCHRODER, REPUBLICAN CHIEF COUNSEL**
- MIRIAM FOX, DEMOCRATIC EXECUTIVE DIRECTOR**
- TARA TREES, DEMOCRATIC CHIEF COUNSEL**
- HONORABLE VANESSA LOWERY BROWN**
- HONORABLE BRYAN CUTLER**
- HONORABLE PAM DeLISSIO**
- HONORABLE CRIS DUSH**
- HONORABLE THOMAS P. MURT**
- HONORABLE DAVID PARKER**
- HONORABLE SCOTT PETRI**

**JEAN M. DAVIS, REPORTER
NOTARY PUBLIC**

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TESTIFIER

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

2 * * *

3 MAJORITY CHAIRMAN ADOLPH: Good morning,
4 everyone.

5 I'd like to reconvene the House Appropriations
6 Committee for the Budget Hearings for Fiscal Year
7 2016-'17.

8 I know this is the hearing everybody has been
9 waiting for. An awful lot of questions have been asked
10 over the last three weeks.

11 With us today is the Budget Secretary, which an
12 awful lot of the testifiers came out and said, I believe
13 the Budget Secretary will be able to answer that
14 question for you.

15 I think I ran out of fingers, you know, the
16 number of testifiers that mentioned this gentleman's
17 name during the questioning.

18 So today we are very happy to have with us the
19 Budget Secretary to answer all those questions that went
20 unanswered during the last three weeks.

21 Even though the room is not as crowded as it has
22 been, this is the gentleman who can answer those
23 technical questions that we've been asking for the last
24 three weeks.

25 But for those that are here, I would appreciate

1 you turning off your iPhones and your iPads and all that
2 stuff, you know, electronic equipment. This hearing is
3 being televised by PCN. I'm sure it's live right now
4 and will be replayed several times in the next 24 hours.

5 It's the custom in the morning for the members
6 of the Appropriations Committee to introduce themselves,
7 tell the folks in the viewing audience where they live
8 and what area they represent.

9 So without further ado, my name is Bill Adolph.
10 I'm the Republican Chair of the House Appropriations
11 Committee. I live in Springfield, Delaware County,
12 165th Legislative District.

13 MINORITY CHAIRMAN MARKOSEK: Thank you,
14 Chairman.

15 Good morning, everybody. I'm State
16 Representative Joe Markosek, 25th Legislative District.
17 I represent a District that includes the eastern suburbs
18 of Allegheny County.

19 MS. FOX: I'm Miriam Fox, Executive Director for
20 the House Committee on Appropriations, Democrats.

21 REPRESENTATIVE DEAN: Good morning and welcome.
22 I'm Madeleine Dean from Montgomery County. I represent
23 the 153rd, Abington and Upper Dublin.

24 REPRESENTATIVE BRADFORD: Good morning. Matt
25 Bradford from Central Montgomery County.

1 **REPRESENTATIVE DALEY:** Good morning. Mary Jo
2 Daley, Montgomery County, the 148th District.

3 **REPRESENTATIVE DONATUCCI:** Good morning. Maria
4 Donatucci, 185th District, Philadelphia and Delaware
5 Counties.

6 **REPRESENTATIVE ROZZI:** Good morning. Mark
7 Rozzi, 126th District, Berks County.

8 **REPRESENTATIVE SCHWEYER:** Good morning. Peter
9 Schweyer, 22nd Legislative District, Lehigh County, city
10 of Allentown.

11 **REPRESENTATIVE O'BRIEN:** Good morning. Mike
12 O'Brien, 175th District, Philadelphia.

13 **REPRESENTATIVE KINSEY:** Good morning. Stephen
14 Kinsey, Philadelphia County, 201st Legislative District.

15 **REPRESENTATIVE BRIGGS:** Good morning. Tim
16 Briggs, Montgomery County, 149 District. And I'm going
17 to take the Chairman's lead. I live in King of Prussia.

18 **REPRESENTATIVE BULLOCK:** Good morning.
19 Representative Donna Bullock. I'm up top. How are you
20 doing today? I represent the 195th District in
21 Philadelphia County.

22 **REPRESENTATIVE BOBACK:** Good morning.
23 Representative Karen Boback, House District 117,
24 Luzerne, Lackawanna, and Wyoming Counties.

25 **REPRESENTATIVE HELM:** Good morning. Sue Helm,

1 the 104th District of Dauphin and Lebanon Counties.

2 MR. DONLEY: Dave Donley, Republican Staff
3 Executive Director to the Committee.

4 MR. SCHRODER: Good morning. Curt Schroder,
5 Republican Chief Counsel, Appropriations Committee.

6 REPRESENTATIVE MUSTIO: Good morning, Secretary.
7 Mark Mustio, Allegheny County, 44th District.

8 REPRESENTATIVE DAY: Good morning.
9 Representative Gary Day from parts of Lehigh and Berks
10 Counties.

11 REPRESENTATIVE SONNEY: Good morning, Mr.
12 Secretary. Curt Sonney. I represent the 4th
13 Legislative District in Erie County.

14 REPRESENTATIVE DUNBAR: Good morning. George
15 Dunbar, Westmoreland County, 56th District.

16 REPRESENTATIVE MILLARD: Good morning. David
17 Millard, 109th District, Columbia County.

18 REPRESENTATIVE MILNE: Good morning. Dwayne
19 Milne from Chester County.

20 REPRESENTATIVE PEIFER: Good morning. Mike
21 Peifer, 139 District, which includes Pike and Wayne
22 Counties.

23 REPRESENTATIVE MARSHALL: Good morning. Jim
24 Marshall, 14th District, parts of Beaver and parts of
25 Butler Counties.

1 REPRESENTATIVE QUINN: Good morning. Thanks for
2 coming. Marguerite Quinn, 143rd District, which is
3 parts of Central and Upper Bucks County.

4 REPRESENTATIVE PYLE: Good morning, Mr.
5 Secretary. State Representative Jeff Pyle, Armstrong,
6 Butler, and Indiana Counties. That's the 60th
7 Legislative District.

8 REPRESENTATIVE KELLER: Good morning, Secretary.
9 Fred Keller, 85th District, Union and Snyder Counties.

10 REPRESENTATIVE KAMPF: Warren Kampf, the 157th
11 District, Montgomery and Chester Counties.

12 REPRESENTATIVE GREINER: Keith Greiner, 43rd
13 District, Lancaster County.

14 MAJORITY CHAIRMAN ADOLPH: Thank you.

15 As you can tell, Mr. Secretary, we have many
16 members on the Appropriations Committee, 37 to be exact.
17 They come from Southeast Pennsylvania to Northwest
18 Pennsylvania, from Northeast to Southwest and everything
19 in between. It's representative of the entire General
20 Assembly.

21 I'm looking forward to, first, your opening
22 statements. I'd appreciate it if you would introduce to
23 the viewers the folks that are with you at the table as
24 well. They are certainly able to answer questions as
25 well. Just pull your mike up as close as you can

1 because they're not real strong and the room is big.

2 Everybody needs to hear your voice.

3 Before we get started, I'd just like to say a
4 few things real short. I'm going to ask the members to
5 be as brief as they can with their questions. I'm going
6 to ask the testifiers to be as brief and to the point
7 with their answers and both testifiers and the
8 questioners be as respectful as possible to each other.

9 Thank you.

10 Mr. Secretary, the mike is yours.

11 BUDGET SECRETARY ALBRIGHT: Well, first of all,
12 Mr. Chairman, thank you for this opportunity.
13 Certainly, given the weather outside, I was hopeful
14 maybe we could find an outside venue for this hearing
15 but I understand the technical difficulties and why
16 that's not possible.

17 First of all, to my left, this is Brenda
18 Warburton. She's my Executive Deputy Secretary. To my
19 right is Steve Heuer. Steve handles all of our capital
20 budget responsibilities. And if we get any particular
21 questions that they might be the more appropriate
22 responder, I'll defer to them.

23 I'll dispense with any opening statement in
24 deference to the number of members on the Committee so
25 we can devote as much time as possible to their

1 questions and dialogue.

2 I will simply say thank you for this
3 opportunity. I've appreciated the opportunity to work
4 with many of you already over the first year or more of
5 the Governor's term. And I certainly look forward to
6 working with all of you in the future.

7 Thank you.

8 MAJORITY CHAIRMAN ADOLPH: Thank you, Mr.
9 Secretary.

10 Chairman Markosek.

11 MINORITY CHAIRMAN MARKOSEK: Thank you,
12 Chairman.

13 Good morning, Mr. Secretary, lady, and
14 gentleman.

15 BUDGET SECRETARY ALBRIGHT: Good morning.

16 MINORITY CHAIRMAN MARKOSEK: A couple of things
17 before we start. One is, you know, you can't be on the
18 Appropriations Committee or be Chairman of the
19 Appropriations Committee without having the Budget
20 Hearings be sort of your defining moment as part of that
21 experience.

22 And it dawned on me last night that this is
23 Chairman Adolph's last Budget Hearing. I just want to
24 say that this is the sixth time around that I got a
25 chance to sit next to him. It's been a wonderful

1 relationship. I think I only drank out of his coffee
2 mug once or twice in that whole time, accidentally, of
3 course.

4 But I would be remiss without saying, partner,
5 it's been a great experience. I've really enjoyed
6 working with you. You've been a real gentleman. You've
7 been very fair, very cordial to all of us.

8 You know, after you're here in the Legislature
9 for a long, long time, there's certain people that
10 eventually when you're gone, you'll look back and say,
11 you know, they were special to me or a little closer to
12 me than others. Bill Adolph will be one of those people
13 on my list.

14 I just wanted to publicly say that here today.

15 MAJORITY CHAIRMAN ADOLPH: Thank you.

16 (Standing ovation and applause)

17 MAJORITY CHAIRMAN ADOLPH: All those mean things
18 I was going to say, now I'll have a hard time saying
19 them.

20 MINORITY CHAIRMAN MARKOSEK: I had to figure out
21 a way to temper that.

22 But anyway, on a little more somber note, I got
23 up this morning and saw the news of a shooting in
24 Wilkinsburg, Pennsylvania, which is about three miles
25 from my own District. And it happens to be represented

1 by one of the members of this Committee, Representative
2 Ed Gainey. I think there were five people shot and
3 killed, about 20 shots fired, several others wounded.

4 I wanted to mention that because, of course,
5 Representative Gainey about a month ago had his own
6 sister shot and killed in his neighborhood. It wasn't
7 in Wilkinsburg. It was in Homewood, which is right next
8 door. So he's not with us here today. But I did want
9 to mention that. It's just a somber note.

10 And it's a problem, of course, that's way beyond
11 anything we're going to perhaps solve here today. But
12 hopefully in the future, we can get our arms around that
13 very serious problem.

14 Mr. Secretary, you know, the last couple of days
15 here we've had the Secretary of Health, Secretary of
16 Human Services come before us. And I have to tell
17 you -- and I said this the other night -- I don't think
18 I was ever more somewhat flabbergasted, if you will, or
19 maybe that's the wrong word, but there was such a somber
20 thing talking about the drug addiction here that we have
21 in the Commonwealth.

22 BUDGET SECRETARY ALBRIGHT: Yes.

23 MINORITY CHAIRMAN MARKOSEK: And all of the
24 efforts with the heroin epidemic that we have and how
25 serious, really serious, that is. And I'm very happy to

1 see that Governor Wolf has put additional money into the
2 budget to deal with that in the Human Services area. I
3 believe it's about 34 million.

4 BUDGET SECRETARY ALBRIGHT: Yes.

5 MINORITY CHAIRMAN MARKOSEK: I think the Health
6 Department is a little less. But the Drug and Alcohol
7 Secretary mentioned starting these homes for people with
8 addictions to go to to get treatment, because, you know,
9 we can try to prevent all this and try to handle folks
10 after they've been afflicted with a drug addiction. But
11 we need to start rehabilitating people after we save
12 them, if we can save them, and try to obviously put an
13 end to this.

14 It's a generational issue. We can't solve it
15 here. But I am happy to see that the Governor has put
16 additional money in for that. My guess is if we meet in
17 future years there may have to be even more funding
18 driven into those kinds of services with this really
19 difficult epidemic that we have here in the Commonwealth
20 and throughout the nation.

21 BUDGET SECRETARY ALBRIGHT: Yes.

22 MINORITY CHAIRMAN MARKOSEK: Just very briefly.
23 And I really don't have a question. I'll just throw a
24 couple of things out here.

25 BUDGET SECRETARY ALBRIGHT: Okay.

1 MINORITY CHAIRMAN MARKOSEK: The Governor came
2 out with a proposal last year of \$31.6 billion was his
3 budget proposal. The Republicans' proposal that was
4 sent to him, House Bill 1192, was 30.2, which was about
5 1.4 billion less.

6 And then as we worked our way through 2015 and
7 got into December, there was a bipartisan budget
8 agreement for 30.8, which was in the middle. The
9 Governor was up here; the Republican budget was here.

10 BUDGET SECRETARY ALBRIGHT: Um-hmm.

11 MINORITY CHAIRMAN MARKOSEK: And we met in the
12 middle with that proposed agreement, which, of course,
13 didn't get passed. And I'm not going to get into all
14 the whys and wheres. I mean, I think we need to get way
15 beyond that right now.

16 BUDGET SECRETARY ALBRIGHT: Um-hmm.

17 MINORITY CHAIRMAN MARKOSEK: But that was
18 somewhat of a compromise, in my mind anyway. The
19 Governor was higher. Republicans were lower. We kind
20 of found the middle ground there, but, obviously, it
21 didn't pass. So now we have to move forward.

22 We can talk about a lot of the stuff that went
23 on here in our hearings the last couple of weeks was
24 about blue lines. You know, even some of the Democrats
25 have questions about some of the things that were

1 blue-lined, why they were blue-lined, Why wasn't just
2 the overall budget vetoed, those kinds of questions.

3 In my opinion, we're beyond that now. You know,
4 to really be talking about why this or that happened at
5 this point in time as we're eight, nine months late on
6 the current budget and we have hearings for the future
7 budget, which we don't even have the past one passed
8 yet, it just really doesn't make a lot of sense.

9 I just hope that today we can hear from you.
10 And again, I don't have a specific question. But today
11 that we can hear from you and the members here of steps
12 that we can take to reach that somewhat middle ground,
13 the sweet spot, if you will, and how do we get there and
14 what can we do to help you? What can we do together,
15 Democrats and Republicans? What can we do with the
16 Governor to reach that middle ground? The Senate,
17 obviously, has to be a part of it.

18 I think at this point in time we all need to
19 look forward. If I can find one word just to describe
20 the way I feel about this whole thing -- and I'm sure a
21 lot of people share this -- it's frustrated. It's just
22 frustrated.

23 And, you know, I'm not one of these people that
24 gets mad very easily. But I do get frustrated. It's
25 almost like it's hard to see our way out of this. But I

1 think we have to strive for that because that's our job.
2 And I'll just pretty much leave it at that.

3 I would hope all the members here today in this
4 hearing would offer ways that they think that we could
5 meet that middle ground.

6 I know Chairman Adolph has said there's a third
7 way. It's not necessarily the Republican way or the
8 Democrat way. There's a third way.

9 And traditionally -- and this is my 34th budget,
10 probably more than anybody in the room here. And I know
11 that in every one of them, the whole idea of getting to
12 the budget was starting out apart and trying to find the
13 middle ground. And that's what we have not been able to
14 do at this point.

15 BUDGET SECRETARY ALBRIGHT: Um-hmm.

16 MINORITY CHAIRMAN MARKOSEK: But we need to move
17 forward and do that.

18 So, again, I want to welcome you and, again, say
19 I'm going to miss my colleague here as we move forward.
20 But I'll be very anxious to hear the questioning and
21 some of your answers to all of that.

22 Thank you.

23 BUDGET SECRETARY ALBRIGHT: All right.

24 So, Mr. Chairman, let me simply echo your
25 remarks and say that, you know, what we're interested in

1 more than anything else is compromise.

2 As you alluded to already, you know, we were
3 very disappointed, you know, right before the holiday
4 recess. You know, many of you here, you know, all of
5 you here to some extent had worked very hard, long
6 hours, long days, long weeks, long months, to get to the
7 compromise agreement that we got to.

8 Unfortunately, we weren't able to get that final
9 compromised budget agreement across the line. We
10 weren't able to enact that as a final budget agreement
11 for the '15-'16 Fiscal Year.

12 We want to, you know, do everything we can to
13 continue to pursue that compromise and find that final
14 resolution and move ahead and look at how we can find
15 common ground to get our '16-'17 budget done.

16 Thank you.

17 MAJORITY CHAIRMAN ADOLPH: Excuse me, Mr.
18 Secretary. I was just informed that they're having a
19 hard time hearing you in all four corners of the room.

20 Thank you.

21 BUDGET SECRETARY ALBRIGHT: Okay. Is that
22 better?

23 MAJORITY CHAIRMAN ADOLPH: Oh, that's so much
24 better, yes. Thank you.

25 Thank you, Mr. Secretary.

1 And, Mr. Chairman, thank you for your remarks.
2 I do appreciate it. It's been a real pleasure and an
3 honor to serve as Chairman of this Committee for seven
4 years and to serve the people of Pennsylvania for 14
5 terms. It's been a true honor and pleasure.

6 But just because it's my last budget hearing, my
7 last day, I have to ask some questions that have been on
8 my mind and a lot of people's mind, a lot of members'
9 minds. I don't have written remarks.

10 But, No. 1 -- and I've known you, Mr. Secretary,
11 in various capacities throughout your career. I
12 certainly respect your opinion. But, you know, in order
13 to solve this problem, you know, I think you have to
14 review and get some answers, okay, so we understand what
15 the Administration has been thinking about. Okay.

16 And, you know, from the start, the veto back in
17 June, the House and the Senate passed a \$30.2 billion
18 budget. No revenue necessary for that one, okay, the
19 way the budget was put together. Now we may disagree on
20 one-time shifts and so forth and so on. Some are good.
21 Some are bad.

22 But I was very surprised with the Governor's
23 veto. I think we have to go all the way back into the
24 1950s to see the last time that a Governor vetoed an
25 entire budget. You know, schools, hospitals, okay,

1 non-profits, you know, various county government
2 agencies were in jeopardy and suffered as a result of
3 that veto.

4 What was the thinking of the full veto? We've
5 never received an answer. This is the first time
6 publicly that I've had an opportunity to ask the Budget
7 Secretary that question.

8 BUDGET SECRETARY ALBRIGHT: Well, I think we
9 were certainly both publicly and privately clear about
10 the reason we vetoed that initial budget that reached
11 the Governor's desk in July.

12 There have been -- to your point in setting up
13 the question, there were many things or are many things
14 unprecedented about the circumstances that we now face.
15 A budget we believe to have a structural deficit that
16 exceeds \$2 billion as we look ahead to the '16-'17
17 Fiscal Year, that particular budget itself would have
18 been out of balance by more than a billion and a half
19 dollars. It would have continued a series of budgets
20 since the Great Recession in 2008 that used either
21 one-time gimmicks of revenue assumptions or expenditure
22 avoidance that simply would have made our budget
23 situation in the State worse.

24 Over the course of the last five years, five
25 downgrades from the bond rating agencies, all three of

1 which downgraded our bond rating in 2014, should have
2 been, I think, the clear indication that we can't
3 continue to budget business as usual as we have been
4 over the last several years.

5 And most recently, to sort of add to that or
6 underscore the gravity of the budget decisions that are
7 now before us, S&P has put us on a 90-day notice. And
8 what they've simply said is, you either have to change
9 the way you're enacting State budgets or we're going to
10 downgrade your bond rating again.

11 And the Governor has talked many times about the
12 fiscal consequence of that. Another downgrade will mean
13 that on any debt that we borrow, we're paying a premium
14 of sorts of more than 100 basis points. That means for
15 every billion dollars that we borrow, we pay an extra
16 \$10 million annually.

17 Those are costs that we simply can't continue to
18 incur. We have to find the means to balance our budget,
19 to eliminate that structural budget deficit.

20 And as the Governor clearly said in his budget
21 speech, at this point we face two very critical but
22 divergent paths. We can either find recurring revenue
23 to pay for the necessary expenditures, the obligations
24 of the State Government or we can make even further deep
25 cuts that double-down to some extent on deep cuts that

1 were made over the past several years that put added
2 fiscal pressures on counties, school districts, local
3 governments or, again, we can find the political courage
4 to put together, in a compromised way, in a way that
5 finds revenue answers and sources that all parties can
6 bring to the table, as we did with the compromised
7 budget agreement that did elude us just before the
8 holidays, but to work together in a bipartisan
9 compromised way to find better answers to how we fully
10 fund the State's obligations.

11 MAJORITY CHAIRMAN ADOLPH: Okay. And then this
12 is hindsight. This is hindsight. About two-thirds of
13 the line items in, you know, our tracking runs, about
14 two-thirds -- and some of them are not the largest line
15 items in the budget. But two-thirds of those line
16 items, that budget was either -- that line item was
17 either greater than or equal to, okay. And this is just
18 my opinion. Okay.

19 You blue line what you don't like in June and
20 you get the money out to those that need it, that we
21 agreed to. Just an opinion. Okay. And this, in my
22 opinion, is the way you work to a compromise.

23 And when all these other issues fell apart --
24 and they did fall apart. And it's a shame that they
25 fell apart because they were reforms that were well

1 needed and a long time coming for Pennsylvania. Okay.

2 And they fell apart.

3 So, in my opinion, if these three other major
4 issues fell apart, that, as you call a compromise spend
5 number, that also -- and how to pay for it -- was never
6 agreed upon. Okay. In order to keep Pennsylvania
7 moving, the House and the Senate passed another budget
8 increasing spending by another 100 million, increasing
9 education funding by another \$50 million, and put it on
10 the Governor's budget.

11 At that time, the Governor -- and we were only
12 four hundred to five hundred million dollars apart
13 between what the Governor wanted at that time and what
14 this budget that got to his desk did, anywhere between
15 four to five hundred million. The Governor chose to
16 blue line \$6 billion. I don't understand that.

17 And I think we found out since December that
18 some of those blue lines really can't happen anyway. We
19 saw that with the Department of Corrections. The State
20 Treasurer continues to pay. There is a middle road
21 between what the Governor would like to do and the
22 fiscal crisis that you spelled out. There is a middle
23 road.

24 But by vetoing the first budget, by blue-lining
25 \$6 billion and preventing this tax money to go out to

1 the agencies that deserve it, it's just my opinion that
2 that's not trying to work towards a compromise. That's
3 creating a crisis for the people of Pennsylvania, for
4 the schools of Pennsylvania, for the non-profits of
5 Pennsylvania that really is not necessary.

6 That's just an opinion. That's just an opinion.
7 And that's, you know, 28 years' worth of experience.
8 You don't create crisis and let the residents of
9 Pennsylvania and those agencies suffer as a result of
10 that. Okay. You can't get us together going that way.

11 We need to finish '15-'16. And I think we're
12 going to have an opportunity in the next hopefully 30
13 days to do that. We all know it's necessary. But we
14 could have balanced '15-'16 with little revenue and then
15 really look into '16-'17, but not at the rate of
16 spending that the Governor is proposing.

17 The people of Pennsylvania cannot afford those
18 types of tax increases to try to solve the structural
19 deficit and at the same time increase spending. And
20 that's what we're looking for. And that's the only
21 thing that's going to be able to get passed. And until
22 we all accept that, we're going to be at this impasse.

23 Do you want to explain what your thinking was --
24 the previous Secretaries, some said they talked to you;
25 some said they did not talk to you -- regarding the \$6

1 billion worth of blue lines? What was the thinking
2 there? What was the strategy there?

3 BUDGET SECRETARY ALBRIGHT: The thinking again,
4 as the Governor enunciated when he signed what he
5 referred to and what we view as an emergency spending
6 plan, was that we were putting together -- or signing a
7 stopgap budget bill. In other words, we were putting
8 something in place to relieve some of the pressures that
9 had built over the previous six months of the budget
10 impasse with an expectation that when the General
11 Assembly returned to session after the holiday recess,
12 in a matter of weeks, we would finish the unfinished
13 business.

14 We understand that compromise is hard. And I've
15 already talked about the many months of long hours that
16 it took to come to the compromise agreement that we came
17 to, compromises from all parties involved in those
18 negotiations.

19 There were many things that we had to accept in
20 that compromised budget plan. There were delayed
21 payments to counties for their obligations for child
22 welfare. There were delayed payments to school
23 districts to make their Social Security payments. There
24 were many, many compromises that we had agreed to make
25 to come to a compromised budget agreement.

1 Yes, an actual appropriation bill did land on
2 the Governor's desk. But what didn't land on the
3 Governor's desk with it was any recurring revenue
4 package to pay for even that bill that was inadequate in
5 many aspects. Many State agencies did not have their
6 General Fund obligations fully paid for, even the
7 Department of Corrections, I might add, that's gotten so
8 much attention about the blue line that followed.

9 What the Governor was thinking was that he was
10 simply allowing an emergency spending plan to be put in
11 place for a few weeks so that the General Assembly could
12 come back and finish its business, take the compromised
13 budget agreement, work through whatever the unresolved
14 details were, put together a recurring revenue package
15 that not only -- and maybe it was less important that
16 that revenue package pay for '15-'16, but that revenue
17 package provided much more substantial recurring
18 revenues to meet the obligations in the '16-'17 Fiscal
19 Year.

20 A more than \$2 billion structural budget deficit
21 is what looms in front of us. And we have to be
22 responsible. We have to decide and agree upon recurring
23 revenues that are going to pay for those obligations or,
24 again, be willing to talk about deep and really, in our
25 view, unthinkable cuts that would have to be made. But

1 if that's the path that we have to take, then that's
2 what the honest conversation is going to have to focus
3 on and what the implication of those cuts would really
4 mean for outside State universities, for local school
5 districts, for counties, and human service providers.

6 MAJORITY CHAIRMAN ADOLPH: Well, Mr. Secretary,
7 I respectfully disagree with you. Okay. That was a
8 12-month budget. I do agree with you, the IFO agrees
9 with me regarding the amount of revenue that was
10 necessary. If the Governor would have signed that
11 budget, we would have been working on a revenue package
12 almost immediately.

13 As a result of his blue line -- and even if we
14 would have sent the \$30.8 billion budget, there was
15 revenue still necessary. So no matter what budget we
16 put on the desk in December -- I think it was December
17 23rd -- revenue was necessary.

18 But my point to all this was the excessive
19 blue-lining of \$6 billion, okay, not getting out from
20 December to now with schools taking out loans, with the
21 Treasurer making tough constitutional questions, the
22 Department of Agriculture lines, the health line items,
23 trying to get this '15-'16 budget done, okay, trying to
24 get that done and then let's work on this '16-'17
25 budget. But to try to say that we have to come to some

1 type of revenue decisions for '16-'17 and not getting \$6
2 billion out is a problem that I don't agree with. Okay.

3 I'm looking for discussions. I'm looking for
4 meetings. I have not received those types of
5 conversations from the Administration. Okay. And it's
6 now March 10th. So I hope the meetings start
7 immediately. Okay. But it should have started almost a
8 week after the blue line and they did not come. At
9 least I did not receive invitations.

10 So thank you for your answer. I'd like to
11 acknowledge the presence of some members here that are
12 not members of the Appropriations Committee but are here
13 to hear your testimony: Representative Pam DeLissio,
14 Representative Chris Dush, and Representative Scott
15 Petri.

16 The next question will be offered by
17 Representative Mark Mustio.

18 REPRESENTATIVE MUSTIO: Thank you, Mr. Chairman.
19 Mr. Secretary.

20 BUDGET SECRETARY ALBRIGHT: Good morning,
21 Representative.

22 REPRESENTATIVE MUSTIO: Good morning.

23 My goal is to try and fill that gap, the
24 structural deficit, with my questions. We've had
25 several agencies come in front of us -- and your office

1 was kind enough to provide to our Committee some of the
2 answers -- complaining about their increased allocation
3 for their workers' compensation charges.

4 And I'm taken back to the October 28th, 2015,
5 press release from the LCB where they say, additionally,
6 the Commonwealth's new insurance examiner determined the
7 Commonwealth as a whole had been insufficiently
8 contributing to its self-funded workers' compensation
9 liability and increased the total liability for the fund
10 from \$160 million to \$860 million, roughly, rounding
11 numbers. That's a \$700 million increase.

12 My first question is, of the structural deficit
13 that you're citing, how much of that 700 million are
14 attributed to that?

15 BUDGET SECRETARY ALBRIGHT: All right. I don't
16 think those -- I don't think those numbers are quite
17 accurate. We did in a more recent actuarial analysis
18 make a determination that our outstanding workers' comp,
19 long-term workers' comp, liability was much more
20 substantial than had been previously anticipated.

21 The downside for the LCB, if you will, is that
22 two changes were made, one of which you've already
23 alluded to. But even more significantly for the LCB, in
24 the prior Administration, they had made a decision near
25 the end of the Administration to change the way we

1 apportion workers' compensation costs or liabilities
2 across State agencies.

3 We're continuing to take a look at whether that
4 was the right decision to make. But that is currently
5 what is in place. And what I mean by that is that the
6 experience rating of each agency is now an individual
7 determination. Previously whatever that workers' comp
8 liability had been determined to be on an annual basis,
9 all agencies essentially paid the same rate.

10 REPRESENTATIVE MUSTIO: Right.

11 BUDGET SECRETARY ALBRIGHT: Now we look
12 individually at the experience rating of an individual
13 agency.

14 REPRESENTATIVE MUSTIO: And I'm not challenging
15 that. My question was, first of all, you sort of
16 implied to me that that 700 million increase was
17 accurate.

18 BUDGET SECRETARY ALBRIGHT: It was about 200
19 million, as I remember, off the top of my head. We'll
20 get the details for what the previous estimate had been
21 and then what the revised estimate was.

22 REPRESENTATIVE MUSTIO: And when was the revised
23 estimate made? Do you know the date?

24 BUDGET SECRETARY ALBRIGHT: Well, this was done
25 -- you alluded to an October letter. That estimate had

1 been made earlier in the calendar year. We had several
2 meetings sitting down with the LCB to work through with
3 them a number of different accounting changes, if you
4 will, that did affect essentially their bottom line. It
5 was just not the workers' comp issue.

6 There were also some Federal accounting changes
7 for how we report and how they have to assign
8 liabilities that also affected their balance sheet.

9 REPRESENTATIVE MUSTIO: Right. And I'm not
10 specifically addressing their balance sheet. I was
11 specifically addressing the comment, which many of the
12 agencies came into, specifically alluding to the
13 workers' compensation charge.

14 And the reason I bring that up -- and the
15 allocation model is interesting, but really it doesn't
16 tell you anything unless you're comparing the actual
17 losses to the allocation. So some of the responses that
18 were made to our staff where, you know, agencies are
19 taking steps to improve workplace safety and reduce
20 claims, which will impact future rates.

21 Well, it's my understanding that the
22 Commonwealth has had the same safety and loss prevention
23 vendor, you know, in place for at least the last five
24 years. For years their total employment has been coming
25 down.

1 So I guess my concern is that we have these
2 numbers that are able to fluctuate by hundreds of
3 millions of dollars. We had the same situation several
4 years ago with the Pennsylvania School Board Association
5 playing games with reserves, which ends up establishing
6 a cash fund here. Then we maybe possibly could come in
7 years later with another actuarial study and reduce the
8 reserves but we have all this cash.

9 So that's what I'm trying to prevent from
10 happening. And I'm not accusing your Budget Department
11 of doing it. But you're relying on numbers that within
12 the last six months have gone from a \$700 million
13 increase down a \$200 million increase.

14 And that raises a lot of questions, a lot of
15 questions. And I'm glad you asked them to get the
16 reduction.

17 BUDGET SECRETARY ALBRIGHT: Again, I want to
18 emphasize that the delta is clearly not the magnitude
19 that you're citing. But we'll provide you with those
20 precise estimates, both what the prior actuarial
21 estimate had been and what the revised actuarial
22 estimate now is.

23 And again, these are estimate s of future
24 liability. You know, we have to take a hard look at
25 what the underlying assumptions are and make our best

1 estimate about whether those underlying assumptions are
2 accurate or not.

3 You know, the conservative nature that I would
4 bring to the office wants to make sure that we have
5 appropriately and fully accounted for what our future
6 workers' compensation liabilities are.

7 I mean, we all know the sad tale of woe in our
8 pension system and what happens when we don't make the
9 best actuarial estimates or don't fully fund future
10 obligations and let those obligations simply grow or
11 that debt loom larger in future years.

12 But to your point, there is no intention, I
13 assure you, to creating any unwarranted fund balance.
14 We want to make sure that we provide adequate funds to
15 meet these liabilities and nothing more.

16 REPRESENTATIVE MUSTIO: And I want to be clear
17 that I wasn't making the assertion that you and your
18 Department were doing that.

19 BUDGET SECRETARY ALBRIGHT: Sure.

20 REPRESENTATIVE MUSTIO: But sometimes when you
21 rely on outside vendors without knowing how they're
22 compensated or what their ultimate goals and mission is,
23 particularly when some of them have been in place for
24 years, establishing the support that created an unfunded
25 liability at a certain level now all of a sudden it

1 significantly increases, that raises a lot of red flags
2 to me.

3 BUDGET SECRETARY ALBRIGHT: Right.

4 REPRESENTATIVE MUSTIO: I mean, I spend a lot of
5 my evenings reading reserving ratios and claim reports
6 and things like that. I have a boring life. Okay. So
7 when I saw those numbers, that was an immediate red
8 flag. It was the same red flag that came to me with the
9 School Boards Association when they were overcharging
10 our school districts by millions of dollars.

11 So I appreciate the dialogue. We can get -- if
12 you would be so kind to have a dialogue with the
13 Committee to get us the specifics so that we could
14 review those.

15 BUDGET SECRETARY ALBRIGHT: Yes.

16 REPRESENTATIVE MUSTIO: We could work together
17 to maybe fill some of these holes.

18 BUDGET SECRETARY ALBRIGHT: We certainly
19 appreciate that. We welcome that input. And we'll be
20 happy to do that. It was a new actuary. And that's
21 what often happens when you bring fresh eyes to provide
22 that perspective.

23 REPRESENTATIVE MUSTIO: Let's go to the old
24 actuary and save a couple hundred million.

25 Thank you.

1 MAJORITY CHAIRMAN ADOLPH: Thank you.

2 At this time I'd like to acknowledge the
3 presence of the Speaker of the House, Representative
4 Mike Turzai. Welcome.

5 The next question will be offered by
6 Representative Mike O'Brien.

7 REPRESENTATIVE O'BRIEN: Thank you, Mr.
8 Chairman.

9 And good morning, Mr. Secretary.

10 BUDGET SECRETARY ALBRIGHT: Good morning.

11 REPRESENTATIVE O'BRIEN: Good to see you.

12 When I was in the private sector, I was in the
13 meat industry. And I spent a lot of time negotiating.
14 I spent a lot of time haggling over pennies on a pound.
15 Pennies. Three cents on a pound could have made the
16 difference between making pay that week and not making
17 pay that week. Thankfully we always made pay.

18 So being in a position here when we talk about
19 tens of millions of dollars being a rounding error when
20 I'm sitting here -- I don't have enough money in my
21 pocket to buy a hot dog -- it kind of gets confusing and
22 muddled.

23 So help me go through the process here, if you
24 would. So we start off with a proposal from the
25 Governor of \$31.6 billion. And we get to an agreed

1 amount of money in the framework of \$30.8 billion. So
2 during this negotiation process, the Administration gave
3 up \$800 million.

4 What did we give up? What did the
5 Administration say? All right. We'll take this off the
6 table. We disagree with you. We think it's a bad move.
7 But we'll take this off the table. Give us a sense of
8 what was given up.

9 BUDGET SECRETARY ALBRIGHT: Really, by and large
10 the concessions that we made would fall into two simple
11 categories. We had hoped to provide significantly more
12 funding to local school districts and higher education
13 institutions.

14 Again, funding that, for the most part, would be
15 directed at replacing funds that had been cut from those
16 providers, education providers, institutions in the
17 previous few fiscal years, and steps that would be taken
18 to completely eliminate the structural budget deficit.

19 Our original hope in our original proposed
20 budget was that we would eliminate that structural
21 budget deficit entirely in the '15-'16 Fiscal Year.

22 What the bipartisan budget agreement would have
23 enabled us to do was to eliminate that structural budget
24 deficit but to take two years to do it. In other words,
25 we would have taken several significant steps to

1 hopefully satisfy bond rating agencies critical of the
2 budgeting practices that we've been implementing over
3 the past several years. But we would have taken two
4 years, not one year, to get that job done.

5 The third component, if you will, was part of
6 the Governor's three-year plan to significantly improve
7 the State's business tax climate by significantly
8 reducing our corporate net income tax.

9 There would have been a cost to that. The
10 first-year cost would have been about \$250 million,
11 together giving up on these three things. But the two
12 most importantly that I alluded to earlier would have
13 been the compromise.

14 I have to also say for the record that things do
15 change. I often get accused of changing numbers along
16 the way. You know, realities come into play. Declining
17 revenues in our Oil and Gas Fund, declining revenues in
18 our Lottery Fund caused a -- you know, as many of you
19 know, we have to make spring update changes to the
20 original budget proposals that are provided.

21 In that case, last year in early March, we ended
22 up having to reverse about \$125 million in payments that
23 we thought we could transfer from the Lottery Fund to
24 balance the General Fund Budget.

25 Again, one of these steps we've been taking in

1 past fiscal years that isn't sustainable long term but
2 we were, because of Lottery revenues, forced to back out
3 about 125 million that had been assumed to be Lottery
4 Fund support.

5 And similarly Oil and Gas Fund revenues caused
6 us to make revisions in the amount of transfers from
7 those funds to the General Fund to offset principally
8 DCNR appropriations in their budget.

9 So, in fact, by the time we finally sat down to
10 the negotiating table in April and May, once those
11 spring update changes were made, we were looking at a
12 \$31.9 billion proposed spending plan. And that's what
13 we really compromised down to.

14 So what we were really taking in full or
15 agreeing to was about \$1.1 billion in total cuts from
16 the original proposal that we had circulated in March.

17 REPRESENTATIVE O'BRIEN: So \$1.1 billion in
18 cuts. So now we add from the bipartisan agreement to HB
19 1460 we add another 500 million cut, which from the
20 original proposal would have taken the change of \$1.4
21 billion.

22 Now, you laid out what would be taken off the
23 table from 31.9, I believe you just said, to 30.3. What
24 do we lose going down that next step to 1460?

25 BUDGET SECRETARY ALBRIGHT: Well, the most

1 significant thing we lose -- and there are two pieces to
2 this. First, without any effort to eliminate the
3 structural budget deficit, it really does jeopardize our
4 ability to go to the B bond market.

5 We've talked a lot about the inadequacy of that
6 proposed budget for local school districts. And there's
7 been, you know, a lot of confusion about, you know, why
8 we get to the assertion that that budget as proposed
9 would have resulted in about a \$95 million cut if you
10 look at total aid to local school districts.

11 We get there because, yes, that proposed budget
12 that did land on the Governor's desk did provide modest
13 increases for the basic education subsidy, for Special
14 Education, pre-K programs, things that are important.

15 But those total increases that would have added
16 up to about 210 million would have been offset by the
17 loss of any revenue that would have been -- that we're
18 able to provide to this day to reimburse school
19 districts for their school construction programs, you
20 know, building buildings, repairs, and so on.

21 The compromised budget agreement assumes that we
22 would go to the debt market and borrow funds, not just
23 to meet those obligations in the current fiscal year.
24 The original recommended appropriation, just by way of
25 reference, would have been slightly more than \$305

1 million. So that's how we get to the net \$95 million
2 cut.

3 But without addressing the structural budget
4 deficit, without taking clear steps to bring our budget
5 into balance, there is no way we can go to the bond
6 market to issue that debt. So what we'd be left with if
7 there's nothing to replace or enhance the subsidies
8 provided, the revenue plans that would support that
9 budget -- that budget in itself was already out of
10 balance by more than a half a billion dollars -- there
11 is no way that we could go out in the bond market and
12 issue debt that wouldn't negatively impact our future
13 debt rating.

14 So what that means is we're left with no way to
15 meet these obligations, 270 million in direct payments
16 the districts will incur during the fiscal year, another
17 \$10 million in lease payments that we're obligated to
18 make to charter schools. We have no means right now to
19 fund those obligations.

20 And again, if we want to or if we're forced to
21 simply fund them from the General Fund, then we have to
22 find the means to provide an additional 300 million
23 that's simply not there right now.

24 REPRESENTATIVE O'BRIEN: Two questions, give me
25 a very short answer for, if you would.

1 BUDGET SECRETARY ALBRIGHT: Okay.

2 REPRESENTATIVE O'BRIEN: Does legislation
3 dealing with pensions have any impact on this year's
4 budget?

5 BUDGET SECRETARY ALBRIGHT: It does not
6 directly.

7 REPRESENTATIVE O'BRIEN: Does any legislation
8 dealing with the sale of liquor stores have any direct
9 impact on this year's budget?

10 BUDGET SECRETARY ALBRIGHT: Not in the current
11 year.

12 REPRESENTATIVE O'BRIEN: Now, what I've heard --
13 and I'm just a simple row house guy, so please forgive
14 me. But what I've heard is that from prekindergarten
15 through postgraduate years, our kids get short-changed
16 and our students are saddled with crushing debt.

17 What I've heard today is that our senior
18 citizens, Mom and Pop and Grandmom and Grandpop, don't
19 get the services that they need. Certainly, we're at a
20 place that we need to look like a simple guy like I am
21 how does government serve us at the end of the day. And
22 certainly, I believe the Governor's current budget
23 proposal serves that purpose.

24 Thank you for your time today, sir.

25 And thank you, Mr. Chairman.

1 BUDGET SECRETARY ALBRIGHT: Thank you,
2 Representative.

3 MAJORITY CHAIRMAN ADOLPH: Thank you,
4 Representative.

5 I grew up in a very similar row house to my good
6 cousin over there, Representative O'Brien. And I'm sure
7 some of the members will be talking about the type of
8 revenue that we could have refused from privatization of
9 liquor stores. So I will pass on it.

10 The next speaker is Representative George
11 Dunbar.

12 REPRESENTATIVE DUNBAR: Thank you, Mr. Chairman.
13 Good morning, Secretary.

14 BUDGET SECRETARY ALBRIGHT: Good morning.

15 REPRESENTATIVE DUNBAR: And as I sat over here,
16 I've honestly started scribbling in margins of the
17 paper. I only have a couple of brief questions and then
18 comments based upon some of the things we've heard over
19 the last couple days.

20 BUDGET SECRETARY ALBRIGHT: Um-hmm.

21 REPRESENTATIVE DUNBAR: And hopefully I can put
22 them in some type of cogent order to make sense of it
23 all.

24 Over the last few weeks, I've heard a lot of
25 different terms, a lot of different ways of looking at

1 numbers. And I had heard a discussion between a member
2 and the Secretary of Education that talked about
3 programmatic spending in regards to education.

4 Programmatic spending has decreased since the
5 Rendell Administration. And that's a term I'm not
6 familiar with. Are you familiar with that term?

7 BUDGET SECRETARY ALBRIGHT: Well, I think that
8 what he was simply alluding to is that after the deep
9 cuts that were made in the '11-'12 Fiscal Year, we have
10 restored some of that appropriation authority to aid
11 local school districts.

12 But, you know, as we sit here today or if we
13 look at the '14-'15 Fiscal Year as the base year on
14 which we, you know, judge where school districts are
15 compared to where they were at the end of the Rendell
16 Administration, certainly there are many school
17 districts. And school districts on the whole have not
18 fully recovered from those deep cuts.

19 REPRESENTATIVE DUNBAR: And do you agree with
20 the Governor's assertion that HB 1460 represents a \$95
21 million cut to education?

22 BUDGET SECRETARY ALBRIGHT: Yeah. If it's
23 helpful, the math is pretty simple. There would be, if
24 you combine the basic education subsidy, if you restore
25 the blue line for that subsidy and include the increase

1 in the regular block grant, it would have provided about
2 a \$150 million increase.

3 Additional appropriation increases for Special
4 Education and early learning programs would have totaled
5 another 60 million, for a total of 210 million, but then
6 providing no means to fund school districts. School
7 construction obligations would be a net loss compared to
8 the prior fiscal year of more than \$305 million.

9 That \$305 million cut along with the \$210
10 million increase leaves school districts with a net \$95
11 million less than we were providing them with in the
12 '14-'15 Fiscal Year.

13 REPRESENTATIVE DUNBAR: And I appreciate that.
14 And believe me, I had jumbled numbers around a little
15 bit to figure it out originally. But I did get to the
16 same conclusion you did. That is not programmatic
17 spending then. Programmatic spending in HB 1460
18 actually increases; is that correct?

19 BUDGET SECRETARY ALBRIGHT: Again, the school
20 construction, the line item that provides those
21 reimbursements, is zero. In the previous year it was
22 \$306 million to be exact.

23 REPRESENTATIVE DUNBAR: Yeah. And did you -- we
24 also -- the plan was -- and I believe part of the plan
25 that the Administration also agreed to -- to have a bond

1 issue to cover those costs.

2 BUDGET SECRETARY ALBRIGHT: As I previously
3 alluded to, we cannot go into the bond market right now
4 without dealing in some substantive way with the
5 structural budget deficit.

6 S&P just a few weeks ago, to buttress that
7 assertion, has been clear. We are on a 90-day watch.
8 As we speak now, that clock is running. And what they
9 have clearly said is, if we don't take steps to change
10 the way we're budgeting our State finances, we're going
11 to receive another downgrade.

12 And if we would go out into the debt market
13 right now and ask to borrow to meet what is clearly a
14 current General Fund operating obligation, annual
15 payments that we make, that we have already committed
16 to, to reimburse school districts to help them meet
17 their debt service payments for school construction
18 projects, that debt would -- that debt may not even be
19 rateable or we would suffer immeasurable harm, you know,
20 in your future borrowing.

21 REPRESENTATIVE DUNBAR: And the actual \$95
22 million cut, there's no specific term to describe that,
23 is there, to take those four items and put them
24 together?

25 BUDGET SECRETARY ALBRIGHT: I think for school

1 districts it would be described simply as \$95 million
2 less than they received in the last fiscal year. It's
3 math.

4 REPRESENTATIVE DUNBAR: I'm not a wonderful
5 wordsmith. And I don't know about creating different
6 words and terminologies that we seem to be doing
7 recently. I leave that up to the Dr. Seusses of the
8 world to create different terms.

9 I am -- like my friend the meatman, I'm just a
10 lonely old CPA. We don't deal with different words. We
11 tend to do things with numbers.

12 Over the years when I would go and visit a
13 client prior to year end, I would walk in the door, talk
14 about, you know, what do you want to do here? What's
15 your concern? Is your concern your taxes or is your
16 concern your financial statement and the banks?

17 And depending upon their answer, we would
18 certainly make their statements come out to that. What
19 I'm saying is, we could take the same numbers and
20 legally make them say what we wanted them to say. It
21 could be higher profits. It could be for bank reasons
22 or it could be lower profits for tax reasons.

23 And that's what's been happening here. It just
24 seems like no matter where we go, we're all using the
25 same numbers. We're all manipulating them different

1 ways. We're calling it \$95 million cuts. One side
2 saying \$95 million cuts. The other side is saying a
3 \$400 million increase.

4 And Chairman Adolph had mentioned yesterday in
5 yesterday's hearing that no one is lying. No one is,
6 you know, making this stuff up. But we're all just
7 trying to, you know, create our own situation to make
8 our sides look better.

9 I have a great deal of respect for the other
10 side of the aisle and what they're trying to do and how
11 you represent your constituents, just like we're trying
12 to represent our constituents as well.

13 But I've heard mentioned over the hearings that
14 we somehow are residing in an alternative universe or a
15 parallel reality. I'm not sure. Like I said, I'm not a
16 very good wordsmith of what exactly the term was.

17 I've also heard the analogy that was mentioned
18 yesterday that the \$30.8 billion budget was akin to a
19 five-piece puzzle. And the five-piece puzzle consisted
20 of four different chambers and the Governor's Office.
21 And that puzzle fell apart when Representative Reed
22 pulled away his piece of the puzzle and the puzzle fell
23 off.

24 I agree it's a five-piece puzzle. But I believe
25 the pieces are liquor privatization, pension reform,

1 property tax reform, appropriations, and the revenue to
2 support it. Those are the five pieces. And without all
3 the puzzle pieces in place, it doesn't exist.

4 So, you know, we have to either decide, you
5 know, what are we going to do here? The alternative
6 reality that I see, the parallel universe I see, is
7 continue to latch on to that \$30.8 billion budget, which
8 doesn't exist anymore. We have to admit that it is
9 either missing pieces or completely unbuildable.

10 Throughout my career, many times I'd go to work.
11 I have a five-year plan. You make up your five-year
12 plan. And as you're going through it, you know, as time
13 progresses you realize this isn't working. You cast it
14 aside. I can build a bonfire with all the five-year
15 plans I've written over my life.

16 You know, I worked in construction. We'd do a
17 bid on a job. We'd work for six months on a bid. We
18 don't get the bid. We don't sit there and complain
19 about it. It's time to steer in a different path. Time
20 to steer in a different direction. Time to put it aside
21 and start over.

22 In the last three weeks, we have had a lot of
23 disagreements. We've had a lot of different things
24 going on. But there is some things that we do agree on
25 here. Now, I think one thing we all collectively agree

1 on is the desire to get this done, find some way to get
2 this done.

3 So in all due respect, I think we need to stop
4 with the misleading stories. Stop with the catchy new
5 names. Stop with the mangled numbers and telling
6 stories in different ways. You know, stop with, you
7 know, having -- when we just talked about a cut. We
8 just talked on a cut to a budget proposal.

9 If it was a proposal, you can't be cutting it.
10 If it was an enacted budget, you could have a cut. But
11 you can't have a cut from a budget proposal or we can't,
12 you know, consistently leave out certain information.

13 I heard someone read a bond report and
14 conveniently leave out certain items in that bond report
15 to tell the story the way they wanted to tell it.

16 I heard Chairman Markosek say it earlier today.
17 And I am in agreement with my neighbor Joe. And I'm in
18 agreement with Chairman Adolph. I don't have to agree
19 with Bill. He's leaving. So I mean, I don't have to
20 kiss up to him or anything like that.

21 But Billy had said early on in this process that
22 we're at a fork. We have higher taxes. We have
23 spending cuts. There is an alternative path.

24 Earlier I mentioned Dr. Seuss and making up
25 words. And I had had discussions with Representative

1 Sonney. I don't know how we got off on some Dr. Seuss
2 tangent. So while I was sitting over there I actually
3 did find a Dr. Seuss quote, believe it or not, that
4 fits. And I don't know what it's from. Maybe Red Fish,
5 Blue Fish, Two Fish. I don't know.

6 The quote is, you have brains in your head. You
7 have feet in your shoes. You can steer yourself any
8 direction you choose. And what I'm asking you,
9 Secretary, and the Governor is to steer in a different
10 direction. We're at that point. We're at that time.
11 We cannot continue down the path we're on.

12 Thank you.

13 Thank you, Mr. Chairman.

14 MAJORITY CHAIRMAN ADOLPH: Thank you,
15 Representative.

16 Representative Daley.

17 REPRESENTATIVE DALEY: Thank you, Mr. Chairman.

18 BUDGET SECRETARY ALBRIGHT: Good morning.

19 REPRESENTATIVE DALEY: Good morning, Secretary
20 Albright. It's good to see you.

21 BUDGET SECRETARY ALBRIGHT: Thank you.

22 REPRESENTATIVE DALEY: I just wanted to start
23 with saying what an honor it is to serve on the
24 Appropriations Committee and to have the opportunity to
25 sit and listen to the different departments come before

1 us and answer our questions. It's very time-consuming.
2 It's exhausting at times, but it's an honor.

3 And, Chairman Adolph, I appreciate the work that
4 you do in chairing it, and also, of course, my own
5 Chairman, Chairman Markosek. I wanted to just start
6 with that.

7 And I also want to just state that I look
8 forward to finding a way to work with the Governor and
9 my colleagues across the aisle to move our budget
10 process forward. Hopefully, we can beat that 90-day
11 period of time that Secretary Albright just mentioned
12 related to addressing our budget crisis.

13 I think a lot of what I know about budgets comes
14 from when I worked at University of Penn. I was
15 responsible for the budgets. And I was told in my
16 department that the budget is your budget. It's a big
17 responsibility.

18 I also learned it's a statement of priorities.
19 And for me the big priorities are restoring past cuts to
20 education and human services. When I say education, I
21 mean education, the whole gamut, all the way through
22 higher ed.

23 The structural deficit is also one of my
24 priorities. I know we all have our own priorities on
25 how government services are funded and which government

1 services are important to our constituents. But the
2 slogan government that works has a lot of meaning for me
3 because I know from my own experience when I was in
4 local government that it is possible to deliver
5 government services that people want.

6 So with that in mind, I believe that we all
7 recognize the importance of cutting costs and being more
8 efficient during times when there's not enough money on
9 hand to cover the costs just to pay for the level of
10 services we had last year.

11 All of the agencies have testified on their
12 continuing work to improve the efficiency of their
13 operations and find additional cost savings.

14 I'm pleased with what we heard and I think we
15 should commend all of the hardworking and thoughtful
16 people in our agencies for their efforts.

17 As Budget Secretary, you have the most
18 comprehensive view of what the agencies are doing to
19 find savings across the budget. Which areas do you
20 believe have the most promise to produce ongoing
21 savings?

22 BUDGET SECRETARY ALBRIGHT: I will at this point
23 talk about two. As all of you know, we have tried to
24 provide and we tried to do it on as timely a basis as
25 possible so assuredly before each of the agencies came

1 before you, you were given very detailed plans for what
2 we call our GO-TIME Initiative, but very detailed agency
3 work plans to find efficiencies, find budget savings.

4 We're also, as part of that effort, trying to --
5 also in a government-that-works scenario trying to also
6 better serve and provide better use of the dollars, so
7 those GO-TIME Initiatives don't always in every case
8 produce actual budget savings.

9 Sometimes we have to make up-front investments
10 to realize future savings. But GO-TIME and the biggest
11 part of our GO-TIME Initiative in Year 1 is trying to do
12 a better job of procurement and through DGS's work
13 across all agencies trying to, through strategic
14 sourcing and other means, realize a projected \$100
15 million of savings in how we go out and purchase goods
16 and services to operate State Government.

17 But that's not where it stops or what we call --
18 or include under the GO-TIME umbrella or what we don't
19 and just attempts to work with agencies to share
20 services, find ways to make a more efficient use of
21 State dollars, which also includes ongoing initiatives.

22 First and foremost, a suggestion that we would
23 merge the Department of Corrections with the Board of
24 Probation and Parole, providing immediate administrative
25 savings, yes -- in the '16-'17 Fiscal Year, we believe

1 it's in excess or north of \$10 million annually -- but
2 also to simply produce better outcomes.

3 And part of that effort -- and I just spent the
4 better part of the afternoon yesterday at the Governor's
5 residence launching the second phase of our Justice
6 Reinvestment Initiative.

7 You know, that effort -- and I want to give due
8 credit to the former Corbett Administration, to the
9 General Assembly, and stakeholders that worked through
10 that process a couple years ago that is producing real
11 results, that is producing better outcomes, trying to
12 make sure that when offenders leave State institutions
13 or incarceration or out of county jails, that they
14 become contributing members of society again.

15 We reduced our corrections population by nearly
16 850 inmates last year. That's approaching the size of
17 an institution. And so it's those efforts, whether
18 they're specifically under the GO-TIME umbrella or not,
19 that I would also point to as efforts to make government
20 work, to provide better services and service with the
21 dollars that we do spend, but also try to look at
22 critical cost savings where possible across all of our
23 State's operations.

24 REPRESENTATIVE DALEY: Thank you for that.

25 Just as a followup on the same but slightly

1 different. If we put this in perspective, in your
2 opinion, can we solve the structural deficit through
3 savings and efficiencies alone?

4 BUDGET SECRETARY ALBRIGHT: Well, we have a
5 GO-TIME target of 150 million. But the simple answer is
6 no. That's part of it. And it will become an
7 increasing part of what we see as our responsibility and
8 our goals in future fiscal years.

9 We want those savings to be real. We want to
10 fully account for them in a transparent way. That's why
11 we tried to provide the detailed analysis to the
12 Committee ahead of each individual Cabinet Secretary's
13 testimony. But, no, that isn't in and of itself the
14 simple answer.

15 And, in fact, you know, as frustrating as it may
16 be, you know, part of that answer probably does include
17 the need to find and identify recurring revenues.

18 I will say that since the Great Recession,
19 nearly all states have enacted tax increases.
20 Pennsylvania has chosen a different path. You know, in
21 fact, that path has gotten us to the point that we are
22 today where you heard the Governor's budget speech talk
23 about, you know, a budget crisis that we have to
24 confront. You know, we have to find the means.

25 Again, to your point, savings and efficiencies

1 won't get us all the way there. We have to work
2 together. We have to find the compromise that is such
3 hard work. You know, the long hours that it took to get
4 to that point that we were just before the Christmas
5 holidays is certainly a clear testament to how difficult
6 that work can be.

7 But we need to find that ability to compromise
8 to find the right answers to serve the State in the best
9 way.

10 REPRESENTATIVE DALEY: I agree with you. And I
11 appreciate the work that you're doing.

12 BUDGET SECRETARY ALBRIGHT: Thank you.

13 REPRESENTATIVE DALEY: Thank you for your
14 responses.

15 BUDGET SECRETARY ALBRIGHT: Thank you,
16 representative.

17 REPRESENTATIVE DALEY: Thank you, Mr. Chairman.

18 MAJORITY CHAIRMAN ADOLPH: Thank you,
19 Representative.

20 Representative Jeff Pyle.

21 REPRESENTATIVE PYLE: Thank you, Chairman
22 Adolph. And before I start, it has been an honor
23 serving with you for these many years.

24 Secretary Albright, thanks for being with us
25 today.

1 BUDGET SECRETARY ALBRIGHT: Good morning,
2 Representative.

3 REPRESENTATIVE PYLE: How you doing?

4 BUDGET SECRETARY ALBRIGHT: Good.

5 REPRESENTATIVE PYLE: There you go. That's all
6 you can ask. Spring training, right around the corner.
7 Hope springs eternal.

8 BUDGET SECRETARY ALBRIGHT: Yes. Through the
9 weekend, my team has yet to win a spring training game.
10 So we'll hope things get better.

11 REPRESENTATIVE PYLE: Sir, we went 20 years
12 without a winning team. We're okay.

13 BUDGET SECRETARY ALBRIGHT: Right.

14 REPRESENTATIVE PYLE: I'd like to reach out to
15 our friends across the aisle. I was not born in a row
16 house. But my dad is, as we affectionally refer to, a
17 mill hunk. I did not have a silver spoon in my mouth.
18 It was low carbon stainless. He made it.

19 Anyway, last year, Mr. Secretary, if you recall,
20 we did some talking about energy, which is very, very
21 important to central western Pennsylvania.

22 A few days ago we had the DEP Secretary,
23 Mr. Quigley, in here talking about how the Clean Power
24 Act is going to affect Pennsylvania. And he mentioned
25 to us something that you and I had spoken about last

1 year, the alternative energy portfolio standards and
2 increasing production.

3 BUDGET SECRETARY ALBRIGHT: Yes.

4 REPRESENTATIVE PYLE: The Clean Power Plan,
5 which is Federal, has already forced closure of about
6 six of our coal-fired plants and removed 4 gigawatts of
7 electricity from our grid.

8 Secretary Quigley seems to think we can fill
9 that 4 gigawatt hole through alternative energy
10 portfolio methods.

11 In doing the math into windmill generation and
12 to solar panel generation, Mr. Quigley's numbers aren't
13 quite consumer friendly, whereas a windmill or solar
14 panel generates a kilowatt hour at roughly \$72 per
15 kilowatt hour, whereas coal, natural gas, and nuclear
16 are down in the eleven and twelve dollar range.

17 Now, when I asked the Secretary how we were
18 going to make it up -- and I'm bringing it all around to
19 you -- it's budgetary. Trust me. When we brought it
20 all around, I said, you can't possibly hope to generate
21 that much electricity from alternative energy portfolio
22 means. They simply do not perform like that. We have a
23 decade to prove it.

24 He said we were going to bring gas plants
25 online. We currently don't have any permitted. But I

1 noticed -- and this is where it pertains to you, Mr.
2 Secretary. I noticed within your budget or the
3 Governor's budget proposal is a 6 and a half percent
4 severance tax.

5 I was wondering if we could talk about that a
6 little bit.

7 BUDGET SECRETARY ALBRIGHT: Sure.

8 REPRESENTATIVE PYLE: I see in your projection
9 you're saying for next year, you're projecting gas
10 selling at 2.21. I'm going in cubic feet, in mcf.

11 BUDGET SECRETARY ALBRIGHT: I thought those
12 price projections really moved from about \$1.50 to
13 \$1.70--something. But I'm happy to go back and take
14 another look at that to be clear.

15 REPRESENTATIVE PYLE: Sure. I'm not trying to
16 be sticky with you. But I'm looking at it right here.
17 You're projecting for this year --

18 BUDGET SECRETARY ALBRIGHT: Volume. And we do
19 expect some decline in volume. But we still do expect
20 volume production to maintain in excess, I think, of 4
21 trillion cubic feet.

22 REPRESENTATIVE PYLE: Cubic feet, right, mcf.
23 That's an awful lot of natural gas.

24 Now, the price of this, which I would not debate
25 with you, is not anywhere close to a buck seventy-one in

1 mcf. This morning it was selling at 92 cents.

2 Now, if we are going to put up gas-fired
3 electrical generation and use those great reserves of
4 gas we have stored in anticlinal domes under the State
5 right now, how is that going to affect your budget
6 scenario in that we're at 92 cents, you're thinking next
7 year it's going to go to 2.21?

8 I just don't know how we collect revenue on
9 something that's nowhere close to the projection.

10 BUDGET SECRETARY ALBRIGHT: Well, again, as I
11 alluded to earlier, you know, spring update changes
12 always make adjustments. At the time that we did our
13 budget, those were the best estimates.

14 We, you know, used global insights. We used the
15 best information that's available to us to project our
16 best estimates about where markets will be. You know,
17 we work with others outside of the Governor's Budget
18 Office conferring with the Independent Fiscal Office and
19 anybody else we can talk to to make the best estimates.

20 Those were the best estimates available to us
21 when our budget proposal was put together in January.
22 We will revise, you know, with any necessary changes
23 through our spring update and probably sometime in the
24 month of May any appropriate changes.

25 But we do believe that that market and those

1 prices will begin to fluctuate upward. Part of that is
2 all about pipelines in Pennsylvania as well. That's a
3 process that we need to also, you know, address together
4 cooperatively.

5 But again, if adjustments are necessary, we will
6 work with the General Assembly and communicate what we
7 think are the most recent and best estimates.

8 REPRESENTATIVE PYLE: But my question is, if
9 it's currently selling at 92 cents an mcf -- and I've
10 got the number right in front of me. For 2016 you're
11 projecting 1.71. For 2017 you're projecting 2.08.

12 If the price of gas continues to fall as it has
13 been for about a year and we do not achieve \$1.71 per
14 mcf, which is what your revenue collection model is
15 based upon, is it a structural deficit, the difference
16 between what you've projected and what it's actually
17 selling for? I'm asking. I don't know.

18 BUDGET SECRETARY ALBRIGHT: A structural
19 deficit? It would mean that the revenue forecast that
20 we've made -- and this will affect, you know, both the
21 impact fee collections that are tied to price as well as
22 our severance tax proposal.

23 Let me simply say to go back and put our
24 proposal itself in context, we did try to listen. You
25 know, as you had alluded to already from our dialogue

1 from last year, we had a much different structured tax
2 proposal last year that included a volume component.

3 We took that out so that we could be completely
4 transparent where it was easier to explain the
5 competitiveness of the tax plan that we put before the
6 General Assembly. And so it was clear that it was very
7 competitive and consistent with the taxes that all other
8 producers currently have in place.

9 The 6 and a half percent tax that we propose is
10 actually lower than the tax, for example, you know, that
11 our largest producer, Texas, has in place now. We are
12 the second-largest gas producer.

13 And we also will not touch in any way the
14 current impact fee. We'll let that impact fee in place
15 and simply allow the folks that pay the tax to receive a
16 full credit for the amount of the impact fee they pay
17 against the severance tax that would be put in place so
18 that the new revenue generated would be a net of that
19 delta.

20 REPRESENTATIVE PYLE: Okay. We on Approps
21 actually figured out what the local impact fee worked
22 out to percentagewise. And it's anywhere between four
23 two and four four. What you're projecting at 6.5 is the
24 difference between 6.5 and that number I just read to
25 you.

1 BUDGET SECRETARY ALBRIGHT: Then that would be
2 the net revenue.

3 REPRESENTATIVE PYLE: Sir, have we seen any
4 decline in personal income tax collections from gas
5 royalties being down?

6 BUDGET SECRETARY ALBRIGHT: What we have seen is
7 declining receipts from our own royalty payments. I
8 alluded to earlier the adjustments we had to make for
9 the collections in the Oil and Gas Fund, not just from
10 gas royalties but also in our timber industry that also
11 provides royalties to that fund.

12 So, yes, we've seen some downward turn. But we
13 believe the future is still bright. You know, when you
14 talk about, you know, all of our energy sectors in
15 Pennsylvania, we're still a strong believer that frankly
16 Pennsylvania can become and remain an energy leader in a
17 number of sectors.

18 We believe that while short term there is price
19 fluctuation that we're going to have to deal with, in
20 the long term, those prices will recover. Part of that
21 again is all about pipelines as well as what's happening
22 in the larger energy markets. But we believe that
23 future still looks bright.

24 REPRESENTATIVE PYLE: You mentioned the forest.

25 Chairman, may I?

1 MAJORITY CHAIRMAN ADOLPH: Yes.

2 REPRESENTATIVE PYLE: You mentioned the forest.
3 And that is owned pretty much by Pennsylvania and the
4 Game Commission. Do we have any new drill starts going
5 on up in the forest right now that might help us
6 generate more revenue?

7 BUDGET SECRETARY ALBRIGHT: No.

8 REPRESENTATIVE PYLE: Good answer. Actually the
9 number of rigs has fallen from over 300 to about a dozen
10 now. I don't think we're going to realize this money.

11 But thank you for your time, Mr. Secretary.

12 BUDGET SECRETARY ALBRIGHT: Thank you,
13 Representative.

14 REPRESENTATIVE PYLE: Thank you, Mr. Chairman.

15 MAJORITY CHAIRMAN ADOLPH: Thank you,
16 Representative.

17 Representative Tim Briggs.

18 REPRESENTATIVE BRIGGS: Thank you, Mr. Chairman.
19 Thank you, Mr. Secretary.

20 I just want to thank you, Secretary, for
21 everything you've been fighting for. It's very
22 consistent with what I've been trying to do up here
23 fighting for restoring the cuts to education that's
24 happened over the last number of years.

25 But I wanted to talk a little bit about the

1 structural deficit. In 2010 -- and I don't like to talk
2 about this -- I was the only Democrat in the House to
3 vote against Governor Rendell's Budget because it didn't
4 address paying the bills. It left severance tax off the
5 table. It didn't address a billion dollar tax package
6 that he had advocated for.

7 I didn't know the term structural deficit, but I
8 knew it didn't make sense. You can't balance a budget
9 without paying for it. And that wasn't the way to go.
10 That was a hard position for me to take.

11 You know, I don't want to think that I was
12 right. But it's leaving us in this situation where if
13 we don't pay for the bills and we continue to go down,
14 you know, some can say the middle path, but the same
15 path that we've been going over the years, it's going to
16 just continue exasperating the structural deficit.

17 Could you talk about what a balanced budget
18 would look like that didn't include any new revenues?
19 How do we balance a fiscally responsible budget without
20 finding new revenues, which I think is -- you know,
21 that's not a budget I want to support. I want to fight
22 for education. I want to fight for the future of
23 Pennsylvania and I also want to deal with the structural
24 deficit. Where does that leave us?

25 BUDGET SECRETARY ALBRIGHT: Well, as you heard

1 the Governor say when he gave his budget address, what
2 that other path would look like, what those alternatives
3 would be, would be very bleak. They would probably put
4 us on a downward trajectory.

5 The cuts that we would have to make would
6 probably necessitate even deeper cuts in future years.
7 The reality of our State budget is that much of it is
8 mandated, you know, cost-to-carry expenditures, if you
9 will, programs for medical assistance, entitlement
10 spending that we have to pay, support for our agencies.

11 You know, PennDOT has to maintain our roads and
12 bridges. We have to maintain our Mass Transit systems.
13 So the discretionary spending that we have available to
14 us unfortunately hits some of the most critical areas of
15 where at least this Administration, our Governor, would
16 like to focus new and increased support.

17 It's local school districts first and foremost
18 that would probably bear the brunt of the deepest cut.
19 Likely a billion dollars or more in cuts to local school
20 district aid would be necessary. Those would be cuts
21 that would double-down on the deep cuts that were made
22 just a few years ago.

23 Our State-related universities, non-preferred
24 appropriations, as the word implies, would probably
25 receive no support going forward. Those institutions

1 play a vital role in our State economy. It's not just
2 about subsidizing or enabling or reducing the cost for
3 students that attend those institutions. They are huge
4 economic development providers.

5 Our agricultural extension service provides, you
6 know, a terrific service for our agricultural community.

7 All of those appropriations probably would be
8 gone because they are, as the word implied,
9 non-preferred appropriations that stand in line behind
10 our preferred General Fund obligations.

11 And finally, it's our human services providers
12 that would have to bear the brunt of the remaining bulk
13 of the cuts. And that would probably likely in most
14 cases, or in many cases, be aid for county programs.

15 And again, we'd be doubling-down. But now it
16 would be much worse than doubling-down, much deeper cuts
17 than the 84 million that was cut for county human
18 service programs just a few years ago. Aid for home-
19 and community-based services that are, again, trying to
20 right now provide and put services in place to allow
21 aging seniors to stay out or remain and age in place at
22 home, not have to be placed in nursing homes, if you
23 will; people with intellectual disabilities, autism, to,
24 again, be able to be assisted in their homes, not in
25 institutions, all of that opportunity would be lost

1 opportunity. Those are not cuts that we would in any
2 place or in any way want to make. But they would be
3 cuts that we would have to make to bring the budget into
4 balance.

5 REPRESENTATIVE BRIGGS: Thank you.

6 And in terms of -- and that's a billion-dollar
7 cut of education that isn't -- well stimulus money.
8 This is a cut to education. That's the path that is one
9 of the options that is on the table.

10 In terms of the middle road, anything that
11 doesn't significantly address the structural deficit --
12 you know, we talk about -- you know, people didn't I
13 guess fully understand the budget process, you know,
14 passing the House, going to a separate branch of
15 government, signing by the Governor.

16 Anything that doesn't significantly address the
17 structural deficit, I'm not going to be a yes vote for
18 that. So that's 102 minus 1. But, you know, it just
19 doesn't seem to be taken that seriously, that it really
20 is causing us the problem that we've been putting
21 ourselves in.

22 Could you talk a little bit about PlanCon? A
23 lot of talk last year around reforms and addressing
24 PlanCon. Can you spend a little bit of time talking
25 about what the conversations are now?

1 BUDGET SECRETARY ALBRIGHT: Again, one of the
2 things that we had hoped to implement as part of the
3 bipartisan budget agreement was a PlanCon reform
4 program, if you will. We wanted to not only use bond
5 proceeds to meet our current operating PlanCon
6 operations, but also to fully eliminate a backlog that
7 had grown over the past several years as again tight
8 budgets had not allowed us to fully fund PlanCon
9 obligations, as they were coming to us from local school
10 districts.

11 That bond funding plan would have, over the
12 course of the next couple of years, used a series of
13 debt issuances to fully fund that obligation and then
14 work with the General Assembly to take a hard look at
15 our PlanCon process and talk about future reforms that
16 probably could or should be considered before we resume
17 making new State commitments for future school district,
18 school construction obligations.

19 REPRESENTATIVE BRIGGS: Thank you, Mr.
20 Secretary. And thank the Governor for everything he's
21 doing. I know he's getting a lot of heat. But he's
22 fighting the right fight.

23 Thank you.

24 BUDGET SECRETARY ALBRIGHT: Thank you,
25 Representative.

1 REPRESENTATIVE BRIGGS: Thank you, Mr. Chairman.

2 MAJORITY CHAIRMAN ADOLPH: Thank you,
3 Representative.

4 Representative Warren Kampf.

5 REPRESENTATIVE KAMPF: Thank you, Mr. Chairman.
6 Mr. Secretary.

7 BUDGET SECRETARY ALBRIGHT: Good morning.

8 REPRESENTATIVE KAMPF: Good morning.

9 So I would like to talk just a little bit about
10 the veto, the full veto, in July with respect to
11 schools.

12 BUDGET SECRETARY ALBRIGHT: Um-hmm.

13 REPRESENTATIVE KAMPF: Of course, we've all
14 heard that many schools went out into the debt markets
15 and had to borrow. Do you have a ballpark figure on
16 what that extra cost is for school districts for that
17 missing money that was supposed to come from the State?

18 BUDGET SECRETARY ALBRIGHT: The compromised
19 budget agreement would have provided a modest
20 appropriation, \$10.7 million, that would have refunded
21 local school districts and refunded some non-profit
22 providers for at least some of the cost that they
23 incurred from their borrowing.

24 REPRESENTATIVE KAMPF: All right. Well, I'm
25 trying to unpack that. What I asked was, what are the

1 borrowing costs that the school districts incurred as a
2 result of the Governor's veto in July?

3 BUDGET SECRETARY ALBRIGHT: Well, the \$10.7
4 million is what we would have provided to reimburse
5 school districts. School districts would have been the
6 largest piece of that \$10.7 million appropriation.

7 REPRESENTATIVE KAMPF: So as we sit here, do you
8 know what the school districts actually had to borrow as
9 a result of the veto?

10 BUDGET SECRETARY ALBRIGHT: We believe it's in
11 that range.

12 REPRESENTATIVE KAMPF: Okay. And that's because
13 some effort was made by the Budget Office to find out
14 from school districts?

15 BUDGET SECRETARY ALBRIGHT: Yes.

16 REPRESENTATIVE KAMPF: Okay. All right.

17 So near as I can tell, that was the only
18 tangible fiscal impact of that veto. It did not
19 generate more money for schools. It did not solve the
20 structural deficit that the Administration is now
21 talking about, although I would, as an aside, harken
22 back to March of 2015. My recollection of the
23 Governor's budget address was largely about school
24 funding, equitable school funding, and not about the
25 structural deficit.

1 But that borrowing cost, near as I can tell, at
2 least for our schools, is the only tangible fiscal thing
3 that came out of the Governor's full veto.

4 Do you agree with me?

5 BUDGET SECRETARY ALBRIGHT: Not at all. The
6 most tangible outcome that came from that veto was not
7 another round of downgrades from all three bond rating
8 agencies. I think that, as I've alluded to earlier
9 already, Standard & Poor's has made it very clear that
10 we now have 90 days left.

11 All three rating agencies would have been --

12 REPRESENTATIVE KAMPF: Sorry. Are you saying
13 that the veto caused the downgrades?

14 BUDGET SECRETARY ALBRIGHT: No. I'm saying that
15 the veto --

16 REPRESENTATIVE KAMPF: I was asking, what are
17 the tangible fiscal impacts to our schools of that veto?

18 BUDGET SECRETARY ALBRIGHT: And I'm trying to
19 answer that the tangible result of that veto was to
20 avoid another round of very damaging bond rating or
21 lower bond rating actions that would have been taken.

22 REPRESENTATIVE KAMPF: Did it work?

23 BUDGET SECRETARY ALBRIGHT: To this point, it
24 has. None of the rating agencies have further reduced
25 our bond rating. But as I said earlier, S&P has now

1 given us 90 days and then been clear that if we don't
2 change the way that we're budgeting, that budget, had it
3 been signed into law, would have increased the
4 structural budget --

5 REPRESENTATIVE KAMPF: You're claiming that the
6 rating agencies agreed? Is there something in writing
7 from the rating agencies where they said the veto in
8 July was important for not downgrading?

9 BUDGET SECRETARY ALBRIGHT: You don't have to
10 take my word for it. S&P was very clear in a
11 communication that they've provided publicly to everyone
12 in the course of the last couple weeks that we can't
13 continue to budget the way we were budgeting.

14 REPRESENTATIVE KAMPF: That's not what I asked.
15 What I asked is, when the veto happened in July, are you
16 telling us that the rating agencies at that time said
17 they weren't going to downgrade us because of the veto?
18 That's my question.

19 BUDGET SECRETARY ALBRIGHT: I'm telling you that
20 the rating agency --

21 REPRESENTATIVE KAMPF: Is that what was
22 happening? Is that what happened?

23 BUDGET SECRETARY ALBRIGHT: I'm telling you that
24 the rating agencies made it very clear that we couldn't
25 enact another budget like that one, that if we did, then

1 there was going to be a consequence.

2 By vetoing that budget, by trying to provide
3 additional time -- and again, I completely understand,
4 as we continue to have this dialogue and conversation,
5 compromise is hard work. It's hard for all of us. We
6 all have hard-felt beliefs about the policy perspectives
7 we bring to the table.

8 In divided government, we all have to find the
9 wherewithal to compromise. We all have to try to listen
10 to the extent that we can. We have to find the common
11 ground where it exists. And that's what we worked so
12 hard after that veto in the ensuing months to enact.

13 REPRESENTATIVE KAMPF: Mr. Secretary, let me ask
14 you this question: I viewed that veto at the time and I
15 also viewed the Governor's blue line veto, line item
16 veto, in December as a tactic, a tactic to try to
17 generate more in tax revenue for specific purposes,
18 whether it was for the structural deficit or increased
19 spending or a combination. I viewed it as a tactic.

20 There's a phrase out there that the definition
21 of insanity is doing the same thing over and over again
22 expecting a different result.

23 So my question to you is, as the Secretary of
24 the budget, at what point is the Administration going to
25 say this tactic is not working? The school districts

1 for '15-'16 are suffering. We just skipped another \$800
2 million payment, I think, and they sued us yesterday.
3 They sued the State yesterday.

4 At what point is the Administration going to say
5 this particular tactic for '15-'16 is not working?

6 BUDGET SECRETARY ALBRIGHT: I think that what
7 the Administration is going to say, as I've tried to say
8 repeatedly already today and will continue to say to
9 everyone, compromise is difficult. It is hard for all
10 of us to find the means to come together to work
11 together to find common ground.

12 The Governor and all of his staff, myself
13 included, are fully committed to continue to engage, to
14 continue to work with the General Assembly to find
15 whatever that compromise or common ground is that's
16 necessary to bring the current budget to a close.

17 Now, you know, you alluded to, you know, doing
18 the same thing over and over and expecting a different
19 result. That's exactly what we've been doing for the
20 past eight years. It's been hard. It's been difficult.
21 The Great Recession forced a lot of very troubling
22 alternatives before us.

23 But if we don't break the cycle, if we don't
24 finally respond in a different way than we've been
25 responding, if we don't finally stop papering over with

1 one-time solutions to our budget challenges, the problem
2 is only going to grow worse. The rating agencies
3 couldn't be clearer about that. We need to budget
4 responsibly.

5 There are two paths. There are two
6 alternatives. We can make the deep cuts necessary or we
7 can find the recurring revenue that we believe is
8 necessary to fully and appropriately fund the State's
9 obligations.

10 REPRESENTATIVE KAMPF: Mr. Secretary, I submit
11 to you and the Administration that this particular
12 tactic of the continuing vetoes, its time should come to
13 an end very soon.

14 I have a question about the income tax proposal
15 very quickly. If there is no retroactive component to
16 the income tax proposal that the Governor is making,
17 will '15-'16 be in balance at 30.8 billion?

18 BUDGET SECRETARY ALBRIGHT: Well, your
19 hypothetical ignores all of the rest of the aspects of
20 the tax package. A tax package could be put together.
21 And, in fact, the whole issue of whether it includes a
22 PIT is something that as we were trying to --

23 REPRESENTATIVE KAMPF: We received a tax package
24 from you with the budget proposal . It included, I
25 think, a retroactive element, perhaps for March, for the

1 income tax. I just want to know if that doesn't get
2 enacted into law, will 30.8 for '15-'16 be in balance?

3 BUDGET SECRETARY ALBRIGHT: Well, not if we
4 don't then adopt some other alternative recurring
5 revenue source to --

6 REPRESENTATIVE KAMPF: Fair enough.

7 BUDGET SECRETARY ALBRIGHT: -- pay for that.

8 REPRESENTATIVE KAMPF: Fair enough. Now then,
9 let's say that doesn't happen again, that '15-'16 is not
10 retroactive for the income tax piece. Will your '16-'17
11 budget be in balance?

12 BUDGET SECRETARY ALBRIGHT: Again, if some other
13 --

14 REPRESENTATIVE KAMPF: Not without other
15 revenues?

16 BUDGET SECRETARY ALBRIGHT: Not without some
17 other expenditure decrease or revenue enhancement.

18 REPRESENTATIVE KAMPF: Thank you, Mr. Secretary.

19 Thank you, Mr. Chairman.

20 BUDGET SECRETARY ALBRIGHT: Thank you.

21 MAJORITY CHAIRMAN ADOLPH: Thank you,
22 Representative.

23 Representative Dean.

24 REPRESENTATIVE DEAN: Thank you, Mr. Chairman.

25 And, Mr. Chairman, I want to say it's been a

1 pleasure to work with you over the past few years. I
2 thank you for your service on this Committee.

3 And really as we come to the end of three weeks
4 of budget hearings, I was struck, maybe last night,
5 reflecting on where we've been and what we've all been
6 talking about. Budget hearings are a perfect place to
7 sort of reflect on why the heck you're doing what you're
8 doing.

9 And when I think about when I got into public
10 service, I ran on what I called the three Es, education,
11 the economy and jobs, and ethics and good government.
12 Not unlike what our Governor talks about, the three
13 points that he tries to make.

14 BUDGET SECRETARY ALBRIGHT: Um-hmm.

15 REPRESENTATIVE DEAN: And I say education
16 because I wouldn't be here if my parents didn't build in
17 my DNA the power of education and that you better go
18 claim as much of it as you possibly can so that you can
19 go as far as you can.

20 I talk about the economy because I'm frustrated.
21 I'm not an economist. But I'm frustrated by the past
22 and the notion of some that, you know, we can just
23 anemically limp our way along into a robust economy.
24 Austerity is the way to do it. That's the philosophy.
25 It's a way of trying to govern. We have tried that.

1 I was disappointed with that choice. And I
2 think our Governor ran on the opposite and decided and
3 told the Pennsylvania citizens that actually that's not
4 going to grow us out of this economy.

5 And the third piece is ethics and good
6 government. Boy, how little did I know when I put
7 together my little three Es how interconnected these
8 things are, how interdependent these things are.
9 Because if we don't have government functioning well, we
10 cannot invest in education. We cannot grow this
11 economy.

12 Having said all that, the other thing I'm taken
13 by is the language. We can talk about, yeah, the
14 Governor's to blame because he fully vetoed the June
15 30th budget. People like to say that. They're still
16 surprised by that. There's no surprise in that.

17 We can say that the Majority Party killed the
18 budget framework. Sure. Blame to go around. We can
19 talk about blue-lining or traditional legislative
20 add-backs. And I have the feeling at home they don't
21 give a darn about those things, nor do they care what
22 they stand for.

23 What they do get is, here we are eight months
24 later. Schools are probably on the verge of closing.
25 Human service providers have told us over and over

1 again, one in an op-ed that said, someone will get hurt.
2 There will be a body count if we don't actually fund
3 human services. So all that language is gobbledygook.

4 One of my favorite authors said, how we write
5 and how we speak is how we define ourselves. And I
6 couldn't agree more. How we write and how we speak is
7 how we define ourselves.

8 And in a sense, that's exactly what a budget is.
9 A budget is how we write about what we think government
10 ought to do. It defines us. We've defined ourselves
11 very poorly, no matter who we want to blame. We've
12 defined ourselves very poorly at this point because
13 we're eight months without clear funding, without
14 predictable, sustainable sources.

15 You've identified and multiple other people have
16 identified independently of you and this Administration
17 the high price of that. It literally costs us as a
18 government more, because of our budget failure and
19 unpredictability, to borrow money.

20 As you say, we now have trouble even going to
21 the bond market. And certainly it costs us more,
22 hundreds of millions of dollars more. I want to define
23 ourselves differently.

24 So having said all of that, one small piece that
25 I'd like to ask you, even though you're here talking

1 about next year's budget, what is your vision? What is
2 the Governor's vision for wrapping up last year's budget
3 or the current fiscal year's budget?

4 If you had a wand and you could make it happen,
5 what would we, as an effective government, do?

6 BUDGET SECRETARY ALBRIGHT: Look, you know, his
7 instructions to us, you know, from the day that that
8 emergency spending plan was signed into law is to simply
9 complete our work as soon as possible.

10 Over and over again the Governor tells all of
11 us, compromise is difficult. We have to be good
12 listeners as well as speakers. We have to work with
13 everybody in the General Assembly, leadership, rank and
14 file members, find the common ground, find the ability
15 to bring closure.

16 It has to be done in a responsible way, again
17 for all the reasons you've already alluded to. We can't
18 put something in place that simply repeats the mistakes
19 of the past, takes us just further down a road to
20 financial ruin as a Commonwealth.

21 So we have to find the means to compromise. We
22 have to look at those issues, the give-and-take that's
23 necessary in that process. But we want to bring this to
24 closure at the earliest opportunity.

25 REPRESENTATIVE DEAN: And as doom and gloom as I

1 may sound, I'm really an optimist. Because I think
2 government has an important role to play in the very
3 things that we've talked about.

4 BUDGET SECRETARY ALBRIGHT: Um-hmm.

5 REPRESENTATIVE DEAN: Maybe nowhere more evident
6 was the failure in Flint, Michigan, about what
7 government should be doing and when government falls
8 apart how harmful it is. That was something so very
9 tangible, tastable, smellable, that we would actually
10 allow our children to be harmed in that way based on
11 government making some choices, some choices to save
12 some money and not bother to test what impact that might
13 have.

14 And I would suggest that, you know, all of us
15 here, maybe the road to compromise is to figure out what
16 are those common things that we recognize is
17 government's role to play.

18 I would submit it is in educating our kids and
19 to making sure we restore funding for education. I
20 don't care if you call it programmatic, classroom
21 dollars, just educate our kids better.

22 BUDGET SECRETARY ALBRIGHT: And provide those
23 resources, at least from the State's level, in a fair
24 and equitable way. You know, one of the biggest
25 frustrations I think the Governor has, and certainly an

1 often repeated statement, you know, through the campaign
2 and through the first year in office, is that we need to
3 find a better way to fund local school districts.

4 You know, across 500 school districts, we have a
5 very inequitable distribution of resources. Many
6 financially struggling school districts really don't
7 have the dollars available because they don't have an
8 adequate local tax source in a funding system that more
9 than two-thirds of the revenue now has to come from
10 local government and not the State. It provides an
11 untenable funding system as it's currently constituted
12 at the State level.

13 We have to do a better job at the State so we're
14 fair and can assure all families and children that they
15 have the financial means for a quality education.

16 REPRESENTATIVE DEAN: It's really at the heart
17 of the matter. The Secretary for Community and Economic
18 Development was one of our first members in here to talk
19 to us and identified that the No. 1 issue facing
20 Pennsylvania is whether or not we're going to have a
21 well-trained, well-educated workforce. So it's a matter
22 of economics. It's a matter of equity, as you point
23 out. It's a matter of our common humanity. And I think
24 if we get nothing else maybe we could figure out that if
25 we want to reverse the trends of poor education outcomes

1 for children, which is actually very costly on our
2 economy, we would invest in basic education, robustly
3 invest in pre-K to reverse some cycles of poverty, and
4 then, of course, not forget higher education.

5 Thank you for the work you're doing. Please
6 thank the Governor. I'm here to help and compromise and
7 close out last year's budget and move forward with a
8 positive next year's budget.

9 BUDGET SECRETARY ALBRIGHT: Thank you for your
10 comments.

11 REPRESENTATIVE DEAN: Thank you, Mr. Chairman.

12 MAJORITY CHAIRMAN ADOLPH: Thank you,
13 Representative.

14 Representative Fred Keller.

15 REPRESENTATIVE KELLER: Thank you, Mr. Chairman.

16 And I just want to echo the remarks of Chairman
17 Markosek. It's been a pleasure serving with you in the
18 General Assembly. I've appreciated your guidance and
19 your counsel. So thank you very much.

20 Mr. Secretary.

21 BUDGET SECRETARY ALBRIGHT: Good morning.

22 REPRESENTATIVE KELLER: Good morning. How are
23 you today?

24 BUDGET SECRETARY ALBRIGHT: Good. And you?

25 REPRESENTATIVE KELLER: I know some people

1 mentioned about stories. So I guess we're going to have
2 story time with Fred. How's that?

3 BUDGET SECRETARY ALBRIGHT: Okay.

4 REPRESENTATIVE KELLER: I just have a scenario
5 that I ask people. And I'm going to run it past you and
6 give you a couple of choices. And I'd just like you to
7 tell me what one you think it is.

8 BUDGET SECRETARY ALBRIGHT: I'll do my best.

9 REPRESENTATIVE KELLER: Okay.

10 In Pennsylvania, between the fiscal year of
11 2002-2003 and 2010-2011, our State spending grew at
12 about a rate of 35, 40 percent. And our State economy
13 grew at roughly half that.

14 So if we know an individual -- and we'll call
15 him Ed -- and Ed works and he earns money to pay his
16 bills and then Ed goes on a spending spree for a period
17 of eight years and during the eight-year spending spree,
18 Ed's spending grows at twice the rate his income grows
19 at, how do we define Ed's problem? A, does Ed have a
20 structural deficit or, B, does Ed spend too much and not
21 manage his money well?

22 BUDGET SECRETARY ALBRIGHT: I think the period
23 of time you're talking about --

24 REPRESENTATIVE KELLER: No. The question is, if
25 Ed spends -- if Ed's making enough money to pay his

1 bills and spends at twice the rate at which his income
2 grows and then can no longer afford to pay his bills,
3 does Ed have a structural -- we're talking about an
4 individual. Does he have a structural deficit or does
5 he spend too much and not manage his money well?

6 BUDGET SECRETARY ALBRIGHT: I was trying to
7 answer your question. The period of time you're talking
8 about includes the Great Recession. If Ed lost his job,
9 as has happened to many Pennsylvanians in that time
10 period, he has deep financial difficulties.

11 Over that period of time, as a State Government,
12 we had to do the best job we could to manage the
13 resources that we had, provide for local school
14 districts and municipalities struggling in that
15 financial circumstance as well. And what I would simply
16 say is that in the end of that time period, if we're
17 going to judge it by the state of our economy at that
18 time, at the end of that 2010 calendar year,
19 Pennsylvania had one of the ten fastest growing state
20 economies in the country as measured by net new job
21 growth.

22 REPRESENTATIVE KELLER: Yeah. And I would say
23 if you want to look at those numbers, Pennsylvania is
24 usually one of the last states to go into recession and
25 the last state to come out. I mean, I think we'd agree

1 on that a lot of times based on our economy.

2 But again, the point is, usually when I ask
3 people that question, 100 percent of the time when I've
4 asked that question -- I've asked that question to many
5 people -- they answer it B.

6 I just want to get onto my questions now. You
7 mentioned that we're in unprecedented territory here.
8 And I would assume that means as your tenure since last
9 January 20th as Budget Secretary, it's sort of
10 unprecedented times here.

11 BUDGET SECRETARY ALBRIGHT: That means from my
12 30-year time period as a staff member, first for 29 of
13 these years for the Senate Democratic Appropriations
14 Committee and now for my tenure here as the Budget
15 Secretary.

16 REPRESENTATIVE KELLER: Your tenure that began
17 last January 20th.

18 Over the last six months of Fiscal Year '14-'15,
19 you presided over the 2014-'15 budget, correct?

20 BUDGET SECRETARY ALBRIGHT: Correct.

21 MAJORITY CHAIRMAN ADOLPH: Okay. During that
22 time period, I didn't hear that budget referred to as an
23 emergency spending plan or anything other than the
24 2014-'15 budget, correct?

25 BUDGET SECRETARY ALBRIGHT: Well, I think I was

1 very clear when I was here last year talking about how
2 that budget was setting up a fiscal crisis. I think I
3 alluded to the fact that you didn't have to take my word
4 for it, my predecessor, Budget Secretary Zogby, noted
5 again that more than \$2 billion of one-time gimmicks,
6 fixes, whether they are expenditures, one-time
7 expenditures, or revenues, that weren't sustainable that
8 we were on a road to fiscal ruin.

9 REPRESENTATIVE KELLER: Understood. But the
10 point is, we never called that a partial budget or
11 emergency spending. That was the budget. That budget
12 contained blue-lined items also as this budget does.

13 And this isn't going to require an answer. I
14 just want to make a point. In 2014-'15, when Governor
15 Corbett wasn't happy with the General Assembly, Governor
16 Corbett took it out on the General Assembly. Now we
17 have a Governor that's not happy with the General
18 Assembly and he takes it out on the citizens of the
19 Commonwealth. But I'm going to keep moving on here.

20 Are you familiar with the website budget.pa.gov?

21 BUDGET SECRETARY ALBRIGHT: No, I'm not .

22 REPRESENTATIVE KELLER: budget.pa.gov?

23 BUDGET SECRETARY ALBRIGHT: Are you talking
24 about our website?

25 REPRESENTATIVE KELLER: Oh, yeah. The one with

1 your name on it.

2 BUDGET SECRETARY ALBRIGHT: Okay.

3 REPRESENTATIVE KELLER: That's the web address.
4 I use that.

5 BUDGET SECRETARY ALBRIGHT: Okay.

6 REPRESENTATIVE KELLER: Representative Dunbar
7 mentioned about numbers and different things. I don't
8 go to the Budget and Policy Center of the Commonwealth
9 Foundation to get my numbers. I go to the State agency.
10 And you run that website or your Department runs that
11 website?

12 BUDGET SECRETARY ALBRIGHT: My staff, yes.

13 REPRESENTATIVE KELLER: Yeah. So if I were to
14 go onto that website and look at it -- because I keep
15 hearing we don't have a budget. If I go onto that
16 website and look at it, would that have a link on it to
17 Act 10(a)?

18 BUDGET SECRETARY ALBRIGHT: Um-hmm.

19 REPRESENTATIVE KELLER: The enacted 2015-'16
20 budget?

21 BUDGET SECRETARY ALBRIGHT: Um-hmm.

22 REPRESENTATIVE KELLER: Now, we might not like
23 the fact that we didn't get what we wanted initially.
24 But then again, instead of taking it out on us, we took
25 it out on the people of Pennsylvania. But there's a

1 budget. There's a budget link there that shows the
2 tracking run?

3 BUDGET SECRETARY ALBRIGHT: There's a tracking
4 run and an emergency spending plan that remain in place.

5 REPRESENTATIVE KELLER: But it says -- if I look
6 at that, does the wording on that budget not say,
7 2015-'16 enacted budget?

8 BUDGET SECRETARY ALBRIGHT: All right. I don't
9 want to get into a --

10 REPRESENTATIVE KELLER: It's your website. It's
11 your website. It's not mine.

12 BUDGET SECRETARY ALBRIGHT: It is the current
13 budget that is in place that provides for some, not all,
14 spending obligations to the Commonwealth.

15 REPRESENTATIVE KELLER: Thank you.

16 The next thing I want to go to is we mentioned
17 -- and it was brought up -- that you mentioned about the
18 '11-'12 Fiscal Year funding cuts, money that was cut out
19 of the '11-'12?

20 BUDGET SECRETARY ALBRIGHT: Yes.

21 REPRESENTATIVE KELLER: Okay. You mentioned
22 that.

23 If I went to your website and looked at the
24 '10-'11 budget, would I see a column in there that says
25 ARRA funding?

1 BUDGET SECRETARY ALBRIGHT: The ARRA funding by
2 the '11-'12 fiscal year was gone.

3 REPRESENTATIVE KELLER: But if I looked at the
4 '10-'11 budget, I would see a column in the '10-'11
5 budget that showed ARRA fund something?

6 BUDGET SECRETARY ALBRIGHT: I think you would
7 have at the time. I think that --

8 REPRESENTATIVE KELLER: It's still there.

9 BUDGET SECRETARY ALBRIGHT: Okay.

10 REPRESENTATIVE KELLER: It's still there. Okay.

11 BUDGET SECRETARY ALBRIGHT: Okay.

12 REPRESENTATIVE KELLER: So when I look at your
13 website for '11-'12, it shows no ARRA funding.

14 BUDGET SECRETARY ALBRIGHT: Okay.

15 REPRESENTATIVE KELLER: So where did the ARRA
16 funding come from?

17 BUDGET SECRETARY ALBRIGHT: The stimulus money
18 that was provided from the Federal Government really was
19 in several parts. I think the part that you're
20 referring to most specifically was called the fiscal
21 stabilization funds. Those were funds that were part of
22 that Federal stimulus package to give states short-term
23 operating assistance.

24 The belief was that the Great Recession caused
25 obviously great damage to the revenue base for state

1 budgets to operate. In Pennsylvania over the course of
2 two fiscal years, our revenue base declined by more than
3 \$2.5 billion when we had a much lower budget base at
4 that point.

5 The intent of those fiscal stabilization funds
6 was that they were a short-term stop-gap funding
7 measure, that the hope was that the economies, the state
8 economies, would recover over some period of time as we
9 move forward from and out of the Recession.

10 In Pennsylvania, we used those monies in three
11 areas. It was to avoid cuts in medical assistance. It
12 was to avoid or be able to fully fund our Corrections
13 obligation. And it was aid to local school districts.

14 REPRESENTATIVE KELLER: Okay. So the money came
15 from the Federal Government? I mean, I'm looking for
16 the short answer.

17 BUDGET SECRETARY ALBRIGHT: It came from the
18 Federal Government.

19 REPRESENTATIVE KELLER: Okay.

20 BUDGET SECRETARY ALBRIGHT: But you have to
21 understand the context in which it was provided. It was
22 a short-term Band-Aid, if you will. The intent was that
23 at the end of that hopefully three-year period, because
24 some of those funds could be stretched over a third year
25 if the State made that choice, the State's revenue base

1 would have recovered.

2 In Pennsylvania, in fact, that was the case. I
3 alluded to about a \$2.5 billion cut in our total revenue
4 collections over the two-year period in which the
5 negative consequences of the Recession cut the deepest.

6 Over the course of the '10-'11 and the '11-'12
7 Fiscal Years, our revenue base recovered by more than \$3
8 billion. So, in fact, it actually had its intended
9 impact.

10 Now, in Pennsylvania, unlike most states, we
11 ended up using those funds for a different policy
12 choice. In Pennsylvania we chose to use that money to
13 fund business tax cuts, not replace those funds to local
14 school districts.

15 REPRESENTATIVE KELLER: But the point was -- it
16 was my understanding -- and I wasn't here in 2008-2009.
17 I didn't come in until the election of 2010. But it was
18 my understanding that that money from the Federal
19 Government was supposed to be used for non-recurring
20 expenditures.

21 BUDGET SECRETARY ALBRIGHT: But that's --

22 REPRESENTATIVE KELLER: We used gimmicks back
23 then, I guess, if I want to coin your phrase. We used
24 gimmicks back then to support more spending.

25 BUDGET SECRETARY ALBRIGHT: Excuse me. But

1 that's just absolutely wrong. The fiscal stabilization
2 part of the stimulus package was intended to be
3 short-term operating expenditures to avoid making deep
4 cuts in essential support, in our case for local school
5 districts, to pay for our Corrections budget, and to
6 maintain our medical assistance responsibility.

7 REPRESENTATIVE KELLER: Was that one-time
8 revenue?

9 BUDGET SECRETARY ALBRIGHT: That was one-time
10 revenue over a two- or three-year period while we were
11 emerging from the Great Recession to avoid making deep
12 cuts that would, again, have an even worse fiscal
13 consequence. And in Pennsylvania, as I've already
14 alluded to, it actually had that impact. It avoided the
15 necessity to make deep cuts.

16 In fact, over the course of the '10-'11 and
17 '11-'12 Fiscal Year, our revenue base did actually
18 recover substantially more than a \$3 billion increase
19 over those two years together. We simply made different
20 policy choices about what to do with that additional
21 money once it was received.

22 REPRESENTATIVE KELLER: Well, if our revenue
23 base recovered enough to replace that spending, then why
24 are you telling me there were cuts the next year?

25 BUDGET SECRETARY ALBRIGHT: We chose to use that

1 money instead for business tax cuts, the largest chunk
2 of which you may remember was something called bonus
3 depreciation to give businesses a 100 percent consistent
4 with Federal tax law rather than the 50 percent at that
5 time under State tax law credit for depreciation
6 expenses. We continued the phase-out of the Capital
7 Stock and Franchise Tax.

8 REPRESENTATIVE KELLER: I'm glad we did that.
9 In fact, the Governor took credit for that and was
10 patting himself on the back in a press release.

11 BUDGET SECRETARY ALBRIGHT: Those two choices
12 and other tax changes that were enacted is how we chose
13 to use that revenue in the alternative.

14 REPRESENTATIVE KELLER: Okay. The other thing,
15 we talk about the structural deficit. I know I made my
16 illustration earlier. But the structural deficit that
17 you're reporting is \$2.2 billion; is that correct?

18 BUDGET SECRETARY ALBRIGHT: If nothing was done
19 and if we were to enact no revenue enhancements as we
20 look -- and we base that estimate not on our proposed
21 budget but the budget that did land on the Governor's
22 desk, 1460, if we enacted that budget and then only
23 enacted continuing increases to maintain State support
24 at current funding levels, yes, the deficit would exceed
25 \$2 billion.

1 And let me just also add, you don't have to take
2 my word for it. The Independent Fiscal Office came to
3 roughly the same conclusions in their estimates. And
4 the only place they differed is to assume that we could
5 still make about \$200 million in lapses for current year
6 appropriations, lapses that we can't make if we don't
7 fix underfunded department budgets and several other
8 appropriation needs.

9 And in their estimate, then a 1.8 are added to
10 their 300 million estimate, about a \$2.1 billion
11 structural deficit --

12 REPRESENTATIVE KELLER: Okay.

13 BUDGET SECRETARY ALBRIGHT: -- for S&P.

14 REPRESENTATIVE KELLER: Okay. I got a note here
15 I've got to wrap up. And I've got a couple other things
16 I want to do.

17 BUDGET SECRETARY ALBRIGHT: Okay.

18 REPRESENTATIVE KELLER: The proposed tax
19 increases, how much are they going to be if we were
20 going to do the 30.8 billion in next year's?

21 BUDGET SECRETARY ALBRIGHT: Fully enacted, fully
22 annualized in the '16-'17 Fiscal Year, that tax package
23 would be generating about \$2.7 billion.

24 REPRESENTATIVE KELLER: So if our structural
25 deficit is \$2.2 billion --

1 BUDGET SECRETARY ALBRIGHT: Um-hmm.

2 REPRESENTATIVE KELLER: -- we're raising taxes
3 \$2.7 billion, an additional \$500 million or roughly 20
4 percent?

5 BUDGET SECRETARY ALBRIGHT: Um-hmm.

6 REPRESENTATIVE KELLER: And if we're in that bad
7 of shape that I need to dig deeper into Pennsylvanians'
8 pockets for what we call recurring revenue, why would I
9 not take care of the structural deficit and not keep
10 digging a hole? And I don't need an answer for that.

11 It just puzzles me that we're saying we're in
12 that bad of shape. I've got to raise taxes. And then
13 we're going to expand government, which comes down to
14 the point of, when we're looking at our fiscal house --
15 and, you know, we can't spend what the taxpayers don't
16 have. And that's another avenue we could look at.

17 I mean, you say we have 90 days to fix our issue
18 from S&P -- or S&P says that, okay? And that is to
19 either raise taxes, cut spending, or do a combination of
20 both.

21 BUDGET SECRETARY ALBRIGHT: Um-hmm.

22 REPRESENTATIVE KELLER: But we're going to raise
23 taxes and raise spending. You know, compromise -- our
24 inflation rate last year was less than 1 percent. Okay.
25 That's Federal Government stuff. People on Social

1 Security got nothing. We put a budget on the Governor's
2 desk that increased spending -- or a spending plan of
3 roughly 3 and a half percent. And people are saying we
4 don't want to compromise. We have recurring revenue.

5 Our sales tax and our income tax are a
6 percentage of what people earn and what they spend. And
7 as they earn more and spend more, we get more revenue.
8 We get more recurring revenue. And we need to start
9 looking at -- and those are our two biggest areas. I
10 realize that's not every area. But they're our two
11 biggest areas we need to start looking at.

12 I think people really want us to examine why we
13 can't live within our means, why we're going to, as DGS
14 said yesterday, borrow money to make payroll and project
15 managers that are Commonwealth employees.

16 And then I get told that my budget's gimmicks.
17 And again, the information I use is from the Governor's
18 and your own website. So I can't be accused of pulling
19 numbers from a special group. That's the State website.

20 So wrapping this up, I'm just going to say, I
21 think there's a different path in how Pennsylvania can
22 go. And it's not always going to look to the taxpayer.

23 And I know I asked this question last year and
24 we talked about the stimulus funds. I'm going to ask
25 it. Have you or the Governor asked --

1 MAJORITY CHAIRMAN ADOLPH: Representative, I
2 have asked every member and the Secretary -- you're well
3 on to 17 minutes, okay, 17 minutes. We have at least 13
4 more members. We'll never get to these other members.
5 You've got to say good-bye.

6 REPRESENTATIVE KELLER: Good-bye.

7 But it wasn't my whole 17 minutes. I mean, we
8 could have gotten some of those answers a little more
9 quickly.

10 MAJORITY CHAIRMAN ADOLPH: Representative, I've
11 asked the Secretary and I've asked the members of the
12 Committee, short questions, to-the-point answers. I've
13 given a lot of leeway here to both sides. If we get
14 into 17, 20 minutes, we will not have the Secretary here
15 long enough to have all members ask their questions.

16 We're not breaking for lunch. And the Secretary
17 has agreed that he'll stay here until about 2 o'clock,
18 from what I've been told. Please, please, short
19 questions, to the point, short answers, to the point.

20 Mr. Secretary.

21 BUDGET SECRETARY ALBRIGHT: Yes. And, Mr.
22 Chairman, if we are any --

23 MAJORITY CHAIRMAN ADOLPH: That's enough.

24 BUDGET SECRETARY ALBRIGHT: No. It's just --

25 MAJORITY CHAIRMAN ADOLPH: Representative Maria

1 Donatucci.

2 BUDGET SECRETARY ALBRIGHT: I was just going to
3 offer, Mr. Chairman, if there's any further dialogue for
4 individual members, I'm happy to come to their offices
5 at their convenience to complete conversations we can't
6 complete today.

7 MAJORITY CHAIRMAN ADOLPH: Representative Maria
8 Donatucci.

9 REPRESENTATIVE DONATUCCI: Thank you, Mr.
10 Chairman.

11 And, Chairman Adolph, even though we've had
12 differences through the years, I will surely miss you.
13 It's been an honor serving with you.

14 MAJORITY CHAIRMAN ADOLPH: Thank you.

15 REPRESENTATIVE DONATUCCI: Good morning,
16 Secretary Albright.

17 BUDGET SECRETARY ALBRIGHT: Good morning.

18 REPRESENTATIVE DONATUCCI: We sit here today
19 with only four months left in the current fiscal year.
20 We are looking at a structural deficit. Whether or not
21 both sides agree on the number, there's still a
22 structural deficit.

23 Pennsylvania's credit ratings have been
24 downgraded. From my constituents, I'm in Harrisburg
25 with budget hearings. They ask if I'm coming home with

1 a budget. And I explain to them, this is for '16-'17.

2 And they want to know, how are you working on a new
3 budget without resolving the last one?

4 It's almost embarrassing. It makes us, as
5 legislators on both sides of the aisle, look
6 ineffective. It makes us look uncompromising. It makes
7 us look uncaring. Yet in December we had a bipartisan
8 agreed-upon budget because we can compromise and we can
9 make concessions. Yet here we sit today with four
10 months left in the current fiscal year. The window is
11 closing quickly. Constituents remain at risk. Students
12 are at risk. Human services are at risk.

13 The Governor outlined a revenue package similar
14 to the plan in December. Sometimes people in this
15 building forget that the Revenue Department needs to
16 implement any tax changes that the General Assembly
17 makes. It's not as easy as pushing a button. The money
18 isn't going to appear overnight in a magic hat.

19 Had we passed the budget in June or even
20 December, the Governor wouldn't need to propose
21 retroactive effective dates.

22 Secretary, when do we need to pass a budget by
23 in order to meet those revenue estimates, as they were
24 based on presumed effective dates?

25 BUDGET SECRETARY ALBRIGHT: I think you make a

1 very good point, Representative. With every passing day
2 of delay, the cost gets steeper. The proposed budget,
3 as has already been talked about, would have made the
4 proposed PIT increase retroactive to the beginning of
5 the fiscal year.

6 As we move deeper into the fiscal year, the
7 opportunity to do that begins to lessen or goes away
8 altogether. Sales tax changes. Many of the provisions
9 can only be made -- or have some lead time before they
10 can be put into place.

11 So with every passing day, you know, to generate
12 the recurring revenue necessary to meet those
13 obligations, it becomes more difficult. And we simply
14 have to increase rates or add additional items to
15 generate the same amount of revenue as proposed.

16 REPRESENTATIVE DONATUCCI: I think you may have
17 answered my second question because I wanted to know
18 what would happen if we failed to take action by the
19 timeline that you're assuming.

20 BUDGET SECRETARY ALBRIGHT: Normally,
21 particularly for the PIT, normally you would make
22 adjustments or changes to that rate on a quarter. So,
23 you know, without a budget resolution, you know, by
24 April 1st, for example, then that imperils our ability
25 to make that change retroactive.

1 REPRESENTATIVE DONATUCCI: Thank you, Mr.
2 Secretary.

3 BUDGET SECRETARY ALBRIGHT: You're welcome.

4 REPRESENTATIVE DONATUCCI: Thank you, Mr.
5 Chairman.

6 MAJORITY CHAIRMAN ADOLPH: Thank you,
7 Representative.

8 Representative Keith Greiner.

9 REPRESENTATIVE GREINER: Thank you, Mr.
10 Chairman.

11 Good morning, Mr. Secretary.

12 BUDGET SECRETARY ALBRIGHT: Good morning,
13 Representative.

14 REPRESENTATIVE GREINER: I want to go back to
15 the education issue. I know Representative Kampf had
16 talked about it. In December of this past year, the
17 House and the Senate passed a \$10.7 billion amount of
18 funding for public schools. That's the highest amount
19 ever, the highest amount in Pennsylvania history.

20 However, the Governor then subsequently vetoed
21 over \$3 billion of that funding in order to -- what
22 appears to be a leverage for a huge tax increase on the
23 residents of Pennsylvania essentially using
24 Pennsylvania's schools, their parents, the students, as
25 hostages. I think a lot of my constituents feel that

1 way.

2 I mean, what was the thought process behind this
3 devastating cut to school districts? Do you actually
4 agree with the strategy?

5 BUDGET SECRETARY ALBRIGHT: The Governor has
6 made clear, both on the campaign trail and throughout
7 his first year or more of governance, that providing
8 increased support to local school districts is his
9 highest priority.

10 We currently have a very inequitable funding
11 system for local school districts because of
12 overreliance on local property taxes. That means that,
13 according to your zip code, where the local tax base can
14 afford to provide significant resources, those school
15 districts, those students, those families, enjoy
16 relatively well-funded districts.

17 In those communities that are economically
18 disadvantaged, it is much more difficult. And, in fact,
19 as we sit here today, there are many financially
20 struggling school districts.

21 The Governor's intent -- and much of this budget
22 struggle going forward as we try to again find a happy
23 medium, find the compromises necessary to come to a
24 final agreement -- is the Governor's strongly held
25 belief that we have to provide a much more significant

1 State share to support local school districts. It's the
2 only way to create a fair and more equitable funding
3 system.

4 You know, I will say that we had a bipartisan
5 Basic Education Funding Commission that did complete its
6 work last year. To their credit, they were an example
7 where bipartisanship can work, providing the means for a
8 funding formula going forward that we think is fair and
9 appropriate.

10 Now, the discussion is, you know, around how
11 much new State resources can be invested in that
12 formula.

13 REPRESENTATIVE GREINER: If I get an opportunity
14 in a second round, I might want to follow up on that.

15 But getting back to what you said. There's
16 school districts that are hurting right now. Did
17 cutting this funding -- I mean, was it actually
18 beneficial to Pennsylvania school districts? I'm
19 hearing about school districts potentially closing their
20 doors. The money is there; \$29.7 billion has been
21 certified.

22 I mean, how has cutting \$3 billion helped out
23 some of those schools? We've seen them in the paper
24 here. There's a number throughout the State. I'll let
25 you answer that. I just don't -- I can't make sense of

1 that.

2 BUDGET SECRETARY ALBRIGHT: To make the clear
3 statement that it's not enough. School districts are
4 struggling. There is a reaction or there is a result.
5 If we don't adequately fund our school districts, local
6 property taxpayers will have to bear the burden of that.

7 Unfortunately, again, because of the variations
8 across 500 districts, you know, in many financial
9 struggling districts, they simply don't have the means
10 to be able to support local property tax increases or
11 local revenue to make up for what the State doesn't
12 provide.

13 But in most districts across the State, the lack
14 of State funding will continue to result in significant
15 steep increases in local property taxes rather than
16 shifting that tax burden. We believe it more
17 appropriately should be shifted to the State.

18 REPRESENTATIVE GREINER: I appreciate your
19 honesty that the Governor is just trying to make a
20 statement, even though kids want to be in school and
21 they need an education. As one of my colleagues over
22 there, I can't stress education -- I'm a CPA. Education
23 is important.

24 Followup. The Department -- and I talked to
25 Secretary Rivera about this. The Department of

1 Education distributed a document on how to close the
2 school. And given the current environment, we know we
3 talk about compromise. You said compromise is
4 difficult. So we're sending out a document telling
5 schools how to close.

6 Quite frankly -- and I explained this to
7 Secretary Rivera -- it appears that the Executive Branch
8 is trying to create a crisis in order put pressure on
9 the Legislature to pass these tax increases.

10 It just seems incongruent to me that there would
11 be a document like that when we say we have 30 or 90
12 days to come up with some kind of budget to help our
13 bond ratings. Maybe you can comment on that, on that
14 document that was sent out.

15 BUDGET SECRETARY ALBRIGHT: Sure. Again, the
16 bipartisan budget agreement that didn't get finished
17 right before the Christmas holiday was a lot of hard
18 work. But it is meaningful compromise. And it's that
19 level of meaningful work and compromise that we need to
20 continue the work to complete.

21 It's our hope that sooner than later that budget
22 agreement can be put into place to provide a much richer
23 amount of State assistance to local school districts to
24 avoid some of the property tax increases that would
25 otherwise be necessary at the local level if we don't

1 enact increasing State aid for our local school
2 districts. The hope is that we get that work done as
3 soon as possible.

4 REPRESENTATIVE GREINER: Like I said, I
5 appreciate your honesty.

6 One last closing comment. I understand we have
7 a structural deficit. I get that. You know, make it
8 around \$2 billion. It needs to be taken care of. But
9 we have to understand, too, that if we're going to raise
10 revenues, it's on the hardworking people of
11 Pennsylvania.

12 And going back to Representative Keller's
13 comments. We need to be filling the hole to take care
14 of our financial difficulties rather than trying to fill
15 the hole and also have increased spending at the same
16 time. It's incongruent. It doesn't make sense.

17 I've worked with a lot of businesses over the
18 years. And I would hope that, you know, in some fashion
19 we come up with a responsible plan that takes care of
20 that. I just want to note that.

21 And I do want to note, going back to some of the
22 dialogue we had today, there's a couple of us that do
23 have a financial background. You know, let's be honest.
24 Let's be honest about the numbers and how we approach
25 them and talk about things. Because when we're honest

1 about it, that's how we're going to come up with good
2 solutions. I appreciate your time.

3 Thank you, Mr. Chairman.

4 BUDGET SECRETARY ALBRIGHT: Thank you,
5 Representative.

6 MAJORITY CHAIRMAN ADOLPH: Thank you,
7 Representative.

8 I have been remiss to acknowledge the presence
9 of Representative Bryan Cutler who's been here for the
10 hearing.

11 Representative Rozzi.

12 REPRESENTATIVE ROZZI: Thank you, Mr. Chairman.

13 Seems like the word of the day is compromise.

14 BUDGET SECRETARY ALBRIGHT: Yes.

15 REPRESENTATIVE ROZZI: Hopefully, we can get to
16 that word, compromise.

17 I just have a couple things I want to say and
18 then a question at the end. I really just want to note
19 and thank the Governor for his proposal for the Reading
20 School District over House Bill 1460. It was almost a
21 \$7 million difference.

22 When we talk about Reading and we talk about 15
23 percent of our residents have graduated from college and
24 maybe 60 percent have graduated from high school,
25 investment in dollars to Reading is the only way we're

1 going to give our children the tools necessary to
2 succeed and get out of the thought that we're still the
3 poorest city in Pennsylvania.

4 Another thing that I thought the Governor was
5 taking the lead on was the reduction of property taxes,
6 even though a lot of people in my district would like to
7 see the elimination of property taxes.

8 Over the past week here I've been dealing with
9 the issue of the sexual abuse at the Altoona Johnstown
10 Diocese. There's a lot of victims reaching out to me
11 from Johnstown and from all over the State. A lot of
12 victims tell me their stories. And a lot of times it's
13 always tied to alcohol addiction, drug addictions.

14 And the way I see the picture is a lot of these
15 victims don't have the recourse to go back and go after
16 their perpetrator or the institution that protected the
17 perpetrator. In the case of Johnstown, the Bishops and
18 Monsignors actually appointed the police chiefs so there
19 was no way for victims really to get justice.

20 So where do they end up? They end up in the
21 State system in our programs that we're spending the
22 dollars taking care of these victims.

23 Do you believe the \$5 million increase to the
24 Drug and Alcohol Program is substantial? Is it enough?
25 And how is this money then being disbursed to our

1 counties?

2 And like in the incident that is happening in
3 Johnstown right now where there's about 150 more phone
4 calls coming in and there's so many victims out there,
5 hundreds of victims that will get no recourse or
6 justice, no help from the people, from the abuser or the
7 institution that protected them. Is it enough money
8 right now what we're offering in the State to be able to
9 help those victims or should we actually, you know, set
10 up something special for Johnstown and those victims
11 that are suffering out there?

12 BUDGET SECRETARY ALBRIGHT: I think the honest
13 answer is that it is arguably not enough. It's as much
14 as we can afford at this point to be fair.

15 The 5 million you alluded to in a line item that
16 hadn't been increased for many years, you know, far
17 before we actually created DDAP itself as a dedicated
18 department to fund those programs was really dedicated
19 for the Heroin Opioid Initiative.

20 I forget who, but as has been alluded to earlier
21 and, as I said to everybody here last year, if you
22 haven't been touched already directly, anecdotally, you
23 know, by a family member, a friend, a neighbor, someone
24 who has been affected by that epidemic, you're the lucky
25 one and you likely will be.

1 You know, part of our proposed budget is to
2 continue that \$5 million initiative in the DDAP budget,
3 along with some additional smaller appropriation in the
4 behavioral health line and now a new \$34 million
5 initiative to create health homes to provide a more
6 comprehensive way through the DHS budget with matching
7 Federal funds to really try to help those families,
8 those individuals, you know, deal with their addiction,
9 become, again, contributing members of our Commonwealth,
10 find jobs, you know, find their way back to their local
11 communities.

12 No, it's not enough.

13 REPRESENTATIVE ROZZI: I mean, I know Berks
14 County is one of the counties that is spending a lot and
15 they still said they need more.

16 BUDGET SECRETARY ALBRIGHT: We want to do and
17 work with the General Assembly to do as much as we can.
18 It's something we struggle with every day, particularly
19 in the DHS budget. We still have waiting lists from
20 many critical programs, starting with autism and
21 intellectual disabilities.

22 Our proposed budget is simply doing at least as
23 much as we think we can fiscally afford right now.

24 REPRESENTATIVE ROZZI: Thank you for those
25 comments. I just feel that if we're going to, you know,

1 have these grand juries and we're going to open up a lot
2 of things, there are going to be a lot more victims
3 still coming forward that are going to need help.

4 We better do what we can in Pennsylvania because
5 we don't want to hold the predators or institutions
6 accountable so we're going to pay it forward out of our
7 own pocket.

8 So thank you for your answers.

9 BUDGET SECRETARY ALBRIGHT: Thank you,
10 Representative.

11 REPRESENTATIVE ROZZI: Thank you, Mr. Chairman.

12 MAJORITY CHAIRMAN ADOLPH: Thank you,
13 Representative.

14 Representative Sue Helm.

15 REPRESENTATIVE HELM: Thank you, Mr. Chairman.

16 And, Mr. Chairman, I want to say when I was
17 first elected ten years ago, you were my Chairman on
18 Professional Licensure. And I learned a lot from you
19 there. And now I was fortunate enough to follow you to
20 the Appropriations Committee. And I just want to thank
21 you for your guidance and professional leadership on
22 this Committee.

23 MAJORITY CHAIRMAN ADOLPH: Thank you.

24 REPRESENTATIVE HELM: Secretary Albright.

25 BUDGET SECRETARY ALBRIGHT: Yes.

1 REPRESENTATIVE HELM: Welcome.

2 BUDGET SECRETARY ALBRIGHT: Good morning.

3 REPRESENTATIVE HELM: Good morning.

4 Recently the Administration released a blog post
5 about skyrocketing school property tax. Can you tell me
6 the average percent increase in school property tax
7 growth over the past three years of available data
8 collected and reported to the Department of Public
9 Education?

10 BUDGET SECRETARY ALBRIGHT: Let me say that
11 while that percentage might look modest, it is masked a
12 little bit. What I mean by that is that what that data
13 doesn't include are countywide reassessments.

14 Often those reassessments also result in
15 substantial increases for some local property taxpayers
16 when counties and municipalities, local governments,
17 that haven't reassessed for years finally reassess or
18 move their tax system to a full value reassessment. We
19 saw in our largest school district in the City of
20 Philadelphia, they just completed implementing an AVI,
21 they refer to it, reassessment two years ago.

22 So let me just caution that when you look at
23 that, that it's not telling you the whole story.

24 REPRESENTATIVE HELM: What figure did you give
25 me?

1 BUDGET SECRETARY ALBRIGHT: Pardon?

2 REPRESENTATIVE HELM: What figure, what
3 percentage did you say it was?

4 BUDGET SECRETARY ALBRIGHT: I said that while
5 those on a percentage basis -- while those increases
6 year over year may appear to be modest, I said they may
7 mask the total, the actual impact to individual property
8 tax owners.

9 REPRESENTATIVE HELM: I believe the amount
10 reported was 2.2 percent. And what my question is, if
11 2.2 percent is skyrocketing, how would you describe your
12 proposed 11 percent retroactive income tax?

13 BUDGET SECRETARY ALBRIGHT: The income tax
14 increase that we propose we think is fair. I will
15 simply say that at a 3.4 percent tax rate, we would
16 still have the third lowest PIT rate as a base rate of
17 all of the states that impose a personal income tax.

18 We think it would be fair to both the
19 individuals and the businesses that pay that tax.

20 REPRESENTATIVE HELM: Okay.

21 BUDGET SECRETARY ALBRIGHT: And we think, you
22 know, again, as we had talked about earlier, it would
23 create, to the extent that those revenues are used to
24 more fully fund aid to local school districts, a much
25 more equitable, fair way to fund our education system.

1 REPRESENTATIVE HELM: I don't know. I was kind
2 of asking you how you would describe it. All I could
3 think of was astronomical.

4 But let's talk about job creation.

5 BUDGET SECRETARY ALBRIGHT: Okay.

6 REPRESENTATIVE HELM: Last week I was looking at
7 the Department of Labor and Industry Pennsylvania's
8 monthly work stats report that contains December 2015
9 data. I notice that the number of non-farm jobs created
10 in 2015 were just 38,000. And Global Insight had
11 projected that Pennsylvania employers would create about
12 74,300 jobs in 2015, about two times the amount of jobs
13 actually created.

14 Can you tell me what might have impacted job
15 creation during the Governor's first year in office?

16 BUDGET SECRETARY ALBRIGHT: Well, I will say
17 that that job creation was still significant. It has
18 taken employment at the end of the fiscal year to the
19 highest level in our State history. We finally have
20 recovered the employment losses that were suffered in
21 full during the Great Recession.

22 There are many steps that the Governor has
23 proposed taking to continue to grow the State's economy.
24 Some of those things are most significant that were part
25 of last year's proposed budget, however, are not part of

1 this year's budget, particularly the proposal to create
2 what we believe would be a more competitive tax system
3 by reforming the corporate net income tax, making sure
4 that everybody pays their fair share, but actually
5 lowering that tax over the course of the next several
6 years to take it from being one of or the highest rate
7 at 9.99 percent all the way down to 4.99 percent.

8 It was the Governor's belief that because of the
9 crisis that we face and the importance of first dealing
10 with the structural budget deficit and putting our own
11 financial house in order, that and his proposal for
12 broad-based property tax relief were not part of his
13 proposed budget this year.

14 That doesn't mean that he doesn't continue to
15 support those efforts along with, again, recapitalizing,
16 fully funding the State's arsenal of job creation loan
17 and grant programs that are all part of, along with
18 providing for a trained labor force, the steps that are
19 necessary to grow jobs and new development in the State.

20 REPRESENTATIVE HELM: Well, you know, I have a
21 lot of people coming to me and asking me to do whatever
22 for them. And the one thing that breaks my heart is
23 when people come to me. They want to work. They're
24 looking for a job. And they can't find one. Now, with
25 the Governor's proposal of increasing the minimum wage,

1 I'm even more concerned about that.

2 So I hope over the next year you will really
3 look at job creation and do as much as we possibly can.
4 And maybe some of these people from my district that
5 would love to work can get a job.

6 Thank you very much.

7 BUDGET SECRETARY ALBRIGHT: Thank you,
8 Representative.

9 REPRESENTATIVE HELM: Thank you, Mr. Chairman.

10 MAJORITY CHAIRMAN ADOLPH: Thank you.

11 Representative Schweyer.

12 REPRESENTATIVE SCHWEYER: Thank you, Mr.
13 Chairman.

14 Mr. Secretary, good to see you. Thank you for
15 being here.

16 BUDGET SECRETARY ALBRIGHT: Thank you.

17 REPRESENTATIVE SCHWEYER: This one is for the
18 Chairman. I know you so enjoyed this lightning round of
19 questioning last year, so I'm going to throw this at you
20 again.

21 BUDGET SECRETARY ALBRIGHT: I'll do my best to
22 try to match it.

23 REPRESENTATIVE SCHWEYER: Do your best.
24 Yes-or-no answers. That would be great.

25 BUDGET SECRETARY ALBRIGHT: I'll do my best.

1 REPRESENTATIVE SCHWEYER: Mr. Secretary, again,
2 this is to the best of your ability. Is the
3 Commonwealth currently facing a \$1.9 billion structural
4 deficit?

5 BUDGET SECRETARY ALBRIGHT: Yes.

6 REPRESENTATIVE SCHWEYER: Was HB 1460 as sent to
7 the Governor in December structurally imbalanced by at
8 least \$300 million?

9 BUDGET SECRETARY ALBRIGHT: With the caveat, at
10 least, yes.

11 REPRESENTATIVE SCHWEYER: Has the State's credit
12 rating been downgraded as a result of inaction to
13 responsibly balance a budget?

14 BUDGET SECRETARY ALBRIGHT: Yes.

15 REPRESENTATIVE SCHWEYER: What is the cost --
16 and this is not a yes or no. But what is the
17 approximate cost in real dollars estimated as a result
18 of these credit downgrades?

19 BUDGET SECRETARY ALBRIGHT: \$10 million for each
20 billion dollars that we issue. If we would spread that
21 over the 17 billion that we are proposed to incur, if we
22 include PlanCon and some of the other proposals in front
23 of us, about \$140 million based on our current bond
24 rating.

25 REPRESENTATIVE SCHWEYER: So currently right now

1 the State would incur an additional \$140 million as a
2 result of this?

3 BUDGET SECRETARY ALBRIGHT: Annually.

4 REPRESENTATIVE SCHWEYER: Annually. Okay.

5 Is it safe to say that Pennsylvania has missed
6 out on an estimated approximately \$1.8 billion in
7 revenue since 2011 by not enacting a severance tax?

8 BUDGET SECRETARY ALBRIGHT: We'd have to go back
9 and look.

10 REPRESENTATIVE SCHWEYER: Okay.

11 BUDGET SECRETARY ALBRIGHT: I can't give a
12 lightning answer to that one.

13 REPRESENTATIVE SCHWEYER: Okay. And if
14 compromise is defined as the settlement of a dispute by
15 mutual concession -- and compromise is the word of the
16 day and certainly a word that we need to realize -- was
17 HB 1192 as sent to the Governor in June and subsequently
18 vetoed arrived at mutually?

19 BUDGET SECRETARY ALBRIGHT: No.

20 REPRESENTATIVE SCHWEYER: Was HB 1460 as sent to
21 the Governor in December and consequently blue-lined
22 vetoed arrived at mutually?

23 BUDGET SECRETARY ALBRIGHT: No.

24 REPRESENTATIVE SCHWEYER: Mr. Secretary, two
25 weeks ago, three weeks ago -- two weeks ago, the IFO,

1 the Independent Fiscal Office, testified that somewhere
2 in the neighborhood of 80 to 90 percent of the proposed
3 increases in spending in the Governor's budget proposal
4 are as a result of mandatory cost increases.

5 Do you concur with that testimony?

6 BUDGET SECRETARY ALBRIGHT: Yes.

7 REPRESENTATIVE SCHWEYER: Of the remaining
8 proposed increase in spending, can you expound briefly
9 on what that would go towards?

10 BUDGET SECRETARY ALBRIGHT: The bulk of it is
11 aid to local school districts.

12 To allude to a question that I didn't get a
13 chance to answer earlier, about 500 million is the delta
14 between the tax increase as proposed and the additional
15 beyond-mandated expenditures included in the '16-'17
16 budget.

17 REPRESENTATIVE SCHWEYER: Would State aid to
18 local school districts stem the increase of property
19 taxes at the local level?

20 BUDGET SECRETARY ALBRIGHT: Yes.

21 REPRESENTATIVE SCHWEYER: I think I'll just end
22 with this, Mr. Secretary. As was mentioned at the onset
23 of this hearing today, the last time a Governor had
24 fully vetoed an entire State budget was in the '50s.
25 And that was Governor George Leader. The first and only

1 other Governor from York County, these two Governors
2 have clearly shared their willingness to stand up to
3 complacency. And Governor Leader had an excellent quote
4 that he had once said. The best way to break the cycle
5 of poverty is through education.

6 I'd like to thank you and thank our Governor for
7 fighting to restore cuts and equitably fund education in
8 our Commonwealth.

9 BUDGET SECRETARY ALBRIGHT: Thank you.

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

12 MAJORITY CHAIRMAN ADOLPH: Thank you for that
13 lightning round.

14 Representative Dave Millard.

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

17 Welcome, Mr. Secretary.

18 BUDGET SECRETARY ALBRIGHT: Good morning,
19 Representative.

20 REPRESENTATIVE MILLARD: I'd like to talk to you
21 about State correctional institutions. I was surprised
22 to see that the Governor vetoed over 900 million in
23 funding for the State correctional institutions
24 appropriation for 2015-'16.

25 Can you tell us, what was the rationale behind

1 this veto?

2 BUDGET SECRETARY ALBRIGHT: The rationale was,
3 when he signed the bill, as he said in the public press
4 conference when that bill was signed, he signed that
5 bill into law as an emergency spending package. It was
6 intended to provide a temporary relief, if you will,
7 from some of the negative impacts that had ensued from
8 the six months of budget impasse.

9 It was not intended to be a long-term funding
10 plan. The intent was that that spending plan would be
11 in place for a matter of weeks until the General
12 Assembly could come back following the holiday recess
13 and complete the work on the compromised budget
14 agreement that, you know, we had hoped to enact but
15 didn't right before the holidays.

16 REPRESENTATIVE MILLARD: But now that there's a
17 budget in place but no money for State correctional
18 institutions, can you assure us that only those payments
19 that are truly critical and necessary for the Department
20 of Corrections to safely operate our prisons and satisfy
21 State and Federal constitutional obligations are being
22 paid?

23 BUDGET SECRETARY ALBRIGHT: Yes. And we've
24 already put systems in place, working directly with our
25 comptroller shop, working with the Department, and

1 working with the Treasurer, to ensure that only the
2 essential payments for the operation of our State
3 correctional institutions that we are able to fund.

4 REPRESENTATIVE MILLARD: Can you give us
5 examples of expenses that are not being paid?

6 BUDGET SECRETARY ALBRIGHT: There aren't a lot.
7 I mean, most of those obligations are essential to the
8 operations of our institutions.

9 A simple example I'll use is travel to a
10 conference that maybe correctional officers might have
11 been a part of is not a necessary occurrence and
12 wouldn't be funded during the impasse.

13 REPRESENTATIVE MILLARD: Well, Mr. Secretary,
14 let me give you two other examples of expenses that are
15 not being paid.

16 BUDGET SECRETARY ALBRIGHT: Okay.

17 REPRESENTATIVE MILLARD: Fayette Thermal, LLC,
18 has been providing steam for heating, cooling, and
19 cooking to SCI Fayette since it opened. It's the only
20 source of steam for that facility. They can't operate
21 the facility without this steam.

22 On January 20, 2016, an invoice was presented
23 for about \$195,000. It was approved. But as of this
24 date, this minute right now, it's not been paid. A
25 February invoice for nearly \$220,000 is stalled in what

1 the controller labels as, in process.

2 Now, to these individuals, that means it's not
3 even being considered accepted yet to render full
4 payment.

5 Can you comment on that?

6 BUDGET SECRETARY ALBRIGHT: Well, again, we did
7 take the necessary steps to put the controls in place to
8 review expenditures to make sure, to your point, that
9 they did meet the test of mandatory necessity under the
10 current circumstances.

11 So all of those obligations will be paid. And
12 since you brought to my attention that specific
13 circumstance, we'll have the office look into that and
14 give you a clearer idea, you know, maybe with some date
15 of when those obligations will be fully paid.

16 REPRESENTATIVE MILLARD: And now I want to go
17 right back into my backyard in Columbia County. I just
18 got off the phone with somebody this morning. And I
19 left this hearing just a few moments ago to
20 double-check. I still have not received a confirmation
21 back from them.

22 A Mom and Pop operation that supplies fruits and
23 vegetables to a number of correctional facilities, they
24 have not been paid since December, \$632,000. And
25 they're going to submit another bill today or by the end

1 of this week that will bring this total to over
2 \$700,000.

3 A Mom and Pop operation that provides jobs in my
4 local community. They've met their obligation
5 contractually to provide this service so that these
6 institutions can feed, you know, the residents that are
7 in there and they haven't been paid.

8 BUDGET SECRETARY ALBRIGHT: I assure you they
9 will be. And again, we took the time to make sure that
10 we had the necessary controls and reviews in place.
11 Those are conversations that cross multiple agencies and
12 the Treasury itself.

13 But, you know, as you already heard from the
14 Treasurer when he testified, I think, here before the
15 Committee earlier in the month, that all of those
16 obligations will be met and paid in full.

17 REPRESENTATIVE MILLARD: So what I'm hearing
18 from you is that you clearly do not agree with the
19 Governor's decision to willy-nilly take his pen and blue
20 line certain things out and cause disruption in all of
21 our communities for these providers, the small Mom and
22 Pop operations, the small job providers, all across this
23 Commonwealth?

24 BUDGET SECRETARY ALBRIGHT: I absolutely agree
25 with the Governor's intent to work with the General

1 Assembly to find a meaningful compromise that we can all
2 agree upon to put a responsible budget in place for this
3 fiscal year and the next fiscal year to fully meet the
4 State's obligations.

5 REPRESENTATIVE MILLARD: Well, again, I'm glad
6 to hear you say that, because what my interpretation of
7 this is that, you know, this is rude. It's crude. It's
8 in your face. It's a kick in the gut. It's dereliction
9 of duty on the part of the Governor to blue line such
10 items out there that cause so much harm to so many
11 people across this Commonwealth.

12 These are the people that we depend on to pay
13 their taxes on time so that we can pay our bills at the
14 State level. So thank you again for agreeing with me
15 that, you know, it should be paid. And I certainly look
16 forward to your intervention in this to ensure that
17 these individuals do get paid.

18 Thank you.

19 BUDGET SECRETARY ALBRIGHT: Thank you.

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

22 MAJORITY CHAIRMAN ADOLPH: Thank you,
23 Representative.

24 Thank you, Mr. Secretary.

25 We're going to take a ten-minute break to give

1 you a chance to stretch your legs and give the
2 stenographer a chance to stretch her fingers and other
3 things that we may have to do.

4 We'll reconvene at 12:20.

5 Thank you.

6 BUDGET SECRETARY ALBRIGHT: Thank you.

7 (Recess)

8 MAJORITY CHAIRMAN ADOLPH: I'd like to reconvene
9 the House Appropriations Committee.

10 The next question will be asked by
11 Representative Bullock.

12 REPRESENTATIVE BULLOCK: Thank you, Chairman.
13 And I also appreciate that break. I think we all needed
14 to stretch out a little bit.

15 Secretary, I appreciate you coming this
16 afternoon or this morning and staying throughout the
17 afternoon.

18 BUDGET SECRETARY ALBRIGHT: Thank you.

19 REPRESENTATIVE BULLOCK: Earlier we heard from
20 some of my colleagues about some puzzles, five-piece
21 puzzles or such. And I would say that depending on who
22 you are, that puzzle piece may look a little different.
23 It may include education or it may include seniors or
24 justice, criminal justice issues.

25 One of those puzzle pieces that I'd like to talk

1 to you about is our seniors. You know, Secretary
2 Albright, I'm not a gambling woman, nor do I bet. But
3 since I've taken office, I've encouraged all of my
4 constituents to play the Lottery and play it often
5 because one thing I don't want to gamble on is the
6 security and the quality of life of our seniors.

7 As we know, the primary purpose of the Lottery
8 Fund of Pennsylvania when it was created in the 1970s
9 was to generate funds for programs that benefit
10 Pennsylvania seniors, programs like PACE, programs like
11 the Shared Ride, and the Property Tax Rent Rebate
12 Program that's very popular amongst most of our
13 districts.

14 Over the past year, the Lottery revenues have
15 been used to fill gaps in our General Fund. And in that
16 process, the Lottery Fund was virtually wiped out.

17 Secretary, what is the Administration's plan to
18 stabilize the Lottery Fund? What is being done to
19 assure that it can continue to meet the obligations to
20 our seniors?

21 BUDGET SECRETARY ALBRIGHT: Representative, I
22 share your concern. As I alluded to earlier, we had
23 already in the course of just the '14-'15 Fiscal Year
24 already had to begin to shift, assume transfers that
25 originally were budgeted to offset General Fund

1 expenditures from the Lottery Fund and pay for those
2 obligations directly with General Fund revenues.

3 We are in the midst right now of compiling
4 several initiatives in the Lottery to look at ways to
5 experiment with new games, new processes, new procedures
6 to grow Lottery revenue going forward. We continue to
7 root for those high Powerball jackpots that are so
8 significant.

9 The good news, if you will, is that currently we
10 are confident and believe that we will meet our
11 projected revenue assumptions for the current fiscal
12 year and believe or have confidence that our revenue
13 assumptions for the next fiscal year will also be met.

14 But it is something that in the longer term we
15 continue to monitor. We'll do everything we can to grow
16 Lottery revenues. But we have serious concerns about --
17 you know, I've often used the word gaming fatigue, if
18 you will -- other steps that we make to maybe look at
19 other gaming options that could, in fact, if we're not
20 careful, have an adverse effect on the Lottery.

21 So it's something we need to keep a close eye
22 on. We need to be wary and mindful of making sure that
23 those Lottery-funded programs have the revenue to fully
24 fund them in future years.

25 REPRESENTATIVE BULLOCK: Thank you, Secretary.

1 I keep wishing maybe one day I'll hit that
2 Powerball. It's not quite been in my favor of late.

3 The other issue or theme I'd like to just talk
4 briefly about and all of the departments about are
5 workforce efforts to have a diverse workforce in the
6 Commonwealth.

7 I would like for you to share what your office's
8 role has been, just in your office and just across the
9 agencies, and the conversations you've been having and
10 the priorities you've set in regards to the budget while
11 also promoting diversity among our workforce.

12 BUDGET SECRETARY ALBRIGHT: This was a simple
13 and pointed directive from the Governor Day 1 when he
14 took office when he first addressed the Cabinet, that we
15 want to create a workforce within all of our agencies
16 that looks like the Commonwealth does.

17 So we have taken every step possible to make
18 sure that in all the hiring decisions, as we
19 particularly try to attract new millennials, for
20 example, you know, to our workforce, that minority
21 recruitment, that making sure again that we have a State
22 Government that looks like the Commonwealth is a first
23 priority of every Cabinet officer.

24 REPRESENTATIVE BULLOCK: Thank you, Secretary.
25 And I appreciate the Governor's commitment to that. I

1 agree we should have a workforce that reflects and looks
2 like the people we serve here in Pennsylvania.

3 Thank you for your time.

4 BUDGET SECRETARY ALBRIGHT: Thank you.

5 REPRESENTATIVE BULLOCK: Thank you, Chairman.

6 MAJORITY CHAIRMAN ADOLPH: Thank you,
7 Representative.

8 Representative Marguerite Quinn.

9 REPRESENTATIVE QUINN: Thanks, Mr. Chairman.

10 And I'm not going to mention anything about you leaving
11 because you're here for quite some time. You still have
12 a budget to get through.

13 Mr. Secretary, thanks for being here.

14 BUDGET SECRETARY ALBRIGHT: Thank you,
15 Representative.

16 REPRESENTATIVE QUINN: I appreciate your time
17 and effort that you have in helping get this budget
18 passed. We all know that we have a fiduciary
19 responsibility to the taxpayers of the Commonwealth.

20 BUDGET SECRETARY ALBRIGHT: Yes.

21 REPRESENTATIVE QUINN: With this in mind, in
22 advance of many of the hearings and after some of them,
23 I've sent letters to the various secretaries and agency
24 heads in an attempt to drill down on the complements of
25 Pennsylvania employees and really get a sense of

1 increases from this present year to the next present
2 year or the anticipation with regard to salaries and
3 what percentage of that increased GGO that is and the
4 health care benefits just to see what percent that's
5 going up.

6 And while I have some responses, I look forward
7 to others. But I was hoping that you could help me shed
8 some light on that. I understand that you are one of
9 the Commonwealth trustees for the Pennsylvania Employee
10 Benefit Trust Fund.

11 BUDGET SECRETARY ALBRIGHT: That is correct.

12 REPRESENTATIVE QUINN: With that, could you
13 please tell me how many active members there are?

14 BUDGET SECRETARY ALBRIGHT: I don't know that
15 number off the top of my head.

16 REPRESENTATIVE QUINN: Approximately.

17 BUDGET SECRETARY ALBRIGHT: But I will
18 certainly, you know, get it for you.

19 REPRESENTATIVE QUINN: Approximately, are we
20 talking 10,000? 20,000? 50,000?

21 BUDGET SECRETARY ALBRIGHT: Our State workforce
22 is more than 70,000 employees. We have retirees that
23 receive health care benefits as well as the current
24 workforce.

25 But to come back to your earlier -- the way you

1 started the question.

2 REPRESENTATIVE QUINN: Sure.

3 BUDGET SECRETARY ALBRIGHT: I know you have
4 provided those requests to individual agencies. We're
5 going to do that work for you. We'll compile for each
6 of --

7 REPRESENTATIVE QUINN: For me or for them?

8 BUDGET SECRETARY ALBRIGHT: Pardon?

9 REPRESENTATIVE QUINN: You're going to do that
10 work for me or for them?

11 BUDGET SECRETARY ALBRIGHT: We're going to do
12 that work for -- we're going to provide that information
13 to you, to the Committee, and all the members of the
14 Committee. So we'll compile, you know, for each agency
15 across all of State Government the complement and
16 benefit factor, as we did last year, the benefit factor
17 information that provides the breakdown of health care,
18 of pension, and other benefit expenditures by agency.

19 REPRESENTATIVE QUINN: At what point should I
20 expect that? I have it from some.

21 BUDGET SECRETARY ALBRIGHT: We're working to
22 compile that information now. We'll get it to you as
23 soon as we can make it available.

24 REPRESENTATIVE QUINN: Is that within the next
25 week do you think?

1 BUDGET SECRETARY ALBRIGHT: I don't want --

2 REPRESENTATIVE QUINN: I'm not trying to be a
3 pain in the neck. But I've asked the agencies. I've
4 got it from some. And then I had a couple of phone
5 calls to the office saying, we got it together but we're
6 not allowed to give it to you. We were just told from
7 the Administration not to give it to you.

8 BUDGET SECRETARY ALBRIGHT: I don't know how
9 soon. My commitment to you is to get it to you as soon
10 as possible. Hopefully we can get it to you before the
11 end of next week.

12 REPRESENTATIVE QUINN: Okay. Thanks.

13 You said that the State workforce is about
14 70,000. Approximately how many retirees?

15 BUDGET SECRETARY ALBRIGHT: Our State complement
16 is, I think, about 73,000 as we sit here today.

17 REPRESENTATIVE QUINN: Okay. And your retirees
18 in the system are approximately?

19 BUDGET SECRETARY ALBRIGHT: I don't want to give
20 you an incorrect number so we'll provide that to you.

21 REPRESENTATIVE QUINN: Greater than? less than?

22 BUDGET SECRETARY ALBRIGHT: Pardon? Again, I
23 don't want to give you a wrong answer.

24 REPRESENTATIVE QUINN: Okay.

25 BUDGET SECRETARY ALBRIGHT: I'll provide that --

1 REPRESENTATIVE QUINN: Thanks.

2 BUDGET SECRETARY ALBRIGHT: -- to you.

3 REPRESENTATIVE QUINN: When you provide the
4 information, could you please -- since you're taking it
5 on, I don't have to send out follow-up letters. But
6 could you please -- in addition to the active members,
7 could you provide the number of dependents?

8 BUDGET SECRETARY ALBRIGHT: We'll see what data
9 we have available and provide everything that we have to
10 you.

11 REPRESENTATIVE QUINN: Thank you.

12 If you followed other lines of questioning that
13 I have, I've cited return on investments that other
14 states have realized, 3,500 percent, 2,500 percent,
15 1,850 percent return on investments of actually
16 conducting a dependent benefit eligibility audit.

17 And, you know, I've seen cost savings going
18 forward as 9 million. The California Retirement System
19 was like \$80 million just from cleaning up the rolls,
20 really not looking for criminal activity, but just the
21 normal slippage.

22 So given a workforce of about 73,000 people, it
23 would seem to me that this would be a great way to just,
24 you know, tighten things up, make sure that we're being
25 responsible to the taxpayers and that those people who

1 are receiving our benefits are actually eligible for
2 them. Are you aware --

3 BUDGET SECRETARY ALBRIGHT: We will certainly
4 work to make sure, as we do every day, that we're only
5 providing benefits to those who are appropriately
6 eligible. We already do and take measures to make sure
7 that where, you know, a spouse or other dependent has
8 other health care or has access to other health care
9 benefits, that we're not paying twice, so to speak.

10 REPRESENTATIVE QUINN: Okay.

11 BUDGET SECRETARY ALBRIGHT: But we will continue
12 to, frankly, even as we negotiate our upcoming rank and
13 file labor contracts -- health care is always part of
14 that conversation --- and look to, again, make sure that
15 we're doing the best job possible to be fair --

16 REPRESENTATIVE QUINN: Okay.

17 BUDGET SECRETARY ALBRIGHT: -- to employees but
18 to also be prudent with taxpayer dollars.

19 REPRESENTATIVE QUINN: I'm looking to be fair to
20 employees and prudent with taxpayer dollars. And I was
21 pleased when I saw page 2, bottom right-hand corner, of
22 the winter newsletter for the PEBTF, notification that
23 headlines, PEBTF may cancel your coverage for fraud or
24 intentional representation.

25 That's one thing. You know, I expect a proper

1 audit would pick that up, but also just the normal
2 slippage that happens when one forgets to notify HR of a
3 change. So thanks. Would you support an audit of that
4 type?

5 BUDGET SECRETARY ALBRIGHT: Sure. And I will
6 add to this conversation, frankly, to have a healthier
7 workforce is a big part of this.

8 REPRESENTATIVE QUINN: And your paperwork here
9 really stresses that. It sounds like some good measures
10 are being taken.

11 BUDGET SECRETARY ALBRIGHT: That's right. We
12 would really like to champion the fact that now more
13 than 80 percent of your workforce has participated in
14 that process to, again, make sure that healthier
15 outcomes can mean, you know, savings for tax dollars.

16 REPRESENTATIVE QUINN: Yeah. I see the
17 Executive Offices has the gut busters team in there.
18 Maybe we should come up with a team here.

19 I want to talk to you a minute about the
20 educational improvement tax credit and the opportunity
21 scholarship tax credit.

22 BUDGET SECRETARY ALBRIGHT: Okay.

23 REPRESENTATIVE QUINN: As we all know, the tax
24 credit programs are not subject to an annual
25 appropriation amount in the general appropriations bill.

1 BUDGET SECRETARY ALBRIGHT: Um-hmm.

2 REPRESENTATIVE QUINN: Statutory language for
3 the tax credit program exists in the Tax Reform Code
4 along with statutory cap amounts.

5 Furthermore, unless there's a specific tax
6 credit program, unless the specific tax credit program
7 has a limitation on its existence known as a sunset
8 date, the tax credit program exists in each fiscal year
9 as well as the amount of tax credits that could actually
10 be used in that fiscal year.

11 I just chatted with the kids outside or at least
12 members from the Administration of the school that we
13 hear serenading us. They're recipients of the EITC
14 dollars. And they extended a thank you.

15 BUDGET SECRETARY ALBRIGHT: Um-hmm.

16 REPRESENTATIVE QUINN: And they're also pleased
17 that they got their textbooks at the end of January.

18 Article 17(f) of the Tax Reform Code provides
19 for educational tax credits. Section 17(f)(a)1 provides
20 for \$100 million in the EITC tax credits for the fiscal
21 year. And there's another article that provides 50
22 million for the opportunity scholarship tax credit.

23 Given the fact -- here's my question. Given the
24 fact that the tax credit programs are not subject to
25 annual appropriation amounts in the general

1 appropriations bill and Article 15(f) of the Tax Reform
2 Code provides for the \$150 million of educational tax
3 credits every fiscal year, can you please explain to the
4 Committee the reasoning behind the Department and the
5 Administration's delay to awarding the EITC and the OSTC
6 tax credits this year?

7 BUDGET SECRETARY ALBRIGHT: Because until we
8 conclude a final budget, everything is on the table. We
9 can't presume anything about what final expenditure
10 amounts will be or what tax credit allocations will be.

11 Those of you who were here and part of the 2009
12 budget process know that in the end when we came to a
13 final budget agreement, then we reduced those tax credit
14 programs significantly for several of the tax credit
15 programs over the course of the next two fiscal years.

16 REPRESENTATIVE QUINN: Excuse me. Were these
17 tax credits reduced? I was here then. And my
18 recollection is that it was the film tax credit that was
19 reduced. I don't recall in the past year --

20 BUDGET SECRETARY ALBRIGHT: The film tax credit
21 wasn't the only one. There were several tax credit
22 programs --

23 REPRESENTATIVE QUINN: Which other ones?

24 BUDGET SECRETARY ALBRIGHT: -- that had very
25 significant reductions over the course of the next

1 couple fiscal years.

2 REPRESENTATIVE QUINN: Were these two programs
3 part of those with significant reductions?

4 BUDGET SECRETARY ALBRIGHT: Those -- well, the
5 OITC program didn't exist at that point.

6 REPRESENTATIVE QUINN: Okay. Was it --

7 BUDGET SECRETARY ALBRIGHT: The EITC program was
8 not part of a reduction at that point but it --

9 REPRESENTATIVE QUINN: Because we're --

10 BUDGET SECRETARY ALBRIGHT: -- could be.

11 REPRESENTATIVE QUINN: But nor do I recall --

12 BUDGET SECRETARY ALBRIGHT: We can't presume or
13 we can't make any assumptions. We have to responsibly
14 withhold any decisions that we make until there is a
15 final budget agreement.

16 At the point that the budget did land on the
17 Governor's desk or simultaneously with that conversation
18 we did make an executive decision at that point to
19 release the tax credit allocations.

20 Had we enacted the compromised budget agreement
21 that had been in place, we would have actually increased
22 assistance for the EITC program by an additional 10
23 million.

24 REPRESENTATIVE QUINN: I guarantee you that
25 those people who are waiting who came out here who

1 weren't sure if their schools were going to close, they
2 were just looking for the 150 million in it. And quite
3 frankly, the fact that the EITC is a self-executing --
4 it's self-executing by statute. I just can't see how by
5 delaying it you didn't thwart the implementation of that
6 statute.

7 BUDGET SECRETARY ALBRIGHT: So was the film tax
8 credit program and other tax programs --

9 REPRESENTATIVE QUINN: I'm not speaking about
10 the film tax credit.

11 BUDGET SECRETARY ALBRIGHT: -- that were reduced
12 as part of a final budget solution in prior fiscal
13 years.

14 You want to make an assumption about what a
15 final outcome will be. We can't make that assumption.
16 We have to wait and see what the final will of the
17 General Assembly is.

18 REPRESENTATIVE QUINN: Secretary, respectfully,
19 they were dollars that were being driven out through the
20 Treasury throughout the time period from July 1st up
21 until December 29th. There were then assumptions made
22 at that point by the Administration.

23 I'm going to say that my recollection in my time
24 on this Committee, any piece of paper that we had in
25 front of us, not at one point were the dollar amounts

1 for the EITC or the OT -- I get those initials mixed up.

2 BUDGET SECRETARY ALBRIGHT: OSTC.

3 REPRESENTATIVE QUINN: Thank you. A, b, c, d, e
4 -- OSTC not at one point was there discussion for
5 actually lowering them. So holding them up because they
6 might be increased makes no sense.

7 I'm going to translate that. I'm just going to
8 parlay that to when you were answering one of my
9 colleagues with regard to the education funding. You
10 said that the goal was to make a clear statement that
11 the funding was not enough.

12 So here we are holding up dollars to make a
13 clear statement that the funding was not enough where we
14 have throughout the Commonwealth schools closing. The
15 domino effect of that is outrageous.

16 I know of people who have called their employer.
17 What if I have to take off work? What does this fit?
18 Does it fit under the Family Leave Act? Mom, could you
19 like book a flight but don't really book it because I
20 don't know if I'm going to need you to come in?

21 I mean, there's just minimal things. To have to
22 send out letters about how to go about closing a school
23 district, it just boggles my mind.

24 There was creative thought with regard to
25 covering PACE. Okay? The Motor License Fund loaned \$96

1 million. \$92 million was loaned to the Purchasing Fund
2 from the General Fund. \$50 million to the Lottery from
3 the General Fund.

4 Where's the creative thinking when it comes to
5 what we all agree in this room is our highest priority,
6 our children?

7 BUDGET SECRETARY ALBRIGHT: The creative
8 thinking in this case were extraordinary administrative
9 steps that were taken with revenue and DCED working
10 together to execute and get award letters out to
11 potential eligible recipients before the close of the
12 State fiscal year -- or, excuse me, the calendar year.

13 We did extend for State tax purposes the
14 allowable credit for the 2015 tax year. So that even if
15 in the end those awards were made after the 1st of
16 January 2016, the claimant, the eligible recipient,
17 would still be able to use or bank those tax credits
18 against their 2015 tax liability.

19 REPRESENTATIVE QUINN: I recognize you did that.
20 And I wish to God that it was able to help on the
21 Federal tax credit, which is, you know, part and parcel
22 with that plan and one of the beauties for our
23 businesses to participate in it.

24 But I'm going to go back to, you know, with
25 regard to the general education funding. Your goal was

1 to make a clear statement that it wasn't enough money.
2 What it seems to me with that, as well as with the EITC
3 and the OSTC dollars, a crisis was developed to make
4 this point, that it's not enough money.

5 And it's just unacceptable for the families that
6 don't get it and who have been watching and point on
7 each side, this dollar and that -- you know, we have the
8 money in the Treasury. I heard that \$29.7 billion has
9 been certified. People think out there that there's a
10 budget crisis and it means we don't have the money.

11 When we explain to them, oh, we have the money.
12 We don't have a vehicle through which we can drive out
13 the money because once that Sharpie is picked up and the
14 blue line goes, it puts everyone into crisis mode.

15 Secretary, I respectfully request that as we're
16 looking to make a clear statement that it's not enough,
17 that we recognize that it's the families and the
18 children of Pennsylvania that are held hostage by this.

19 BUDGET SECRETARY ALBRIGHT: I would say -- and I
20 believe it's the Governor's perspective -- it is
21 children. It is families. It is health care providers.
22 It is many people throughout the Commonwealth who have
23 been suffering from budget decisions that we don't
24 believe have been in the best interest of serving the
25 Commonwealth for many years now. It's that budget --

1 it's those budgeting decisions.

2 We're now paying our MCO providers three months
3 late for most of the work that they do. That work
4 totals more than -- or nearly a billion dollars in
5 annual payments. The interest on those late payments
6 has to be paid by us, the Commonwealth taxpayer, when we
7 negotiate rates paid to those MCO providers in the next
8 fiscal year.

9 It's these budgeting decisions that bring great
10 hardship, cuts that have been made to county human
11 service providers several years ago that still haven't
12 been restored that would in the compromised budget
13 agreement return \$28 million in funding for county
14 programs across those seven line items.

15 REPRESENTATIVE QUINN: We need to live in the
16 present.

17 BUDGET SECRETARY ALBRIGHT: These are the
18 expenditures. These are the expenditures that would
19 have been part of that bipartisan budget agreement.
20 These are the things that we worked long and hard many,
21 many long days, many long weeks, many long months, to
22 put together and find the compromise necessary to come
23 to a common agreement.

24 We didn't get to that --

25 REPRESENTATIVE QUINN: Secretary --

1 BUDGET SECRETARY ALBRIGHT: We didn't get to
2 that point before the holiday recess. We do hope to get
3 to that point as soon as possible. We stand ready to
4 begin those conversations immediately following this
5 hearing.

6 REPRESENTATIVE QUINN: Thank you.

7 You mentioned that the interest payments through
8 the MCOs that you're going to have to pay in the first
9 week of August, the Governor announced with regard to
10 the school districts and counties that the Commonwealth
11 will assume their interest payments on any loans that
12 they have to take.

13 Did that also include the costs, like any
14 finance fees for the loan? And what is your estimate
15 right now of those current interest loans? Because \$10
16 million was put into the compromised budget. And my
17 understanding is that those dollars were higher and the
18 Auditor General's report in December also -- maybe it
19 was November -- also indicated that those dollars are
20 significantly higher than the \$10 million.

21 BUDGET SECRETARY ALBRIGHT: Some late payments
22 for interest are already paid under current State law so
23 that there are individual categories. Payments to
24 school districts, our non-profit providers, are
25 principally what we're talking about reimbursing in that

1 \$10.7 million line item.

2 In the case of the MCO providers that I just
3 alluded to earlier, those interest expenses are paid in
4 full in the rates when we negotiate the new rates paid
5 to those providers in the next fiscal year.

6 And I should be fair to say also that the late
7 payment to those MCO providers isn't just something that
8 began in the prior Administration. That practice has
9 spanned, you know, two prior Governors, including
10 Governor Rendell.

11 REPRESENTATIVE QUINN: I'm going to stop now.
12 But I just think it's important as we go forward that we
13 stay in the present.

14 BUDGET SECRETARY ALBRIGHT: It is the present
15 now where we're incurring more, again, interest on a
16 billion dollars in payments that are made late every
17 fiscal year.

18 REPRESENTATIVE QUINN: Thanks, Mr. Secretary.

19 BUDGET SECRETARY ALBRIGHT: Thank you,
20 Representative.

21 REPRESENTATIVE QUINN: Thanks, Mr. Chairman.

22 MAJORITY CHAIRMAN ADOLPH: Thank you,
23 Representative.

24 Representative Schweyer.

25 REPRESENTATIVE SCHWEYER: Thank you, Mr.

1 Chairman.

2 And, Mr. Chairman, I had some really nice
3 comments to make about you, about your service to the
4 Commonwealth, and all that you've done for us. But the
5 previous speaker made me feel guilty about talking about
6 them because you're going to still be here. So I
7 stopped. I was trying to be funny and it didn't work.

8 All right. I'm moving forward. I am just a
9 freshman after all. But I am going to start my comments
10 today with having a bit of optimism because I think we
11 need a little bit right now.

12 In the months prior to the start of these
13 hearings -- and if we're being honest with ourselves, we
14 know this to be true -- there was little understanding
15 or there certainly wasn't the level of bipartisan
16 understanding that we did, in fact, have a structural
17 deficit, that it was real, that it was meaningful.

18 And now people on both sides, many people on
19 both sides of the aisle are, in fact, acknowledging
20 this. That's progress.

21 As House Bill 1460 was passed, we were told that
22 it was a balanced budget. But during these hearings, we
23 have heard time and time again an honest
24 acknowledgement, frankly, in some cases, a difficult
25 acknowledgement for some folks, that it was actually

1 anywhere from three hundred to five hundred million
2 dollars out of balance. This is good news. It's good
3 news that these three weeks have given us a stronger
4 foundation for understanding the true fiscal picture in
5 which we find ourselves.

6 And perhaps in the coming weeks, hopefully
7 sooner than that, coming days, that we have a better
8 understanding to negotiate a final budget. Again, this
9 is apparently what passes as progress for us in the
10 Commonwealth these days.

11 Now a big picture question, sir.

12 BUDGET SECRETARY ALBRIGHT: Yes.

13 REPRESENTATIVE SCHWEYER: If the Governor would
14 have accepted House Bill 1460, because that was the most
15 recent proposal that he had the opportunity to sign,
16 what would have the budget deficit or the deficit have
17 been for this coming budget year if we would have
18 accepted that?

19 BUDGET SECRETARY ALBRIGHT: Our estimate was
20 that it was about \$510 million out of balance.

21 REPRESENTATIVE SCHWEYER: Okay.

22 BUDGET SECRETARY ALBRIGHT: Now, I have to
23 quickly say that that assumes that the State-related
24 appropriation bills that have not reached the Governor's
25 desk would have also reached the Governor's desk in

1 their current form that provides, I believe, a 5 percent
2 increase to those appropriations.

3 REPRESENTATIVE SCHWEYER: Okay. And what would
4 the structural deficit have been then at that point?

5 BUDGET SECRETARY ALBRIGHT: We are, again,
6 continuing to struggle with the structural budget
7 deficit that we believe, you know, will exceed \$2
8 billion in the '16-'17 Fiscal Year unfunded.

9 REPRESENTATIVE SCHWEYER: Okay. And so with
10 that \$2 billion unfunded deficit, we would probably
11 collectively be looking to not only increase taxes by \$2
12 billion, which is an astronomical number I think a lot
13 of folks have said, but we would most likely be looking
14 to cut spending in some way, shape, or form or another?

15 BUDGET SECRETARY ALBRIGHT: Look, you've now
16 heard from all of the Cabinet secretaries. Frankly, we
17 had to disappoint many of them in the budget plans that
18 were put together.

19 Our budget proposal for the '16-'17 Fiscal Year
20 is essentially a cost-to-carry budget, meaning there are
21 no program initiatives. We're simply paying for current
22 programs and current expenditure levels and nothing
23 more.

24 REPRESENTATIVE SCHWEYER: Okay. The education
25 budget is about 30, 35 percent, give or take, of the

1 overall General Fund.

2 BUDGET SECRETARY ALBRIGHT: Um-hmm.

3 REPRESENTATIVE SCHWEYER: If we were looking at
4 cutting funding, would that be an obvious spot, past
5 practices being an obvious spot where there would be
6 reductions?

7 BUDGET SECRETARY ALBRIGHT: Yeah. I mean,
8 that's the most unfortunate part of the conversation,
9 you know, again in the two past scenarios as the
10 Governor outlined it in his budget speech.

11 But, yes, aid to local school districts because
12 it is, you know, one of the few areas where we would be
13 able to make substantial revenue cuts. And it's still
14 discretionary what we do provide to local school
15 districts. So we believe that aid would likely have to
16 be cut by a billion dollars or more.

17 REPRESENTATIVE SCHWEYER: Okay. Cutting
18 millions or billions of dollars from education is scary.
19 We talked about loss of teachers and higher property
20 taxes, class sizes, fewer options for our kids.

21 I'm just curious. Has any member of the General
22 Assembly come to the Administration, either directly or
23 indirectly, and said, cut my school district first?

24 BUDGET SECRETARY ALBRIGHT: Obviously not.

25 REPRESENTATIVE SCHWEYER: I'm shocked to hear

1 that. Now, the reason why I'm shocked to hear that --
2 let me give you some statistics about the only school
3 district that I represent, which is the Allentown School
4 District.

5 BUDGET SECRETARY ALBRIGHT: Okay.

6 REPRESENTATIVE SCHWEYER: In the four years
7 prior to this most recent budget, the Allentown School
8 District, not in one fell swoop but over four
9 consecutive budgets, lost a grand total of 400 teaching
10 positions. That is one-quarter of the entire complement
11 of educators that Allentown had.

12 In anticipation of the restoration of funds or
13 restoration of some funds from the Commonwealth in their
14 2015 budget, the Allentown School District agreed to
15 restore, stop cutting and restore a portion of those
16 lost teachers. Again, we lost 400 positions. They were
17 bringing back 30 of 400. And we were celebrating this
18 fact.

19 BUDGET SECRETARY ALBRIGHT: Um-hmm.

20 REPRESENTATIVE SCHWEYER: Back home people ask
21 me what am I willing to do to compromise. I compromised
22 370 lost teacher positions. That's not an insignificant
23 compromise. I think a lot of folks up here when they're
24 talking about -- and this is both sides of the aisle --
25 what they're willing to do and what they're asking their

1 constituents to give up in order to get a budget passed
2 that is balanced and starts the process of restoring
3 these cuts, my school district was willing to accept an
4 overall loss, a net loss, of 370 teachers. That's
5 compromise.

6 Thank you, Mr. Secretary.

7 BUDGET SECRETARY ALBRIGHT: Thank you.

8 REPRESENTATIVE SCHWEYER: Thank you, Mr.
9 Chairman.

10 MAJORITY CHAIRMAN ADOLPH: Thank you,
11 Representative.

12 Representative Karen Boback.

13 REPRESENTATIVE BOBACK: Thank you, Mr. Chairman.

14 Hello, Secretary Albright.

15 BUDGET SECRETARY ALBRIGHT: Good morning.

16 REPRESENTATIVE BOBACK: My question has to do
17 with the enhanced liquor proceeds. On page A1 through
18 17 of the 2016-'17 Governor's budget under the
19 initiatives relating to government that works, the
20 modernization of Pennsylvania's Wine and Spirits system
21 states the following: The next steps in 2016-2017 will
22 generate an additional 100 million for the Commonwealth.
23 And I found that intriguing. Moving forward, a
24 bipartisan stakeholder group will be convened to look at
25 ways to further maximize the value of our liquor system

1 and assess the magnitude of proposals before the
2 policymakers.

3 Now, it goes on to say who will be included in
4 -- or I'm going to go on to say, who will be included in
5 this working group? When will it be convened? And can
6 you tell me how you came up with that number,
7 approximately \$100 million in proceeds?

8 BUDGET SECRETARY ALBRIGHT: Um-hmm. We worked
9 with the LCB to develop those assumptions. I believe
10 they were already here to testify to the specifics of
11 those proposals. You know, there is -- and part of the
12 original bipartisan budget agreement would have been a
13 bill that still awaits House action that was already
14 passed out of the Senate that would make significant
15 changes to our current liquor law.

16 Many of the components of the steps that we
17 would want to take to generate that new \$100 million in
18 increased revenue which were returned to the
19 Commonwealth taxpayers would require statutory
20 authorization.

21 Many of those steps were included in that piece
22 of legislation. That legislation would have also set up
23 a Commission. And that Commission, had it been enacted,
24 would be meeting right now to talk about much more
25 significant steps that would be taken in the future to

1 both increase the customers' experience, customer
2 convenience, if you will, but also look at other
3 delivery systems for how we sell liquor and wine in the
4 Commonwealth.

5 You know, in lieu of that, if that bill isn't
6 now part of an agreement to move forward, then it would
7 be our intention to possibly, on a more informal basis,
8 convene a working group of stakeholders. We would look
9 to the General Assembly. We aren't going to assume who
10 the participants should be, but work with each of the
11 four caucuses to, you know, sit down together, you know,
12 with the appropriate members, the other people who
13 represent the system, and try to see if we can look at
14 meaningful ways to, again, create a better experience
15 for customers and a better return to the Commonwealth.

16 REPRESENTATIVE BOBACK: Thank you, Mr.
17 Secretary.

18 BUDGET SECRETARY ALBRIGHT: Sure.

19 REPRESENTATIVE BOBACK: Thank you, Mr. Chairman.

20 MAJORITY CHAIRMAN ADOLPH: Thank you,
21 Representative.

22 Representative Matt Bradford.

23 REPRESENTATIVE BRADFORD: Thank you, Chairman
24 Adolph.

25 Thank you, Secretary. And I want to begin by

1 thanking you for acknowledging something Representative
2 Schweyer rightfully said. One of the positive things
3 that's happened in recent weeks through these budget
4 hearings is a recognition of the size and scope of the
5 structural deficit.

6 And I think you as you began to start dealing
7 with a truly balanced budget for the current year as
8 well as for next year, just dealing with a level set of
9 facts I think really is a positive improvement over
10 where we were a year ago. Maybe that's a glacial pace.
11 But it is a recognition to the size and scope of the
12 problem.

13 I also want to recognize, though, the fact that
14 you noted something, which was the late payment of MCOs.
15 And, you know, it seems like a small thing and it seems
16 like inside baseball. But it's one of our largest
17 expenditures.

18 BUDGET SECRETARY ALBRIGHT: Um-hmm.

19 REPRESENTATIVE BRADFORD: You recognize it. But
20 you also recognize the same gimmick of delaying payments
21 a month which was done under Governor Rendell as well as
22 Governor Corbett --

23 BUDGET SECRETARY ALBRIGHT: Um-hmm.

24 REPRESENTATIVE BRADFORD: -- and is now being
25 proposed in 1460 and such.

1 I think it needs to be recognized that the
2 problem -- we can both engage in the food fight and
3 relitigate the battle, not just of the last 18 months
4 but probably the last battle since the Great Recession,
5 as you did.

6 BUDGET SECRETARY ALBRIGHT: Um-hmm.

7 REPRESENTATIVE BRADFORD: These gimmicks have
8 been done on both sides of the aisle. We can talk about
9 collaring pensions. We can talk about increasing
10 pension benefits. All of the problems have
11 fingerprints, blue and red, Democrat, Republican. And I
12 think it's important that you recognize and point out
13 that Democratic Governors did it with the support of
14 Republican legislators. Most of those times, there was
15 Republican majorities.

16 And I just want to thank you for kind of
17 pointing that out.

18 BUDGET SECRETARY ALBRIGHT: Um-hmm.

19 REPRESENTATIVE BRADFORD: Sometimes I think it
20 gets overheated in terms of how this plays out.

21 I also noticed that there's a level of
22 frustration that is shared on both sides of the aisle
23 and sometimes anger. I was trying to think, well, where
24 does the anger come from?

25 One of the things I've said repeatedly during

1 these hearings is, you know, if we're really angry --
2 and I think we are -- there's a need to take a look in
3 the mirror in terms of culpability, because a lot of
4 those mistakes rest on the leadership of this body, and
5 not just the current leadership but the leadership over
6 many years. These problems are of our cumulative
7 making.

8 And one of the things -- and I was trying to
9 figure out, you know, when we've relitigated the
10 education funding. And I know Representative Grove
11 pointed out, you know, his chart and our chart. And I
12 literally was reading the articles from seven or eight
13 years ago to try to find out, you know, how we arrived
14 at this point.

15 And I'm trying to say, okay. Well, I get it.
16 They very vehemently say they're putting more money in
17 education. And I think most people recognize in the
18 Commonwealth less money is getting into our schools.

19 And the reality is, you know, you look at the
20 chart and you see and I can see what my Republican
21 brothers are seeing, which is, you know, expenditures
22 going up.

23 But if you notice that red and green, which you
24 can't read the fine print, but that would show you what
25 the unfunded liability and what the pension payment is

1 doing.

2 BUDGET SECRETARY ALBRIGHT: Um-hmm.

3 REPRESENTATIVE BRADFORD: And I understand if I
4 was a conservative Republican -- I'm not -- I would feel
5 like we're putting more money in and less is going to
6 our schools. But that's the price we pay for doing
7 things like deferring pension payments, for not making
8 our MCO payments on time, or playing these gimmicks.

9 You know, in 1460, I would argue some of those
10 same ideas are in there. And again, it's not to engage
11 in more of the finger pointing and to create more anger
12 and frustration because there's already too much of it.

13 But when you go down the list and you say, oh,
14 we're going to capitalize, we're going to borrow to make
15 the PlanCon payment this year, you know, we're going to
16 go from cash to an accrual on the County Human Services
17 Fund, you know, these are feel-good things. But is that
18 really good budgeting? Is there anything conservative?

19 I'm slightly to the -- not quite as conservative
20 as Representative Greiner. But when he mentions there's
21 a \$2 billion structural deficit, I'm like, wow. This is
22 good. This is progress. This is moving in the right
23 direction. That man is a CPA. That's progress.

24 But when you look in 1460 and we say we're not
25 going to make the Social Security payment this year or

1 we want to skip a quarter and we're going to punt it
2 off, you realize we're not being honest. 1460, the
3 difference between when we talk about the \$300 million
4 and the \$500 million shortfall, it's those three
5 gimmicks that's a big driver of that.

6 Is that pretty much the Administration's
7 position? That's the difference between where 1460 is
8 out of balance, how far out of balance it is.

9 BUDGET SECRETARY ALBRIGHT: I would say the
10 essence of the compromise, as I had stated earlier, our
11 willingness to maybe take two years, not one, to
12 eliminate all of those one-time expenditures and
13 gimmicks, so to speak, to balance the budget.

14 But again, to your earlier point, to reiterate,
15 you know, the responsibility has to be shared on all
16 parties over the course of the last eight years or more.

17 Budgets have been difficult since the Recession
18 hit and even before. You know, we need to simply, you
19 know, be responsible. We need to be transparent. And
20 we need to, going forward, find a more responsible
21 budget solution. That's what the rating agencies have
22 been telling us. And that's what we need to -- that's
23 the call we need to hear to make responsible budget
24 decisions.

25 Now, to your point, I would consider myself to

1 be a glass-half-full person myself. You know, I think
2 that all of that work that didn't get to a finished
3 product before the holiday recess was not work that was
4 wasted. There was a lot of common ground reached, I
5 think. There was a lot of significant progress made.

6 And again, I think, you know, we're -- you know,
7 the responsibility for all of us is to as soon as
8 possible, you know, take that work, build upon it, and
9 find the final compromises necessary to bring a final
10 solution.

11 REPRESENTATIVE BRADFORD: You know, I agree
12 completely. I was looking over the S&P warning and kind
13 of the clock they put us on to get this done. And, you
14 know, it made me again -- and Representative Quinn
15 rightfully says, you know, we shouldn't keep looking
16 back. And I know we can relitigate why the framework
17 fell apart in the House but, you know, you go back and I
18 was just reading through it.

19 And again, there is something to be said for
20 past is prologue. So I was looking at some of Secretary
21 Zogby's comments as he was preparing for the '14-'15
22 budget. And you had mentioned that in passing in one of
23 your answers. And, you know, we had a conservative
24 Republican majority in the House and Senate then and we
25 had a pretty conservative Republican Governor.

1 And I'm reading his quotes where he talks about,
2 I think we've reached the threshold for pain for
3 additional cuts. I think -- and the Governor is at the
4 top of the list -- we've been exhausted by the cuts.

5 And, you know, Charles, good man. I mean, he
6 was not a -- he was not a hair-on-fire liberal by any
7 means. You know, some of his quotes are really
8 illuminating. I think he said, we've faced these kinds
9 of deficits each and every year in the Corbett
10 Administration.

11 The reality is that the dynamic that the new
12 Governor, meaning Governor Wolf, is going to be walking
13 into is no different than the dynamic that has faced
14 this Governor each and every year over the last four
15 years.

16 He's talking about a structural deficit that
17 continued unabated through the Corbett years. We're
18 making cuts. But we were plugging holes with these
19 fixes. We've got to get away from them.

20 You know, I know we have fiscal conservative
21 Republicans on this Committee who must realize that we
22 just got to deal with the day of reckoning and we've got
23 to align revenue and expenditure in a more honest way.

24 And I've got to say, you know -- and this isn't
25 to give anybody a pass because Secretary Zogby goes down

1 and talks about the cost drivers. And he talks about
2 the pension. And again, I realize it's heresy for
3 Democrats sometimes to talk about pension. But the
4 Governor, to his credit or detriment, put his neck out
5 there on a pension bill.

6 BUDGET SECRETARY ALBRIGHT: Um-hmm.

7 REPRESENTATIVE BRADFORD: I don't know how we
8 continue to belabor the point if we don't learn from the
9 past a little bit to say we've got this \$2 billion
10 structural deficit. A Republican Governor with a
11 Republican House and Senate was unable to come up with
12 cuts significant enough despite making unbelievably
13 significant cuts to balance the budget.

14 What is the way forward? You said compromise.
15 But what does that look like going forward?

16 BUDGET SECRETARY ALBRIGHT: What it looks like,
17 again, is to, you know, have to make the painful
18 decisions to, you know, not grow, you know, most
19 programs across the State budget in the current or next
20 fiscal year.

21 It means prioritizing, in our view, education
22 spending as the one exception to that to provide aid to
23 local school districts because we believe if we don't
24 provide that aid, then that's simply a license or
25 necessitates even greater local property tax increases

1 that are simply passing the buck to a local level.

2 But it does mean enacting real and in a fair
3 way, in a way that can be affordable to Pennsylvania's
4 families, real recurring revenues, you know,
5 appropriately cast to, you know, meet the State's
6 funding responsibilities.

7 REPRESENTATIVE BRADFORD: Let me conclude with
8 this one thought. One of my colleagues on the other
9 side said that you want to, you know, raise revenue at
10 the time you want to grow government. I think it's
11 important, again, to try to be conciliatory but to be
12 really honest about it. When some say grow government
13 for the folks at home, they've got to understand we look
14 at -- we represent a lot of districts like
15 Representative Schweyer talked about.

16 BUDGET SECRETARY ALBRIGHT: Um-hmm.

17 REPRESENTATIVE BRADFORD: And when they're
18 talking about growing government, you're talking about
19 restoring teachers to school districts that were
20 decimated over four years.

21 You know, I can show you the chart again and
22 say, you know, we can relitigate stimulus money versus
23 State dollars and back and forth. But you only need to
24 go to a PTA meeting in your home district or go to a
25 School Board meeting or talk to some moms and dads to

1 realize the cuts are real and they happen.

2 So when we get into that tea party rhetoric
3 about growing government, I wish we would kind of step
4 away from the brink a little bit and say, hey, this is
5 about getting back to funding the schools.

6 Again, I don't want to sound partisan about it.
7 I just want to say we've just got to stop doing that.
8 It's absurd.

9 And, you know what, I'm going to conclude with
10 this because, again, I started with Secretary Zogby.
11 And again, I don't think I agreed with him on almost
12 anything while he was here for four years. But when he
13 left and the food fight had already started and this was
14 in his final midterm budget analysis and, you know, the
15 new Governor was coming in and the writing was on the
16 wall, he says, Corbett's Budget Secretary told
17 reporters, folks need to get out of campaign mode and
18 into the governing mode and avoid taking the cheap
19 shots.

20 Corbett and Zogby have talked about looming
21 deficit since last summer when lawmakers tapped one-time
22 revenue sources while finalizing the budget. He
23 concluded lawmakers have hit a wall in terms of spending
24 cuts, Zogby said, and a discussion of new revenue would
25 be appropriate.

1 And then you look and to his credit he goes
2 into, you can look at pension costs and selling liquor
3 stores. And he mentions, you know, you can continue to
4 taper the collars and such. But he said, folks are in
5 for a reality check.

6 I think we may be 18 months late in getting to
7 that reality check. But recognition of the size and
8 scope of this structural deficit, the cuts that have
9 already been made, the ability to have a conservative
10 Republican with Republican-led Legislatures to do
11 additional cuts and the recognition that these one-time
12 cuts are costing us in terms of the rating agencies and
13 the ability to function as a Commonwealth I think leads
14 us to one simple conclusion. We've tried it all on one
15 side of the balance sheet. And we've got to get honest
16 with our people at home and to do what S&P said, which
17 was show the political will to pass a balanced budget.

18 So I'm going to thank you, Secretary.

19 And I'm going to conclude by thanking Chairman
20 Adolph for his leadership of the Committee. And our
21 loss is Diamond Beach's gain, sir.

22 Thank you.

23 **MAJORITY CHAIRMAN ADOLPH:** That is correct.

24 Representative Seth Grove.

25 **REPRESENTATIVE GROVE:** Chairman, thank you.

1 I just want to echo we appreciate your
2 leadership. You're a statesman. You're a gentleman.
3 The General Assembly will have a huge hole to fill in
4 your absence. Best travels -- not for a little while.
5 Although I did hear that Joe Markosek is hiring a budget
6 analyst. I don't know what your retirement plans are
7 but your expertise may be wanted over there.

8 MINORITY CHAIRMAN MARKOSEK: Well, next session
9 when I'm the Majority Chair.

10 REPRESENTATIVE GROVE: Oh.

11 Mr. Secretary, thanks for joining us.

12 BUDGET SECRETARY ALBRIGHT: Good morning.

13 REPRESENTATIVE GROVE: It's been a long day.
14 Some humor is good.

15 BUDGET SECRETARY ALBRIGHT: Yes. Good
16 afternoon, I should say.

17 REPRESENTATIVE GROVE: First question, have the
18 PERC employees who were illegally transferred to the
19 Budget Office been transferred back to PERC to ensure
20 the independence of their pension analysis and Act 205
21 money can be distributed on time?

22 BUDGET SECRETARY ALBRIGHT: The PERC employees
23 -- and thanks for the opportunity to clarify. People
24 misunderstood. You know, the Commission continues to
25 exist. You know, we can't change that. You know,

1 whatever the future of PERC is is and can only be
2 determined by the General Assembly statutorily.

3 The employees we continue to maintain currently
4 in the short term on the Budget Office's payroll.

5 REPRESENTATIVE GROVE: Okay.

6 BUDGET SECRETARY ALBRIGHT: But they continue to
7 provide the functions that they had been providing. All
8 responsibilities, particularly as they pertain to our
9 municipal pension systems, continue to be carried out.
10 And that is our intention going forward.

11 REPRESENTATIVE GROVE: Okay. I'm glad for that
12 clarification because obviously your budget book and
13 your PR is we're eliminating PERC moving forward. So
14 I'm glad to hear we're going to continue PERC operation.
15 And I'm glad to hear that you're going to work with the
16 General Assembly.

17 BUDGET SECRETARY ALBRIGHT: Yes.

18 REPRESENTATIVE GROVE: Because believe it or
19 not, there are individuals in this institution that
20 would see a change moving forward.

21 I believe Representative Kerry Benninghoff will
22 be introducing a bill shortly to do some adjustments.
23 Hopefully we can work on that moving forward.

24 BUDGET SECRETARY ALBRIGHT: We have had and had
25 had, you know, prior to taking any action, conversations

1 with all four caucuses. We believe, again, the priority
2 here is that we believe, as currently constituted, you
3 know, PERC was carrying out what we believe to be
4 redundant functions.

5 You know, it is part of efforts. And we've
6 talked a lot this morning about trying to look across
7 all programs, all operations of State Government and
8 determine where future efficiencies, you know, better
9 ways of doing things, better ways of delivering State
10 services can save taxpayer money. This was clearly one
11 of those cases.

12 But we look forward to a conversation with all
13 four caucuses, all of the General Assembly stakeholders,
14 if you will, to find a solution that we can all agree
15 upon.

16 REPRESENTATIVE GROVE: I appreciate that.

17 I just read an article about defending
18 right-to-know requests. Do you know how much we're
19 spending on those?

20 BUDGET SECRETARY ALBRIGHT: I do not know off
21 the top of my head.

22 REPRESENTATIVE GROVE: All right. If you get a
23 chance, it would be nice to know at some point.

24 BUDGET SECRETARY ALBRIGHT: Let me simply say
25 transparency, you know, it does come with a price tag.

1 REPRESENTATIVE GROVE: Um-hmm.

2 BUDGET SECRETARY ALBRIGHT: But, you know, we
3 will comply, you know, for whatever information
4 requests, you know, come our way in an appropriate
5 fashion.

6 REPRESENTATIVE GROVE: Okay. Speaking of cost
7 savings and finding efficiencies, you said earlier about
8 GO-TIME total allocation of \$150 million. I greatly
9 appreciate the detailed analysis each department has
10 provided on all their analyses of where they're spending
11 money, what they're doing, whether it will save future
12 or current.

13 BUDGET SECRETARY ALBRIGHT: Um-hmm.

14 REPRESENTATIVE GROVE: My question specifically
15 is within the Governor's budget book and in the
16 documents I've seen, I have yet to see the subtracted
17 amount anywhere in his books. And it should be as
18 simple as savings. If I am buying a product for \$20 and
19 I go to the cash register and it's a 50 percent off
20 sale -- and that's basically what savings are; I'm
21 getting a discounted price somehow some way -- I should
22 be walking out with \$10.

23 BUDGET SECRETARY ALBRIGHT: Um-hmm.

24 REPRESENTATIVE GROVE: That's not driven out in
25 any budget documents I have seen.

1 BUDGET SECRETARY ALBRIGHT: Um-hmm.

2 REPRESENTATIVE GROVE: Could you provide
3 specific line items of reductions for those so we can
4 take a look at exactly where those savings are attached
5 to those line items?

6 BUDGET SECRETARY ALBRIGHT: We have tried to
7 provide, as you already have alluded to, very detailed
8 GO-TIME updates from each agency. We are going to take
9 the last step in that process now that it's been
10 completed to compile all of that into a simple, you
11 know, comprehensive document that we will provide to the
12 committees.

13 You can assume in each case that if those
14 expenditures -- or if those initiatives had not been
15 done, then they would have required increased
16 expenditures within our proposed budget to fund the
17 necessary obligations of those departments.

18 Now, let me simply say that GO-TIME is an
19 organic process. It continues to evolve every day. And
20 so, you know, over the course of the coming months, all
21 of those projections will continue to evolve and change.
22 That's why we try to wait until the last moment possible
23 to provide the most recent GO-TIME estimates.

24 Certainly, you know, what we do accomplish
25 ultimately for this year and going forward, again, will

1 change but we'll try to continue to work with the
2 General Assembly to identify those changes over the
3 course of time.

4 REPRESENTATIVE GROVE: But there's definitely
5 savings, correct, without a doubt?

6 BUDGET SECRETARY ALBRIGHT: The savings --

7 REPRESENTATIVE GROVE: \$150 million savings,
8 correct?

9 BUDGET SECRETARY ALBRIGHT: The savings we
10 believe are real and you can in every instance assume
11 that if those savings are not realized, those are
12 necessary additional expenditure increases that would
13 have to be provided in our proposed spending plan.

14 REPRESENTATIVE GROVE: Because your DGS
15 Secretary, Secretary Topper, just last evening told
16 me -- he was sitting right there and said, there aren't
17 actually any savings and we spent all the savings.

18 BUDGET SECRETARY ALBRIGHT: I'm not sure what
19 the miscommunication might have been. I think what he
20 was trying to explain is that -- and he would probably
21 be the biggest -- or he would have the greatest concern
22 about misunderstandings. In other words, when we talk
23 about initiatives for strategic sourcing and savings and
24 procurement, that doesn't mean that his \$100 million
25 savings target if realized means that we reduce

1 expenditures in his DGS budget. Those procurement
2 initiatives are spread throughout every -- or many, let
3 me say, budgets.

4 REPRESENTATIVE GROVE: We went through that
5 exercise yesterday. He used the example of we saved
6 PennDOT \$10 million on a salt purchase. And I asked,
7 well, what's that salt purchase attached to,
8 maintenance? He said, oh, no, no, no. They spent it.
9 The Department spent that \$10 million.

10 BUDGET SECRETARY ALBRIGHT: Well --

11 REPRESENTATIVE GROVE: So literally the same
12 example. And believe me, we painfully went through this
13 exercise last night. And the conclusion was the savings
14 do not exist and we spent the money.

15 BUDGET SECRETARY ALBRIGHT: Well, again, maybe
16 what you're misunderstanding is that without that
17 initiative, then the PennDOT budget would have to have
18 been -- to maintain that same level of service, the
19 PennDOT budget would have had to have been increased by
20 that amount of money or that service couldn't be
21 provided.

22 REPRESENTATIVE GROVE: Yeah. But they budgeted
23 X amount for salt supply. So if I'm spending \$20
24 million on salt supply, I saved \$10 million, there's \$10
25 million of savings.

1 BUDGET SECRETARY ALBRIGHT: But it's --

2 REPRESENTATIVE GROVE: It's \$30 million then if
3 I didn't get that \$10 million of savings. Savings are
4 savings.

5 BUDGET SECRETARY ALBRIGHT: Savings are savings.

6 REPRESENTATIVE GROVE: Yes.

7 BUDGET SECRETARY ALBRIGHT: And again, the
8 expenditures of every agency, as we've talked about
9 throughout much of the conversation today, this is in
10 essence a cost to carry budget. If we didn't realize
11 those savings throughout all of --

12 REPRESENTATIVE GROVE: It's a cost to carry
13 budget? There's a lot of additional spending that your
14 Administration put in here.

15 BUDGET SECRETARY ALBRIGHT: Throughout all --

16 REPRESENTATIVE GROVE: Your initiatives, Mr.
17 Secretary. It's not cost to carry.

18 BUDGET SECRETARY ALBRIGHT: Throughout all of
19 the agency budgets, if we didn't realize those savings
20 from those GO-TIME initiatives, then we would have to be
21 either asking one of two options: asking for increased
22 expenditures to support those obligations or making
23 further cuts in those programs that we are recommending
24 that we fund in our proposed budget.

25 REPRESENTATIVE GROVE: So you're saying the cost

1 savings are built in here but they're not reflected in
2 here? Even before printing this, you know, the original
3 press release from GO-TIME -- and I have it right here.
4 Let me see if it has a date. Here is from 12/9/2015.

5 BUDGET SECRETARY ALBRIGHT: Um-hmm.

6 REPRESENTATIVE GROVE: As part of Governor
7 Wolf's GO-TIME Initiative, PennDOT is now relying on a
8 new monitoring system to check drivers license centers
9 and take immediate steps to provide improvements for
10 customers. These efforts are expected to generate up to
11 \$150 million in savings in the current fiscal year.

12 BUDGET SECRETARY ALBRIGHT: Um-hmm.

13 REPRESENTATIVE GROVE: When this budget book was
14 printed, these cost savings should have been ingrained
15 in this line by line. Why weren't they?

16 BUDGET SECRETARY ALBRIGHT: GO-TIME is --

17 REPRESENTATIVE GROVE: You know, your initial
18 one was sent out February 26th, 2015. And you were
19 talking about \$100 million improving procurement, \$3
20 million modernizing technology, \$6 million streamlining
21 and consolidating administrative functions.

22 That was over a year ago and yet you have not
23 produced any data whatsoever that verifies any of those
24 savings.

25 BUDGET SECRETARY ALBRIGHT: GO-TIME, as I had

1 alluded to previously, is an on-going organic process.
2 At the time that we did those final budget
3 recommendations for our proposed and final '15-'16 and
4 '16-'17 funding plans, those assumptions, to the best of
5 our ability, were built into the requested appropriation
6 amounts for all agencies.

7 We do, as I've alluded to earlier, always have a
8 spring update process. I guarantee you that at the
9 point of that May or June, depending on how soon that
10 spring update plan is ready, we'll reflect further
11 changes from other GO-TIME savings assumptions as well
12 as how we reflect then that GO-TIME experience
13 particularly in the '15-'16 Fiscal Year to fully fund
14 whatever the State's obligations are for the current
15 year.

16 REPRESENTATIVE GROVE: Consolidation of HR
17 services, \$1 million savings. You consolidate it.
18 There should be less staff. So that should have been
19 reflected. That's not reflected anywhere.

20 BUDGET SECRETARY ALBRIGHT: I can't say it
21 enough times. All of the assumed GO-TIME initiatives,
22 to the best of our ability, when --

23 REPRESENTATIVE GROVE: Why assume them? Why not
24 put it in there? Why not put the data in there? You
25 have to account for it. It should be part of your

1 accounting process.

2 BUDGET SECRETARY ALBRIGHT: I don't think we
3 could have been more specific than the GO-TIME reports
4 that were provided to you for each agency. Those are
5 very detailed plans with very clear fiscal assumptions.

6 REPRESENTATIVE GROVE: And we've asked each
7 Secretary for the line item that they are directly
8 attached to. I asked the DGS Secretary what line items
9 these are directly attached to. I got no answer. The
10 answer I did get is the Secretary spent that money
11 forward.

12 BUDGET SECRETARY ALBRIGHT: The DGS Secretary --

13 REPRESENTATIVE GROVE: Is he wrong?

14 BUDGET SECRETARY ALBRIGHT: The DGS Secretary
15 can appropriately answer questions about the DGS budget.
16 In fairness to the DGS Secretary, he can't answer
17 questions about the detailed budget decisions that were
18 made for every other department and how the procurement
19 savings that were part of his strategic sourcing and
20 GO-TIME savings to provide a more efficient,
21 cost-effective way to procure services for the State are
22 then reflected in that individual agency's budget.

23 REPRESENTATIVE GROVE: But they're not. They're
24 not.

25 BUDGET SECRETARY ALBRIGHT: I can't answer the

1 question any other way than I've answered it multiple
2 times.

3 REPRESENTATIVE GROVE: So should the DGS
4 Secretary come back and renege his testimony that the
5 Administration spent all those dollars forward on other
6 areas?

7 BUDGET SECRETARY ALBRIGHT: Again, to be fair to
8 the DGS Secretary, he was speaking to you about what he
9 does know about his own budget.

10 REPRESENTATIVE GROVE: And he said
11 Transportation spent the money.

12 BUDGET SECRETARY ALBRIGHT: And in the case of
13 Transportation --

14 REPRESENTATIVE GROVE: Is he wrong?

15 BUDGET SECRETARY ALBRIGHT: And in the case of
16 Transportation and any other State agency, he can --

17 REPRESENTATIVE GROVE: So they could have?
18 Could they have spent the money forward?

19 BUDGET SECRETARY ALBRIGHT: And in the case of
20 Transportation and any other Department budget, if they
21 hadn't realized the savings from those procurement
22 initiatives, then they would have had to make one of two
23 choices. They would have had to increase other -- their
24 requested appropriation amounts.

25 REPRESENTATIVE GROVE: So they did save it. And

1 then they put it in their budget to spend it in other
2 areas? That's why it's not a reflected negative.

3 BUDGET SECRETARY ALBRIGHT: They had to make
4 choices about how those savings were to be used.

5 REPRESENTATIVE GROVE: So they're not really
6 savings?

7 BUDGET SECRETARY ALBRIGHT: Again --

8 REPRESENTATIVE GROVE: They were spent
9 elsewhere. You saved it here. And then you spent it
10 elsewhere so you wouldn't have to reduce that line item?

11 MAJORITY CHAIRMAN ADOLPH: Representative, Mr.
12 Secretary, I believe the question has been asked
13 numerous times. I don't believe the Secretary is going
14 to change his answer.

15 REPRESENTATIVE GROVE: I know. I'm just trying
16 to find some money, Chairman.

17 MAJORITY CHAIRMAN ADOLPH: We all are.

18 REPRESENTATIVE GROVE: Yeah.

19 MAJORITY CHAIRMAN ADOLPH: We all are. I think
20 we know the answer.

21 REPRESENTATIVE GROVE: Okay.

22 MAJORITY CHAIRMAN ADOLPH: And if you could,
23 you're up close to 14 minutes.

24 REPRESENTATIVE GROVE: Will do.

25 MAJORITY CHAIRMAN ADOLPH: I certainly

1 appreciate you waiting as long as you have today. So
2 I'm giving a little leeway. You know, quick questions,
3 quick answers.

4 REPRESENTATIVE GROVE: When will Act 146 waivers
5 be reconciled within your budget?

6 BUDGET SECRETARY ALBRIGHT: Our attempt to do
7 that will be complete when we have a complete budget.

8 REPRESENTATIVE GROVE: So are you going to be
9 using Act 146 waivers to increase spending moving
10 forward?

11 BUDGET SECRETARY ALBRIGHT: Our continued use of
12 waivers is particularly important as we reconcile our
13 agency budgets. As I had alluded to earlier, among the
14 many inadequate aspects of the bill that did land on the
15 Governor's desk, 1460, is that many agency operations
16 are not fully funded for the full fiscal year where we
17 had prior year appropriation authorizations. And
18 waivers can help to mitigate those funding inadequacies.

19 We will continue to take advantage or use that
20 opportunity. Our hope is and as soon as we get a final
21 agreement in place, we will then reconcile all of those
22 expenditures, appropriately apply them to the
23 appropriate fiscal year and provide a full and
24 transparent accounting to the General Assembly.

25 We did as part of the compromised budget

1 agreement believe that \$200 million in lapses of current
2 year appropriations from that process would then be made
3 available as part of the revenue to balance the '15-'16
4 budget. And we still hope at this point to meet that
5 threshold in a final budget agreement.

6 REPRESENTATIVE GROVE: So when the
7 Transportation Secretary testified that her lapse
8 funding that she received, she reconciled it and she
9 spent it on transportation projects.

10 The Department of Health Secretary testified in
11 front of us that she utilized her waivers for stacking
12 and GGO line items. Her GGO line items have been
13 approved by the Governor. She received them. There
14 should be reconciliation. And the money she used for a
15 GGO should be returned to the General Fund.

16 I would say that within your Act 146 waivers
17 themselves, you approve new funding and new programs.
18 It's listed all over there -- I'm cut off at this. I
19 appreciate the Chairman for some flexibility. But I
20 would I say there's a lot of room for a lot of money
21 that is not being accounted for in this budget to defer
22 raising taxes.

23 And I would also point to the \$500 million that
24 the DHS Secretary is accounting for in Medicaid savings
25 that again are not accounted for in this book.

1 Thank you, Mr. Chairman.

2 MAJORITY CHAIRMAN ADOLPH: Thank you.
3 Representative Gary Day.

4 REPRESENTATIVE DAY: You said you'd be here
5 until 2 o'clock. Does that mean I get 30 minutes,
6 Mr. Chairman? He won't even answer that.

7 Mr. Secretary, thank you for being here today.
8 I have a couple comments. You know, recently I just
9 received an e-mail today from a Democrat in my district.
10 I'm a Republican, if you don't know that from where I
11 sit.

12 And, you know, one thing he asked me is, what
13 are you doing? You know, yeah, yeah, yeah. We hear
14 your points. We hear their talking points. What are
15 you doing to move the process forward? So I'm going to
16 eventually get to that.

17 Some of the things I want to say, the gentleman
18 from York County, I think he touches on one of the
19 cornerstones of the problems of the budget impasse. And
20 that's that the Administration works to save money. And
21 I know. I did this. The way I got my bureau managers
22 to cut and save money when we worked in the city of
23 Allentown was I said, whatever you save, you get to
24 keep. I'm not going to take it back. Just work on
25 finding efficiencies. And then you'll get to spend it

1 on the next service that you want your bureau to be
2 doing.

3 And then what turned out was if they saved 10
4 percent, they actually did give back 2 or 3 percent,
5 which we didn't anticipate. So I understand what you're
6 doing. When you save the money, you want to keep it.
7 You don't want to come back to the Legislature. You
8 don't want to ask for re-approval of that saved dollars.
9 You want to keep it and spend that.

10 But the point that my colleague from York makes
11 is that we build the budget. And we're trying to be
12 transparent with the people on both sides of the
13 impasse. We build a budget based on if there was a \$100
14 million here and you save 10 percent, then why are we
15 starting with \$100 million in that line item for next
16 year? That's one point of it. That savings went and
17 was spent somewhere else. Let's say why that was spent.
18 Let's reallocate that.

19 So I think it's very valuable that I get up and
20 just underline. I wouldn't even bold and italicize.
21 I'll just put one little mark on it that underlines what
22 he's saying is very valuable to the Republican Caucus in
23 getting through this budget impasse.

24 The gentlelady from Bucks asked for data, went
25 to the, you know, different folks in the Administration.

1 I'm going to touch just very lightly on this. That's
2 something that's very important to us as well.

3 Let the data go. You don't need to keep it,
4 scrub it, and then present it to us. Let us both mind
5 the data. Let us both make our opinions on the data and
6 then convince us why your perspective of the data is
7 better.

8 So I want to -- my colleagues are very
9 passionate about this and should be and really should
10 spend twice as much time as they did.

11 To my comments, it's been said that there's a
12 \$300 million shortfall. The Governor vetoed 6 billion.
13 You very eloquently answered many different versions of
14 questions about that and the rationale. I appreciate
15 those answers.

16 But if we knock off the zeros, it's like the
17 Legislature gave \$3,030 and your team said, hey, we're
18 \$30 short on it being balanced so we vetoed 20 times
19 that. Then someone probably said to the Governor, hey,
20 listen. Let's use some basic psychological ploys.

21 Number 1, when we started last year this time,
22 offer a spending plan that's 4 billion. We put it
23 before the House. Not a single vote. And then offer 4
24 billion so that we compromise to where we want to be at
25 2 billion or 1.8 or somewhere like that. That's a

1 rudimentary psychological ploy.

2 Number 2, veto things that we know Republicans
3 want to fund. So maybe we can show some hypocrisy or
4 something like that, agriculture, hospital burn centers,
5 even education.

6 Number 3, stretch negotiations out. Wear them
7 down. Governor Rendell tried this in 2009. You were in
8 the building. You saw that. That was my first year in
9 the Legislature. And he quickly tacked away and said,
10 hey, this isn't working. I'm urging you to do the same
11 thing and advise that to the Administration.

12 What if we go away from these things? Who's
13 right? Who's going to win? I think the people are
14 right. And I really believe that, you know, you have
15 the skills, my Democratic colleagues have the skills,
16 and my Republican colleagues have the skills to give
17 persuasive speeches on why we should go a certain
18 direction.

19 It's our job to convince them that we think we
20 can do better with their money than they are. So here's
21 what I propose for the negotiation going forward. Let's
22 make our best case and then let the people decide.
23 Let's be as transparent as possible. That's why I
24 underlined those two things that I talked about at the
25 beginning just as examples. And let's let the people

1 decide which way we're going to go.

2 They'll call us. They'll let us know. Let's
3 make a decision that we are going to agree on something.
4 I'm going to compromise on something today. We're going
5 to agree to do whatever we're going to do by a certain
6 date.

7 When you hear us use one of our great lines that
8 we like to say -- and we all -- the Republicans in the
9 House like to say on-time budget. We've all defined
10 what that means. But in this process if we all agree on
11 a date, let's say June 15th, doesn't have to be the
12 30th, maybe two weeks early, now that puts the burden a
13 little more on people who want to raise taxes and
14 propose new ideas. But we've been proposing those for
15 the last year. So I recognize -- and we would recognize
16 -- that that puts a little bit more burden on the
17 Governor. But if you're really frustrated, let's agree
18 on a date. It's our job to get something done.

19 So I'm trying to figure out when I was in the
20 private sector, when I was in local government, what did
21 we do? There's structures in place that people have
22 been at impasses for years. Let's employ those. One of
23 those is decide on a date and time. The people will
24 agree. You know, they'll be paying attention in June.
25 They'll get engaged. They'll respond. And we'll pass a

1 budget.

2 And again, Gary, what if the people are wrong?
3 Well, Mr. Secretary, you know -- and it's been going on
4 a little bit -- if the Governor and your team and other
5 people who want to go along his path are not successful
6 with that and he doesn't get his -- you know, it was a
7 large -- I'm cutting down some of the words. I'm not
8 going to say billions of dollars in new taxes. I'm not
9 going to say that. I'm going to say if he doesn't get
10 the direction that he's going in.

11 I don't recommend it. But the Executive has the
12 authority to guide or not guide monies. And as a matter
13 of fact, you're kind of doing that now. And to some of
14 my Democratic colleagues in Reading, Allentown,
15 Harrisburg, I don't know why they're not beside
16 themselves on some of those decisions right now.

17 I'm not going to talk about going off onto that.
18 I'm going to stay on point about on-time budget. Will
19 you commit the Governor and your negotiating team to
20 compromise right here and right now or immediately
21 following this hearing? I really think you have the
22 authority to compromise right here and say, we'll agree
23 to on-time budget, which I think should include a series
24 of dates to me leading up to that on-time date set.

25 BUDGET SECRETARY ALBRIGHT: Here's what I'll

1 commit to. And I'll do it here in a public setting,
2 much like, you know, I allude, if you likely remember,
3 to a private conversation late one night we had in the
4 basement of the parking garage many months ago, probably
5 about 9 or 9:30 at night when we were both here working
6 overtime, so to speak.

7 As the Governor says, and as I've repeated many
8 times today, compromise is hard. You know, we have to
9 be good listeners. We have to figure out how we find
10 common ground.

11 We are committed to -- and I will publicly
12 commit today that we would like to, not in a matter of
13 months but in a matter of weeks, bring final closure to
14 this year's budget.

15 Part of that is, you know, making difficult
16 decisions, finding where we couldn't find closure in all
17 of the work done on that compromised budget agreement
18 that eluded us just before Christmas, that we do find
19 and close the gap and finish the unfinished work for
20 '15-'16.

21 And then it is certainly our hope that part of
22 that conversation can actually provide -- and I'm
23 reluctant to use framework because it wasn't a
24 successful word as applied to that compromised budget
25 agreement, but to even possibly agree to some aspects of

1 what's necessary to find common ground to reach a timely
2 '16-'17 budget.

3 You know, I think, again, all of the work that's
4 been done, you know, since we started this process last
5 year, from the time, let's say, that I testified before
6 you at last year's hearing, we have made significant
7 steps to understand all sides of this argument. We have
8 taken and made significant progress to understand
9 everybody's perspectives.

10 Our commitment, my public commitment to everyone
11 here, to you, is that we will take what we've learned to
12 see if we can enact in a meaningful compromised fashion
13 a budget that we can all say is doing the right thing
14 for the Commonwealth.

15 REPRESENTATIVE DAY: I appreciate that. You
16 know, I talked with my daughter at Penn State in her
17 second year and has all these different courses. And we
18 talked if this was about sticking to, you know, saying
19 the word compromise, saying the word we'll launch from
20 the, you know, framework that never really got enough
21 materialization, you would get an A for, you know,
22 staying on message.

23 But what I was trying to do with this question
24 was try to break a little bit from this back and forth,
25 this tennis match that the people get to view, trying to

1 say that one of the things that you put in place in an
2 impasse is a date set in the future. I think that's a
3 no that you can't compromise.

4 BUDGET SECRETARY ALBRIGHT: Representative, I
5 think the rating agencies have set that deadline for us.
6 I think they've clearly said that you can't continue to
7 budget the way you've been doing it.

8 Over the course of more than a decade that the
9 irresponsible budget decisions that we continue to make
10 have resulted in -- up to this point over the course of
11 the last five years, five downgrades in our bond rating
12 in 2014, all three rating agencies lowering our bond
13 rating.

14 And S&P has said unmistakably in the clearest
15 terms possible, if you don't, over the course of the
16 next 90 days, find the common agreement, find the
17 compromise necessary to enact a balanced budget, whether
18 that means expenditure cuts or whether that means
19 revenue, recurring revenue increases, that we're going
20 to face yet more downgrades and more negative
21 consequences.

22 So I think the rating agencies or at least in
23 the case of Standard & Poor, they've already set that
24 deadline for us.

25 REPRESENTATIVE DAY: So in that classroom idea,

1 you know, you pass the first test, the second test, and
2 the third test. You got an A, 100 on each one of them,
3 for going back to the talking points of what you came
4 here to do. It's a theme throughout your every answer
5 and I appreciate that.

6 I want to actually tip my cap. But I do have to
7 say that I need the Governor to know that it's these
8 people who continue to say the same things over and over
9 again that I think contribute to the budget impasse
10 rather than move us past it. This is a very tough
11 situation to be in.

12 Somebody has to start. There's many people on
13 both sides of the aisle that are standing up and
14 starting to say, we need to go in a different direction.
15 We need to go a different way. And we need to employ
16 some of these things that work. I've seen them work.
17 And the only reason we don't want them to work is
18 because we want to control the outcome.

19 I'm willing to trust the people, let the people
20 tell me what to do. Our system puts great burden on all
21 elected officials who want to take more and increase
22 programs to justify them to the people that they
23 represent. That's the very foundation. I was
24 criticized for giving a civics lesson. But I think it's
25 very pertinent in this impasse that there's particular

1 roles. Our role is to put a bag of money over there
2 with line items in them. And the Governor's role is to
3 execute those things.

4 The Governor and your team are trying to change
5 what the Legislature's role is through many different
6 ways. And I need to push back against that.

7 If a supplemental appropriation was sent to the
8 Governor, will the Governor compromise and sign a bill
9 to release funds for 4-H and Penn State extension?

10 BUDGET SECRETARY ALBRIGHT: The Governor will
11 engage in, as he has, as the compromised budget
12 agreement represented, whatever meaningful compromise is
13 necessary to enact an appropriate final spending plan
14 for the current fiscal year.

15 He is not going to choose one appropriation over
16 another. He is not going to pit 4-H programs, for
17 example, against the needs of students in classrooms and
18 struggling school districts throughout the State.
19 That's not a winning formula.

20 What we need to do is appropriately fund and
21 address all of the State spending needs and not place
22 value judgments to create or assume that one is more
23 important than the other.

24 REPRESENTATIVE DAY: So if I would ask you if a
25 supplemental appropriation came on the Governor's desk

1 for higher education, the State System of Higher
2 Education -- I'm the Caucus Chair; I have to ask you
3 that question as well because there's many members on
4 both sides of the aisle that is interested in that
5 issue -- would your answer be similar?

6 BUDGET SECRETARY ALBRIGHT: My answer is going
7 to be that we want a final budget that addresses all of
8 the State funding needs. We're not going to pick
9 favorites. We're not going to prioritize one of those
10 needs over the needs of others. All of those things are
11 important. And we want a final budget as soon as
12 possible that appropriately and adequately addresses
13 those needs.

14 REPRESENTATIVE DAY: Mr. Chairman, I appreciate
15 your time.

16 And, Mr. Secretary, I wish you the best going
17 forward. I pledge to continue to listen and consider
18 all issues that are before the Legislature and anything
19 to do with this budget. I wish everybody the best going
20 forward.

21 And I think setting a date and time is an
22 important thing to do. I would appreciate it if you
23 would take that back to your team.

24 BUDGET SECRETARY ALBRIGHT: Thank you.

25 MAJORITY CHAIRMAN ADOLPH: Thank you,

1 Representative.

2 Representative Kampf, you have a request.

3 REPRESENTATIVE KAMPF: Mr. Chairman, my
4 colleague, Representative Stevenson, had a series of
5 questions on social impact, financing Pay for Success
6 and some of the safeguards that might be put on that.

7 BUDGET SECRETARY ALBRIGHT: Sure.

8 REPRESENTATIVE KAMPF: So could I submit those
9 to you, Mr. Secretary?

10 BUDGET SECRETARY ALBRIGHT: Sure.

11 REPRESENTATIVE KAMPF: Thank you, Mr. Chairman.

12 BUDGET SECRETARY ALBRIGHT: And since you
13 brought it up, let me acknowledge his efforts. That
14 whole process really was something that he had taken the
15 initiative on before we even took office. It was, you
16 know, largely his actions that enabled us to have a
17 Harvard fellow who has been working with us over the
18 course of the last year to put those savings initiatives
19 in place.

20 And so we certainly want to in this forum
21 recognize publicly his efforts in that regard and happy
22 to provide those detailed answers.

23 MAJORITY CHAIRMAN ADOLPH: Thank you.

24 Mr. Secretary, thank you so much for taking the
25 time to be with us today. We appreciate your

1 information. We understand that you're heading to
2 Pittsburgh later on today. I hope you have a safe trip.

3 BUDGET SECRETARY ALBRIGHT: Thank you.

4 MAJORITY CHAIRMAN ADOLPH: Just on a personal
5 note, I want to thank members of this Appropriations
6 Committee for working with us over the last three weeks.
7 We will have to get together and see if we can get this
8 over the finish line.

9 I think the distribution of basic education
10 funding is very important to a lot of us. I think
11 that's an issue that is going to be talked about in the
12 next couple weeks. I hope this comes to an end real
13 soon.

14 BUDGET SECRETARY ALBRIGHT: Mr. Chairman, if I
15 may, let me certainly echo -- Chairman Markosek began
16 the day certainly, you know, giving the very appropriate
17 recognition to you for all of your years of service.

18 I spent much more of my personal time serving,
19 as Dave and Miriam are, over in the Senate as a Budget
20 Analyst for the Senate Democratic Appropriations
21 Committee but have worked with you for many years. It's
22 been an absolute pleasure to serve with you. And I
23 certainly thank you for that service and wish you the
24 best.

25 MAJORITY CHAIRMAN ADOLPH: Thank you.

1 For the members' information, the Committee will
2 reconvene at 2 o'clock for members' statements.

3 Thank you.

4 BUDGET SECRETARY ALBRIGHT: Thank you.

5 (Whereupon, the hearing concluded.)
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I hereby certify that the proceedings and
evidence are contained fully and accurately in the notes
taken by me on the within proceedings and that this is a
correct transcript of the same.

Jean M. Davis
Notary Public