

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE
BUDGET HEARING

STATE CAPITOL
HARRISBURG, PA
MAIN CAPITOL BUILDING
140 MAJORITY CAUCUS ROOM

TUESDAY, FEBRUARY 18, 2020

DEPARTMENT OF REVENUE
AND
THE PENNSYLVANIA LOTTERY

BEFORE:

HONORABLE STAN SAYLOR, MAJORITY CHAIRMAN
HONORABLE MATT BRADFORD, MINORITY CHAIRMAN
HONORABLE ROSEMARY BROWN
HONORABLE LYNDA SCHLEGEL-CULVER
HONORABLE SHERYL M. DELOZIER
HONORABLE GEORGE DUNBAR
HONORABLE JONATHAN FRITZ
HONORABLE MATT GABLER
HONORABLE KEITH J. GREINER
HONORABLE SETH GROVE
HONORABLE MARCIA M. HAHN
HONORABLE DOYLE HEFFLEY
HONORABLE LEE JAMES
HONORABLE JOHN LAWRENCE
HONORABLE JASON ORTITAY
HONORABLE CLINT OWLETT
HONORABLE CHRIS QUINN
HONORABLE GREG ROTHMAN
HONORABLE JAMES STRUZZI
HONORABLE JESSE TOPPER
HONORABLE JEFF WHEELAND
HONORABLE RYAN WARNER
HONORABLE MARTINA WHITE
HONORABLE DONNA BULLOCK
HONORABLE MORGAN CEPHAS

*Pennsylvania House of Representatives
Commonwealth of Pennsylvania*

1 (Continued)

2 HONORABLE CAROLYN COMITTA
3 HONORABLE AUSTIN DAVIS
4 HONORABLE ELIZABETH FIEDLER
5 HONORABLE MARTY FLYNN
6 HONORABLE ED GAINNEY
7 HONORABLE PATTY KIM
8 HONORABLE STEPHEN KINSEY
9 HONORABLE LEANNE KRUEGER
10 HONORABLE STEPHEN MCCARTER
11 HONORABLE BENJAMIN SANCHEZ
12 HONORABLE PETER SCHWEYER

13 NON-COMMITTEE MEMBERS

14 HONORABLE MIKE PEIFER
15 HONORABLE GARY DAY
16 HONORABLE BRIAN SIMS
17 HONORABLE SCOTT CONKLIN
18 HONORABLE HARRY READSHAW
19 HONORABLE JAKE WHEATLEY
20 HONORABLE STEVE SAMUELSON

21 COMMITTEE STAFF PRESENT:

22 DAVID DONLEY
23 MAJORITY EXECUTIVE DIRECTOR
24 RITCHIE LAFEVER
25 MAJORITY DEPUTY EXECUTIVE DIRECTOR
ANN BALOGA
MINORIT EXECUTIVE DIRECTOR
TARA TREES
CHIEF COUNSEL

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*Pennsylvania House of Representatives
Commonwealth of Pennsylvania*

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I N D E X

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SUBMITTED WRITTEN TESTIMONY

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(See submitted written testimony and handouts
online.)

P R O C E E D I N G S

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MAJORITY CHAIRMAN SAYLOR: We're going to get started here. Okay. I want to start each week by doing the Pledge of Allegiance, so if everybody will rise, we'll the pledge to the flag.

(Pledge of Allegiance was recited.)

MAJORITY CHAIRMAN SAYLOR: So today marks the first day of three weeks of budget hearings. And the focus of the hearings, of course, is the Governor's budget proposal for the upcoming fiscal year. Once again, we're utilizing the five-minute clock, as you can see. Hopefully everybody can see the clock that we have.

During the question-and-answer period, each member of the Committee will have five minutes to ask and receive any answers to their questions. The clock will start with a green light, and at 30 seconds remaining, the yellow light will turn on, which will indicate it's time to wrap up your final thoughts. Then the light will turn red and your time has expired.

I will in certain instances give extended chances for the questioner or the, in

1 most cases, the person responding to the question
2 to finish up their answers. Chairman Bradford
3 and I will work together to try and coordinate
4 that as best we can, to be as fair as possible.
5 And then we will, if needed, we will plan to do a
6 second round, if needed.

7 During these hearings, we as the
8 Committee do expect testifiers who appear before
9 us to answer our questions when asked. And the
10 purpose of answering questions in this public
11 setting is so that the members of the Committee,
12 the audience, and the public watching at home can
13 hear the answers. I once again reserve the right
14 to call a testifier or the Budget Secretary to
15 reappear before the Committee, and each testifier
16 has the instruction to bring any and all
17 necessary staff to these hearings to ensure all
18 questions will be answered.

19 So before we begin today, I'd like to
20 have each member introduce themselves. We'll
21 start to my right.

22 MINORITY CHAIRMAN BRADFORD: Thank
23 you, Chairman.

24 I'm Matt Bradford, Democratic Chair,
25 Montgomery County, 70th District.

1 REPRESENTATIVE KIM: My name is Patty
2 Kim, State Representative for the 103rd District,
3 Dauphin County.

4 REPRESENTATIVE READSHAW: I am State
5 Representative Harry Readshaw, representing the
6 36th Legislative District in Allegheny County.

7 REPRESENTATIVE CONKLIN: Scott
8 Conklin, representing the 77th District, home of
9 Penn State University and Centre County.

10 REPRESENTATIVE KRUEGER: Leanne
11 Krueger, representing the 161st District in
12 Delaware County.

13 REPRESENTATIVE SIMS: Brian Sims, the
14 182nd District in Center City Philadelphia.

15 REPRESENTATIVE SCHWEYER: Peter
16 Schweyer, 22nd Legislative District, city of
17 Allentown, Lehigh County.

18 REPRESENTATIVE COMITTA: Good morning.
19 Carolyn Comitta representing the 156th in Chester
20 County.

21 REPRESENTATIVE MCCARTER:
22 Representative Steve McCarter, 154 District in
23 eastern Montgomery County.

24 REPRESENTATIVE DAVIS: Representative
25 Austin Davis, 35th District, Allegheny County.

1 REPRESENTATIVE GAINNEY: Representative
2 Ed Gainey, 24th Legislative District, city of
3 Pittsburgh.

4 REPRESENTATIVE SANCHEZ:
5 Representative Ben Sanchez from the 153rd
6 District in eastern Montgomery County.

7 REPRESENTATIVE BULLOCK: Good morning,
8 Representative Donna Bullock, parts of north and
9 west Philadelphia, 195th District.

10 REPRESENTATIVE FLYNN: Good morning,
11 everyone. Representative Marty Flynn, 113th
12 District, Lackawanna County.

13 REPRESENTATIVE FIEDLER:
14 Representative Elizabeth Fiedler, 184th District,
15 south Philadelphia.

16 REPRESENTATIVE DUNBAR: Representative
17 George Dunbar, Westmoreland County, 56th
18 District.

19 REPRESENTATIVE PEIFER: Good morning,
20 Mike Peifer. I represent the 139th District,
21 which includes portions of Pike and Wayne
22 Counties.

23 REPRESENTATIVE STRUZZI: Good morning.
24 Jim Struzzi, 62nd District, Indiana County.

25 REPRESENTATIVE JAMES: Good morning.

1 My name is Lee James. I represent all of Venango
2 County in the great northwest and a portion of
3 Butler County.

4 REPRESENTATIVE GREINER: Good morning,
5 everyone. Keith Greiner. The 43rd District,
6 which is eastern Lancaster County.

7 REPRESENTATIVE WHITE: Good morning.
8 State Representative Martina White from
9 Philadelphia County, far northeast. Thanks.

10 REPRESENTATIVE OWLETT: Representative
11 Clint Owlett. I serve the 60th District, which
12 is Tioga County and parts of Potter and Bradford
13 County.

14 REPRESENTATIVE TOPPER: Jesse Topper,
15 78th District, Bedford, Fulton, and Franklin
16 Counties.

17 REPRESENTATIVE ROTHMAN: Good morning,
18 Greg Rothman, the 87th District, Cumberland
19 County.

20 REPRESENTATIVE DELOZIER: Good
21 morning. Sheryl Delozier, the 88th District,
22 Cumberland County.

23 REPRESENTATIVE CULVER: Good morning.
24 Linda Culver, the 108th District, Northumberland
25 and Snyder Counties.

1 REPRESENTATIVE HAHN: Good morning.
2 Marcia Hahn, 138th District, Northampton County.

3 REPRESENTATIVE BROWN: Good morning.
4 Rosemary Brown, 189th District, Monroe and Pike
5 Counties.

6 REPRESENTATIVE WHEELAND: Jeff
7 Wheeland, 83rd District, comprising Williamsport,
8 the home of Little League Baseball.

9 REPRESENTATIVE ORTITAY: Jason
10 Ortitay, 46th District, Allegheny and Washington
11 Counties.

12 REPRESENTATIVE GABLER: Good morning.
13 Matt Gabler, 75th District, Elk and Clearfield
14 Counties.

15 REPRESENTATIVE LAWRENCE: Good
16 morning. John Lawrence, I serve southwestern
17 Chester County and a part of Lancaster County.

18 REPRESENTATIVE QUINN: Good morning.
19 Representative Chris Quinn, 168th Legislative
20 District, Delaware County.

21 REPRESENTATIVE GROVE: Seth Grove,
22 196th District, York County.

23 REPRESENTATIVE HEFFLEY: Doyle
24 Heffley, 122nd District, Carbon County.

25 REPRESENTATIVE WARNER: Representative

1 Ryan Warner, Fayette and Westmoreland Counties.

2 REPRESENTATIVE FRITZ: Morning.

3 Jonathan Fritz, 111th Legislative District,
4 comprising Wayne and Susquehanna Counties.

5 Thanks for being here.

6 MAJORITY CHAIRMAN SAYLOR: All righty.

7 Representative Gary day is with us also. Gary.

8 I'm Representative Stan Saylor from
9 York County and Chairman of the Appropriations
10 Committee. I also want to recognize Dave Donley,
11 who's our Executive Director to my left; and also
12 the Democratic Executive Director, Anne Bologa,
13 who is here as well. Sorry, Anne.

14 So with that, Mr. Secretary, if you
15 would introduce who is with you and then I'll
16 swear whoever is going to testify in.

17 SECRETARY HASSELL: Thank you.

18 Mr. Chairman. My name is Dan Hassell,
19 Secretary of Revenue. And with me to my right is
20 Drew Svitko, Executive Director of the State
21 Lottery. To my left is Amy Gill, Deputy
22 Secretary for Tax Policy, and Christin
23 Heidingsfelder, who is Deputy Secretary for
24 Administration.

25 MAJORITY CHAIRMAN SAYLOR: Very good.

1 Those that are going to testify, if you would
2 please rise and raise your right hand.

3 (Testifiers were sworn en masse.)

4 MAJORITY CHAIRMAN SAYLOR:

5 Mr. Secretary, I will let you make any quick
6 opening comments you would like, and then we'll
7 proceed to questions.

8 SECRETARY HASSELL: You have my
9 written testimony, Mr. Chairman, with some
10 details about the activities of the Department
11 over the last year and our plans for the future,
12 and so I won't belabor that point. We have been
13 hard at work over the last year putting in place
14 a modernization effort throughout the Department
15 with new technology, reorganization of our staff
16 and multiple efforts in order to make the
17 Department more efficient and more effective and
18 we plan to continue those efforts in the coming
19 year with your support.

20 So I turn it back over to you.

21 MAJORITY CHAIRMAN SAYLOR: Thank you.

22 The first person I'm going to recognize is
23 Representative Dunbar.

24 REPRESENTATIVE DUNBAR: Thank you,
25 Mr. Chairman. And welcome, Secretary.

1 I know this is the fifth time in six
2 years we're going to have this conversation. In
3 years past, I called it Groundhog Day because we
4 were always talking about the same thing,
5 combined reporting. And unfortunately, we're
6 going to go there again. But this year, it's not
7 so much Groundhog Day because it's a little bit
8 different. Every other year's projection for the
9 first fiscal -- for the first year, for that
10 first budget year, has had either a negative
11 revenue effect or no revenue effect.

12 This year, it seems that the Governor
13 is proposing additional revenue from combined
14 reporting, a proposal of \$238.8 million, which is
15 the exact same proposal as last year, where it
16 was minus \$7.2 million. And I guess when I look
17 at it, it was very confusing to me, and it's like
18 what's changed, what is different, why's the
19 proposal different, or are we just trying to
20 balance the budget with a plug number.

21 SECRETARY HASSELL: And I'm going to
22 ask Amy Gill to respond to that question.

23 DEPUTY SECRETARY GILL: Yes, thank
24 you. The difference this year is that we had
25 actual return data from tax year '18 of how

1 corporations responded to the Tax Cut and Jobs
2 Act. If you'll remember, that Federal act
3 broadened the base and lowered the rate at the
4 Federal level. At the State level, the effect
5 was a broader base.

6 So when we looked at the 2018
7 estimated payments, corporations that were
8 anticipating an increase in tax actually did pay
9 more in March and June than we had previously
10 thought would happen. The prior proposal assumed
11 that corporations would react first to the rate
12 cut and that is why you actually saw decreased
13 revenue in the first two months. After seeing
14 actual Federal return data and how PA
15 corporations reacted to that, we made the
16 assumption that companies that knew their taxes
17 would increase due to combined reporting would
18 begin to increased their estimated payments in
19 March and June of that year.

20 REPRESENTATIVE DUNBAR: So this is an
21 assumption we didn't make in '15-16. We didn't
22 make it in '17-18. We didn't make it in '18-19.
23 We didn't make it in '19-20, and we're going to
24 make the assumption that corporations are going
25 to remit dollars -- estimated tax payments to

1 safe harbor themselves; is that what you're
2 saying?

3 SECRETARY HASSELL: And that -- I
4 think a fair way to characterize that is that the
5 Department now has access to new better data
6 about actual behavior of corporations. The
7 previous estimates may have been a little too
8 cautious in terms of how the cash would arrive
9 under the new system, but now with better
10 information, we're able to make that change.

11 REPRESENTATIVE DUNBAR: And I would
12 suggest, have we looked at HB 1445, which is
13 Representative Daley's bill, which is the
14 combined reporting legislation that is out there.
15 I would assume that would be your vehicle.

16 And are you aware that on page 18 of
17 that bill, it exempts corporations from making
18 safe harbor payments?

19 SECRETARY HASSELL: I -- I'm not aware
20 of that.

21 REPRESENTATIVE DUNBAR: And I'm -- not
22 to step on Representative Daley's toes. And I do
23 have a great deal of respect, but it is very
24 specific that -- in that bill on page 18 that it
25 says that corporations that have to make

1 estimated payments don't have to make them until
2 the fourth quarter of the year, of the tax year.
3 So again, we would net zero based upon HB 1445.

4 SECRETARY HASSELL: Well, we should
5 look at that language.

6 REPRESENTATIVE DUNBAR: And I would
7 urge that to happen. And I'm not really sure,
8 Amy, how -- what percentage of returns did you
9 actually see to judge that all corporations would
10 start safe -- make safe harbor payments because I
11 know it can't be every one?

12 DEPUTY SECRETARY GILL: No, it wasn't
13 everybody. We looked at the actual 2018
14 estimated payments that came in through calendar
15 year '18, and then synced it up with the returns
16 that were filed in either May or November of
17 2019. I can get you the percentage. I don't
18 know offhand.

19 REPRESENTATIVE DUNBAR: I would
20 appreciate that.

21 DEPUTY SECRETARY GILL: Even if only a
22 small percentage of corporations reacted, if the
23 large companies send in earlier estimated --
24 send in the estimated payments to avoid having
25 one large payment due at the end of their year,

1 it would make a difference in the numbers. And
2 that's what we saw with the return data.

3 REPRESENTATIVE DUNBAR: And over the
4 years, we've had discussions about various
5 numbers, how different proposals are out --
6 different estimates have been out there for what
7 type of revenue would be generated by this. The
8 one that I always bring up, and since we'll be
9 talking with them this afternoon, is the IFO.
10 The IFO has always stated that it's between 8 to
11 12 percent of corporate net income taxes expected
12 return.

13 Have you -- which is far less than
14 what you're projecting. Have you had any
15 discussions with the IFO about this revenue
16 estimate?

17 SECRETARY HASSELL: The Department has
18 discussed those estimates with the IFO on
19 multiple occasions. And the short answer is that
20 the IFO, frankly -- and this is not a criticism,
21 but the way the system works is they do not have
22 access to actual tax return data and we do. The
23 estimates that we have used in this situation
24 have been drawn from a model that combines actual
25 returns from a combined reporting state matched

1 to actual returns filed in Pennsylvania to see
2 what the difference in the tax rate is -- excuse
3 me, a difference in the tax base.

4 And with all due respect to them, they
5 don't have access to that data. So the model
6 that is used to estimate the change in the tax
7 base has not changed.

8 REPRESENTATIVE DUNBAR: And --

9 SECRETARY HASSELL: The only thing
10 you're seeing that's different now is assumptions
11 about how cash receipts in the initial periods
12 would -- would be affected.

13 REPRESENTATIVE DUNBAR: And I
14 appreciate your answers. And I know we are out
15 of time, but I did want to caution that I
16 understand these are estimates. I understand
17 these are estimates. And I came from
18 construction, where our whole life was based upon
19 estimates and we realized if we screw up one
20 estimate, we could be pushing ourselves off a
21 fiscal cliff. I urge you to double check, triple
22 check, quadruple check.

23 we're balancing our budget upon this
24 assumption and it's a huge number. So I would
25 really appreciate to see the numbers that you

1 have that you came to that conclusion so we don't
2 fall off a fiscal cliff ourselves. Thank you.

3 SECRETARY HASSELL: Thank you.

4 MAJORITY CHAIRMAN SAYLOR:

5 Representative Gabler.

6 REPRESENTATIVE GABLER: Thank you very
7 much, Mr. Chairman. And thank you, Mr.
8 Secretary. Just one follow-up to Representative
9 Dunbar's discussion.

10 You mentioned that you're not familiar
11 with the currently existing proposal, the
12 specifics of HB 1445. Since the Governor's
13 budget is predicated upon combined reporting,
14 when will we see some language from the
15 administration on what the administration's
16 language would look like on combined reporting?

17 SECRETARY HASSELL: My statement was
18 that I'm not familiar with the specific line that
19 was referred to here because I, frankly, don't
20 carry around a 40-page bill in my head, but we
21 will certainly take a look at that and just make
22 sure that the language does exactly what it's
23 supposed to do.

24 REPRESENTATIVE GABLER: Appreciate
25 that, Mr. Secretary.

1 I wanted to switch gears here a little
2 bit because I think that certainly the
3 conversation that we need to have this morning is
4 looking at the policy proposals contained in the
5 Governor's budget and the revenue assumptions
6 that come out of those and make sure that they're
7 based on reality as opposed to maybe trying to
8 chase after a spending desire.

9 So I wanted to look at the minimum
10 wage proposal. I know that minimum wage is a
11 policy discussion, that the merits of it can be
12 discussed in other forms, but specifically the
13 revenue assumption that the administration is
14 making based on that is something I'd like to
15 discuss. And for a little bit of context, I
16 understand that staff had initiated a
17 conversation immediately following the Governor's
18 budget address, an e-mail was sent February 5th,
19 the day after. As of February 10th, the response
20 from the administration said that the Department
21 is still reviewing materials and will get back to
22 you as soon as practically possible.

23 And the question was, what is the
24 breakdown of the administration's estimate for
25 the revenues that we would see from the different

1 components of taxes based on the minimum wage
2 proposal, how much of that would come from sales
3 tax, how much of that would come from PIT, and
4 also, what impact would it have on the CNI?

5 DEPUTY SECRETARY GILL: Yes. So in
6 the first year, the total increase would be \$133
7 million; \$54 million of that is from the personal
8 income tax, and \$79 million of that is from the
9 sales and use tax impact.

10 REPRESENTATIVE GABLER: Thank you very
11 much.

12 So do those estimates account for the
13 fact that employers would see a difference in
14 their taxable income? When you increase wages,
15 that causes a decrease in an employer's taxable
16 income. So whether that's a pass-through entity,
17 that would be an impact on the PIT. If it's a
18 corporation, then it would be on the CNI.

19 Is that accounted for in those
20 estimates?

21 DEPUTY SECRETARY GILL: Yes, it is.
22 We looked at the impact of both business income
23 and the increased wages and netted that against
24 each other. We're still working on providing a
25 breakdown to you, but that impact is included.

1 we're simply trying to tease out each part of it.

2 REPRESENTATIVE GABLER: Okay. So does
3 that mean that there's an assumption that
4 businesses would essentially just increase prices
5 to make up the difference, rather than seeing a
6 decrease in revenues?

7 DEPUTY SECRETARY GILL: No, we don't
8 have that in there. The sales tax increase comes
9 from increased wages. So when you give a million
10 people a pay raise increase, they will then have
11 increased purchasing power and be able to
12 purchase more taxable goods.

13 REPRESENTATIVE GABLER: Okay. I am a
14 little bit confused how there can be a number,
15 but not a breakdown. So I would appreciate that
16 follow-up information because that's a little bit
17 concerning to me. I still think that when we're
18 looking at this, we see a Governor's proposal
19 that comes out, that has obviously a bunch of
20 aspirational spending ideas, and then we have
21 these policy changes. And it seems that there's
22 a little bit of massaging that was done to make
23 the numbers match the spending as opposed to what
24 the economic reality would be. Because the other
25 thing that we discussed last year with the IFO,

1 and we can get into this maybe with them as well,
2 is historically the analysis from the IFO has
3 always told us that there would be a reduction in
4 the number of available jobs in the Commonwealth
5 based on a policy change like this.

6 Has there been any analysis done on
7 what the IFO is saying, as far as a projection of
8 an immediate increase, in this case from our
9 current rate to \$12 an hour, would -- I believe
10 last year, the estimate was 33,000 jobs would be
11 lost.

12 what would that impact be on our PIT
13 in the State?

14 DEPUTY SECRETARY GILL: Well, we're
15 not anticipating job losses. Many studies show
16 that there are no job losses associated with the
17 minimum wage. There was a recent article in
18 The New York times that compared job growth in
19 New York compared to job growth in Pennsylvania,
20 especially along the border. New York has
21 consistently raised its minimum wage over the
22 last few years.

23 what the study found is there was no
24 significant change in job growth, either in
25 Pennsylvania or New York, as part of the minimum

1 wage.

2 REPRESENTATIVE GABLER: All right. I
3 appreciate the projections that you're making.
4 I'd be looking forward to seeing some of the
5 further back-up information behind the
6 discussions. I look forward to seeing those
7 numbers and the breakdowns, and I appreciate the
8 opportunity to start the conversation.

9 Thank you very much.

10 MAJORITY CHAIRMAN SAYLOR:

11 Mr. Secretary, I'm going to follow up in that.
12 The biggest problem this Committee has in drawing
13 up a budget is a lot of talk, but very few
14 details on any of these kinds of things. And for
15 you to disagree with where the IFO is on a number
16 of these numbers without seeing the exact draft
17 and the statistics that you're citing, it does
18 not give this Committee a lot of assurance that
19 those dollars are there. We really need to see
20 those details.

21 So we would hope that we will see the
22 Governor's proposal on the CNI combined reporting
23 and the statistics on minimum wage, as well,
24 because there are multiple reports out there that
25 conflict with what you're saying today. So we

1 need to see the studies. We need to see the
2 conflicts that you -- where you're getting your
3 numbers from so we can better evaluate those
4 kinds of things. All right.

5 Representative --

6 SECRETARY HASSELL: Mr. Chairman, we
7 will provide to you all of the information that
8 we have on those subjects.

9 MAJORITY CHAIRMAN SAYLOR: Thank you.
10 Representative Bradford.

11 REPRESENTATIVE BRADFORD: If I can, I
12 might tell my fellow chair that I would look at
13 some of the discussion in the Senate where they
14 passed the minimum wage increase. I think the
15 Senate did a good job of putting a thoughtful
16 consideration --

17 MAJORITY CHAIRMAN SAYLOR: The Senate
18 is not the House Appropriations Committee, and we
19 do our own homework over here. So I would remind
20 the Chairman of the Democratic Appropriations
21 Committee that we do our own research to make
22 sure the information is accurate and correct.

23 So with that, I will proceed to
24 Representative Bullock.

25 REPRESENTATIVE BULLOCK: Thank you,

1 Chairman.

2 Good morning. I'm over here. Good
3 morning.

4 So I have two sets of questions, which
5 I'll ask up front and then allow you to answer
6 them. My first set of questions, you're probably
7 familiar with. I ask them every year in regards
8 to our workforce diversity and what it looks
9 like. I recall last year I believe you reported
10 about 21 percent of your workforce being minority
11 male and minority female.

12 Can you explain any increases or
13 decreases in that amount and why, and what
14 efforts you are taking to diversify your work
15 force?

16 And also, in that line of questioning,
17 what percentage of your workforce are minority
18 that are in management, executive, or supervisory
19 roles?

20 Second set of questioning is around
21 our tax credit policies. We use tax credits as a
22 to policy to promote ideals and priorities. And
23 often through these tax credits or other tax
24 increases, we can allow for certain programs and
25 activities here in the State. But any time there

1 is tax fraud or abuse, it hurts our working
2 families who end up paying their unfair share of
3 the load. A recent grand jury investigation
4 revealed a fraud or an abuse of the tax credit
5 programs and I would like to know what is the
6 Department doing to address the recommendations
7 of the IFO report, as well as this grand jury
8 investigation to reduce the chance of fraud in
9 the future, to improve the tax credit program,
10 and to, you know, address any inefficiencies to
11 save taxpayer dollars.

12 what are you doing and what would you
13 recommend the legislature do to improve the
14 system, as well?

15 SECRETARY HASSELL: Okay. I'm going
16 to ask Christin Heidingsfelder to respond to the
17 first part.

18 DEPUTY SECRETARY HEIDINGSFELDER:
19 Thank you for the question regarding our
20 diversity efforts. The Department is very proud
21 of our improvements in this area. We continue to
22 be solid in our work force diversity with respect
23 to representation higher than the Commonwealth
24 totals as an agency. The State Government
25 workforce Statistics Report published in July of

1 2019 shows Revenue at 23.5 percent minorities,
2 with the Commonwealth total at 15.4 percent.
3 With regard to females, Revenue is at 50 percent,
4 and the Commonwealth is a 41.2 percent. In
5 addition to diversity in total, the Department of
6 Revenue is committed to providing equal
7 opportunities for our employees to advance within
8 the Department.

9 Our annual equal opportunity plan,
10 which is submitted to the OA each March continues
11 to show our minority representation at the rank
12 and file and executive levels significantly
13 higher than EEO job market availability
14 percentages. In the 2019 EEO report, we were
15 underrepresented for minorities in this first
16 line supervisor positions. We implemented
17 several programs to provide opportunities for
18 employees to enhance their qualifications.

19 We're happy to report that this year,
20 we're greater than the availability percentages
21 in the first line level supervisory positions.
22 In the management category, we continue to
23 improve each year. However, we're still
24 underrepresented with respect to minorities.
25 We'll continue to provide growth opportunities so

1 our employees will be more qualified to move into
2 supervisory and management roles. Some examples
3 of some things that we did in -- between last
4 year and this year to show the improvement, we
5 have participated heavily in the Governor's Lean
6 movement. And that encourages rank and file and
7 first level supervisory employees to look at
8 their business processes, suggest improvements to
9 those processes, and implement those
10 improvements. So that has given those rank and
11 file and first level employees some great
12 experience in running projects and giving them
13 experience that qualifies them for higher
14 positions.

15 We also, in our temporary tax season
16 employees, we have rank and file employees take
17 on supervisory roles over the tax season temps,
18 and that gives them some experience as
19 supervisors that better qualifies them for
20 supervisory positions later. We have frontline
21 focus groups, where our deputies meet directly
22 with representatives from the frontline team and
23 that gives them some experience in interacting
24 with the executive staff and really -- they also
25 then represent the executive office when they go

1 back to their frontline counterparts and give an
2 update on what was discussed in the meetings. So
3 it gives them some experience in running
4 meetings.

5 We have a very good mentoring program
6 in the Department of Revenue that also helps to
7 better qualify our employees for moving up, and
8 we've worked on our leadership development
9 program in the last year and we're going to
10 continue improving that, as well in the coming
11 year.

12 SECRETARY HASSELL: The second part of
13 the question was about the tax credit fraud grand
14 jury report. This is something that -- this is a
15 circumstance that our staff discovered in the
16 course of routine review of tax credit
17 applications in the fall of 2017, so more than
18 two years ago. At that time, we formed a task
19 force in order to look closely into that
20 situation and develop the facts. And then we
21 turned all of that information over to the
22 Attorney General's Office, and they took it to a
23 grand jury. And subsequently, that credit report
24 that you referred to was released, along with
25 indictments for the individuals responsible.

1 And your question was what has the
2 Department done about it. We've done multiple
3 things that we're able to do within our
4 administrative authority. In -- one major step
5 was to get away from paper applications for
6 research and development tax credits in
7 particular, asking all of the applicant to fill
8 out an application online, which allows us to get
9 their information more quickly and begin an
10 analysis of the data as soon as possible.

11 We have trained our staff and
12 dedicated some of our audit and analyst resources
13 to reviewing those applications as they come in
14 every year in order to filter out any fraudulent
15 activity. However, there are limits to what we
16 can do. And some of the grand jury
17 recommendations suggested legislation in this
18 area in order to strengthen the system and
19 prevent fraud in the future. And some of those
20 recommendations were to give the Department more
21 time to review the applications so that we can be
22 sure that people are who they say they are, to
23 license and train the credit brokers who are the
24 interface often between credit applicants and the
25 Department, to make sure that if they have

1 information indicating that an application is
2 fraudulent, that they would raise that to our
3 attention, and some other applications. There
4 were a total of six recommendations in the
5 report.

6 So I hope that's responsive to your
7 question.

8 REPRESENTATIVE BULLOCK: Yes, it is.
9 Thank you very much.

10 Thank you, Mr. Chairman.

11 REPRESENTATIVE DUNBAR: Thank you,
12 Representative.

13 Next will be Representative White.

14 REPRESENTATIVE WHITE: Thank you,
15 Chairman. I just had a couple of quick
16 questions. The current General Fund revenues are
17 actually above estimate by \$158.5 million through
18 January. And both you and the IFO are
19 anticipating the revenue surplus to grow by June
20 30th.

21 which tax collections are doing well
22 and why? And which tax collections are not
23 performing well and why?

24 SECRETARY HASSELL: The corporate
25 taxes, in general, have been coming in somewhat

1 low this year, below estimate, still slightly
2 above the prior year, but the estimate was
3 somewhat higher. However, that's more than made
4 up for by strong collections in sales tax and in
5 personal income tax. And so as we go into the
6 tax season now this spring and April so that
7 we're hoping that that somewhat above-estimate
8 trend continues and we can hit the budget
9 estimates that are in the Governor's budget.

10 REPRESENTATIVE WHITE: Okay. Are
11 there any particular ones that are not performing
12 well?

13 SECRETARY HASSELL: I mentioned the
14 corporate tax.

15 REPRESENTATIVE WHITE: Just that one?

16 SECRETARY HASSELL: That would be the
17 main thing.

18 Amy, do you want to add anything to
19 that?

20 DEPUTY SECRETARY GILL: No. Most of
21 it is the corporate net income tax.

22 REPRESENTATIVE WHITE: Okay. Your
23 2019-2020 revised revenue estimate is \$41.3
24 million lower than the IFO's revised estimate.
25 And your 2020-2021 budget revenue estimate is

1 also lower than the IFO estimate by \$169 million
2 when comparing it on a current tax law basis.
3 This results in a \$210.3 million less than the
4 IFO over the two-year period. More than half of
5 this difference is attributed solely to the
6 estimated collections from insurance premium tax
7 and financial institutions taxes.

8 what is the reason that you are
9 forecasting insurance premium tax collections to
10 decline by 5.3 percent in '19-20, followed by
11 another decline of 9.5 percent in 202-21?

12 SECRETARY HASSELL: Amy.

13 DEPUTY SECRETARY GILL: We're looking,
14 I believe, at industry trends and also actual tax
15 return data. I believe we also have built in a
16 few credit effects.

17 REPRESENTATIVE WHITE: Could you
18 elaborate on the credit effects?

19 DEPUTY SECRETARY GILL: There's an
20 Innovate PA credit that is currently being used.
21 I believe that would be affecting some of this.
22 The other area that we're lower is CNIT. So
23 generally, for corporate tax, we seem to be lower
24 than the IFO.

25 REPRESENTATIVE WHITE: well, in

1 regards to the financial institutions taxes
2 collections, what is the reason for the decline
3 of the 2.2 percent in '19-20 followed by that
4 mild increase of 2.9 percent in '20-21?

5 DEPUTY SECRETARY GILL: I think I'll
6 have to get back to you on that.

7 REPRESENTATIVE WHITE: Okay.

8 DEPUTY SECRETARY GILL: It's one of
9 the smaller taxes, and I don't have that off the
10 top of my head.

11 REPRESENTATIVE WHITE: Fair enough. I
12 just wanted to get some clarity on that because
13 there's, you know, a significant decline and then
14 there's a tiny increase there on the other tax.
15 So I appreciate -- I appreciate it.

16 Thank you.

17 REPRESENTATIVE DUNBAR: Thank you,
18 Representative.

19 Next will be Representative Kim.

20 REPRESENTATIVE KIM: Hey, Secretary.
21 Thank you for being here.

22 And Miss Gill, I appreciate your talk
23 and your responses on an increase in minimum
24 wage. I'm glad to see the Governor has put it
25 back in the budget. He has several priorities

1 for this budget, and I think that a higher
2 minimum wage would hit pretty much all of the
3 targets, the goals, investing in our children,
4 building the nation's strongest workforce to
5 keeping Pennsylvania safe and protecting our most
6 vulnerable.

7 we're talking about projections. I
8 mean, that's what a budget is, is projections.
9 So can you tell me how you came about the \$233
10 million? I know that you answered Mr. Dunbar's
11 question, but when it comes to the breakdown of
12 PIT and the sales tax, what formula did you use?
13 Were you conservative? How did you get -- I just
14 want to break it down even more, in terms of how
15 you got those numbers.

16 DEPUTY SECRETARY GILL: We began by
17 used publicly available data, which would be the
18 2017 American Communities Survey, the 2016
19 Economic Annual Survey, the Consumer Expenditure
20 Survey from the Bureau of Labor Statistics, and
21 we used a study from the Congressional Budget
22 Office on the effects of employment and family
23 income.

24 So the first thing we looked at is
25 which workers are currently making less than the

1 minimum wage. We excluded individuals who are
2 unemployed, self-employed or working without pay,
3 or are under 16 years old. We also excluded
4 workers making less than current minimum wage,
5 who do not work in the tip sectors. So for the
6 first impact, we used the hourly wage estimated,
7 using weeks worked, usual hours per week, and
8 wage and salary earned in the last 12 months.

9 We assumed that workers making less
10 than the proposed wage will have the hourly wage
11 increased to the proposed level. There will be
12 no other changes for other workers. The increase
13 in the wage results in increased PIT remittances
14 and reduced tax forgiveness. So for this part of
15 the personal income tax, using the micro data, we
16 simulated how much their income would increase,
17 how much increased PIT we would get from that,
18 and also the effect of tax forgiveness.

19 Increasing the minimum wage has a
20 savings in that it does push people out of tax
21 forgiveness and into paying personal income tax
22 because their wages have gone above the low level
23 for tax forgiveness. We also looked at what
24 percentage of workers are employed by small
25 businesses, and we assumed that that wage

1 increase would effect the business owners. To
2 use the sales and use tax impact, we took
3 personal records. We matched them with the
4 household records. We then distributed the
5 population across the income bands.

6 The Bureau of Labor Statistics' data
7 indicated what proportion of household income is
8 spent on taxable goods by income level. So we
9 had to estimate of a household's income, how much
10 do they spend on taxable goods. So when they're
11 assumed to have increased income, that also be
12 flow through and increase their sales tax
13 remittances.

14 And finally, while we're not
15 anticipating any employment losses, and most
16 studies show that there are no losses, either
17 insignificant, to be conservative, we did use the
18 Congressional Budget Office data and simulated a
19 small effect of a job loss. It's very
20 insignificant compared to the over a million
21 people who will have their wages increased.

22 REPRESENTATIVE KIM: So thank you for
23 that answer. And in the Governor's proposal, the
24 minimum wage would increase every year until it
25 hits \$15.00 an hour.

1 So the revenue would be more than \$133
2 million in the years after; is that correct.

3 DEPUTY SECRETARY GILL: Yes. By the
4 final year, we estimated that it would be over
5 \$300 million in additional revenue.

6 REPRESENTATIVE KIM: Miss Gill, did
7 you do any calculations -- the Senate passed a
8 bill that would raise the minimum wage to \$9.50
9 an hour in two years. Did you calculate how much
10 revenue that would -- if not, if I could get the
11 number, I'd like to see the difference, you know,
12 if we do pass that in the House.

13 Do you have that -- the calculations
14 of how much the revenue of \$9.50 would be in
15 Pennsylvania?

16 DEPUTY SECRETARY GILL: We could
17 provide those for you.

18 REPRESENTATIVE KIM: Okay. Great.
19 Thank you so much.

20 So you know, the \$133 million, it
21 doesn't sound like you picked this number out of
22 the air. It was calculated pretty carefully with
23 all of your research, and I appreciate your due
24 diligence. Thank you.

25 Thank you, Mr. Chairman.

1 REPRESENTATIVE DUNBAR: Thank you,
2 Representative.

3 Next will be Representative Greiner.

4 REPRESENTATIVE GREINER: Thank you,
5 Mr. Chairman. Thank you, Mr. Secretary for being
6 here.

7 I want to switch gears, get away from
8 the tax issue directly and get more into an issue
9 that could affect a lot of Pennsylvanians, and
10 that has to do with the recent letter ruling that
11 had come out on January the 31st, stating that if
12 a member in a professional association -- in a
13 professional association receives taxable,
14 tangible property or taxable services in exchange
15 for the membership fee, then the membership fee
16 is subject to a sales and use tax.

17 Now, it is brought to my attention --
18 my understanding was that it had been posted on
19 your -- publicly on your website, but then later
20 the link was taken down and it is no longer
21 available. And I guess I have a series of
22 questions here about this.

23 why had the letter ruling been posted
24 on the Department's website and then removed at a
25 later date? And what is the current status of

1 the letter ruling?

2 what is the Department's
3 interpretation of the taxability of membership
4 fees, because this is where this could affect a
5 lot of Pennsylvanians, taxable or not taxable?
6 what type of membership fees are we talking
7 about?

8 Are we -- a lot of people have gym
9 memberships, book clubs, AARP, AAA. There's a
10 lot -- you know, we all belong -- and sometimes
11 we get something in return, social clubs,
12 veterans clubs. And I guess I -- you know, is
13 there going to be a difference between
14 organizations that hold themselves out as not for
15 profit or for profit, and I guess I just need to
16 understand whether, you know, something was up
17 that's been taken down.

18 Can you give me some insight as far as
19 how this is going to be handled moving forward?

20 SECRETARY HASSELL: Yes. So first of
21 all, let me address what this document is. A
22 letter ruling results from a taxpayer writing to
23 our Office of Chief Counsel and asking for advice
24 on a particular issue and providing the facts of
25 their specific situation. And there is --

1 there's a standard format that a letter ruling is
2 issued with that cites our regulation. The
3 letter ruling, by definition, addresses that one
4 taxpayer and their specific facts and no one
5 else. The regulation says that a letter ruling
6 is good, is usable by that taxpayer for a period
7 of five years and then it lapses. So there are
8 some parameters within which these things happen.

9 The tax practitioners frequently ask
10 us to make sure that redacted copies of letter
11 rulings are posted on our website, and we try to
12 do that. There are many out there. Not -- and
13 again, it's not that they apply to anyone else,
14 but I'm sure that practitioners like to see the
15 Department's thinking on a particular issue.

16 In this particular case, this was
17 addressing a situation where a taxpayer, an
18 association, was selling tangible personal
19 property and providing a benefit, both to members
20 and to non-members, and selling what are
21 essentially books, which clearly are subject to
22 sales tax. And the advice of the letter ruling
23 was to say that if you're selling property that's
24 subject to sales tax, you ought to break it out
25 from your membership fee because if you don't,

1 the standard rule in sales tax is that bundling
2 things together that are taxable and non-taxable
3 result in the whole bill being taxable. And I'm
4 sure that's not what they wanted. So the -- as
5 you mentioned, there have been a number of
6 questions about this. There have been
7 practitioners contacting us, concerned and
8 wanting to talk about it.

9 I asked our staff to take the letter
10 ruling off the website until we had a chance to
11 meet with those groups and talk it through to
12 make sure that we've addressed the questions that
13 have been raised. But mostly, what I want to
14 emphasize is that membership fees, as a general
15 matter, are of course not subject to any sales
16 tax. That's not the issue here, but there are
17 circumstances where groups are selling property
18 that are subject to sales tax and they need to
19 think about what to do about that.

20 So I think going forward, as I said,
21 we're going to meet with some of the groups who
22 have asked questions about this, and that may
23 result in some better guidance released by the
24 Department to inform associations about how this
25 should work and, you know, the -- meanwhile,

1 while those discussions are ongoing and we're
2 understanding better what the questions are, then
3 the document has been removed from our website.

4 REPRESENTATIVE GREINER: Thank you.
5 So it looks like it will be on a specific, you
6 know, specific to specific, depending on the
7 organization.

8 Mr. Chairman, I will have a follow-up
9 question the second round.

10 REPRESENTATIVE DUNBAR: Okay.

11 REPRESENTATIVE GREINER: Thank you.

12 REPRESENTATIVE DUNBAR: We'll add you
13 on. Thank you, Representative.

14 Next will be Representative Gainey.

15 REPRESENTATIVE GAINNEY: Good morning.
16 How you doing? Over this way. How's everybody
17 this morning?

18 I wanted to ask a question. Has there
19 been an increase and a decrease in the amount of
20 senior citizens that's eligible for property or
21 rent rebates?

22 SECRETARY HASSELL: The numbers of
23 applications for rebates, I think in the last
24 year, are down somewhat, down something. I
25 believe the number is four or five thousand less

1 than the prior year. And that often happens as
2 senior citizens' income is increasing gradually
3 over time. So you could think of it as bracket
4 creep, sort of pushing people out of the program.

5 Overall, as long as the -- as long as
6 the income parameters for the program remain
7 fixed, then probably those numbers will continue
8 to decline.

9 REPRESENTATIVE GAINNEY: Is there
10 anything as a legislative body that we can do to
11 ensure that more seniors are getting into it?
12 Understanding that as their income increases,
13 they're over the cap, is there something that we
14 as a body of legislators, we can do to ensure the
15 cap -- to ensure that as their income increases a
16 little, our cap also increases.

17 SECRETARY HASSELL: Well, first of
18 all, I know that many members are active in their
19 offices reaching out to seniors and helping
20 seniors to get their applications filed and
21 providing a lot of assistance, which we greatly
22 appreciate because all of you do more outreach
23 than we're able to do in order to get to the
24 senior population and make sure that they all get
25 the rebate that they're entitled to, but beyond

1 that, it might require a change in the statute to
2 increase those income limits if that's the desire
3 of the General Assembly.

4 REPRESENTATIVE GAINNEY: So we would
5 have to change the statute in order to ensure
6 that more seniors are in the program.

7 SECRETARY HASSELL: Yes.

8 REPRESENTATIVE GAINNEY: Thank you.

9 REPRESENTATIVE DUNBAR: Thank you,
10 Representative.

11 Next will be Representative Wheeland.

12 REPRESENTATIVE WHEELAND: Thank you,
13 Mr. Chairman. And thank you, Mr. Secretary, for
14 your testimony.

15 Your very last page where -- in your
16 testimony where you're talking about competition
17 to the Pennsylvania Lottery, for me it was very
18 disconcerting here. You don't mention anything
19 about the 40 to 50,000 illegal video poker
20 machines that are presently in the Commonwealth.

21 Was there a reason that you left them
22 out? You do not feel that they're competition,
23 illegal video poker machines are not competition
24 to the lottery; is that why that was left out?

25 EXECUTIVE DIRECTOR SVITKO: Right. So

1 we're concerned about all competition. I think
2 what we were referring to there is the legal
3 competition and other things that are
4 currently --

5 REPRESENTATIVE wheeland: Well, wait a
6 minute, though. You just -- in your testimony,
7 you claim that these Pennsylvania skill games are
8 illegal gambling, but yet now you're saying that
9 you recognize them as legal.

10 EXECUTIVE DIRECTOR SVITKO: Nope, not
11 what I'm saying. So we do see the skill games as
12 illegal. We agree with the State Police's ruling
13 on that. And those skill machines are absolutely
14 having an effect on the lottery. In fact, so
15 over the last year, we've almost doubled the
16 impact estimate. So right now, we have -- over
17 25 percent of Pennsylvania Lottery retailers have
18 at least one of those skill machines, costing us
19 over \$200 million in scratch-off sales every
20 year. A year ago, that estimate was about half
21 of that. It was a little over \$110 million.

22 REPRESENTATIVE wheeland: Okay. Who
23 was your -- excuse me, but who was -- I only have
24 five minutes.

25 who was your researchers? You claim

1 that there's researchers that conducted that
2 study for you.

3 EXECUTIVE DIRECTOR SVITKO: Right. So
4 we have --

5 REPRESENTATIVE wheeland: Is that
6 in-house?

7 EXECUTIVE DIRECTOR SVITKO: Yeah, it's
8 our gaming system supplier, but the data is
9 collected -- a lot of the data is collected by
10 our sales reps out in if field. So we've been,
11 since September of 2017, going into stores --
12 into our retailers, Pennsylvania Lottery
13 retailers and recording the presence of those
14 machines. And so we've been able to link the
15 presence or appearance of those machines with a
16 decrease in Pennsylvania lottery scratch-off
17 sales and extrapolate that to an annual estimate
18 of more than \$200 million.

19 REPRESENTATIVE wheeland: Okay. I
20 would be very interested in seeing the data on
21 that.

22 Are you familiar with Peter Zaleski,
23 Head of Economics at Villanova, and his research
24 that is 180 degrees from your researchers?

25 EXECUTIVE DIRECTOR SVITKO: No, I'm

1 not familiar with that.

2 REPRESENTATIVE wheeland: Maybe we
3 should share notes. Let's -- oh, and also,
4 additionally, are you aware or do you recognize
5 the fact that the Pennsylvania skill games pay --
6 the last 12 calendar months, they've paid \$3.1
7 million in remitted sales tax? Do you recognize
8 that?

9 EXECUTIVE DIRECTOR SVITKO: So all I'm
10 tasked with is -- at the Lottery, we are tasked
11 with generating money for the Lottery Fund to
12 benefit older Pennsylvanians --

13 REPRESENTATIVE wheeland: Understood.
14 But then, do you also recognize, or would you
15 recognize, that the 40 to 50, 60,000 estimated
16 illegal poker machines have remitted zero revenue
17 to the Commonwealth?

18 EXECUTIVE DIRECTOR SVITKO: To my
19 knowledge, that's -- that's correct. We're not
20 getting any tax revenue from those illegal
21 machines.

22 REPRESENTATIVE wheeland: Okay. Let's
23 switch to the contract. Currently -- the lottery
24 has in the past contracted with Scientific Games.
25 You are currently under a contract that was

1 signed on December 19th, 2008, which was a
2 five-year contract renewable for one-year
3 increments. This is now, what, year 13 and we
4 still have no contract with them.

5 could you explain the issues involved
6 in that?

7 EXECUTIVE DIRECTOR SVITKO: Well, we
8 do have a contract. We're working right now on
9 an extension of that contract as we work
10 through --

11 REPRESENTATIVE wheeland: The 2008
12 contract.

13 EXECUTIVE DIRECTOR SVITKO: Right.
14 Which was a 10-year contract --

15 REPRESENTATIVE wheeland: which takes
16 us to 2018.

17 EXECUTIVE DIRECTOR SVITKO: Right.
18 And so in 2015, we launched an RFP process. We
19 started our RFP process to -- for a new gaming
20 system supplier or for a new gaming system -- and
21 since then, have been engaged in launching an RFP
22 and the RFP process, since then.

23 REPRESENTATIVE wheeland: So for three
24 years, you're working towards an RFP.

25 what is the cost of that RFP to the

1 lottery system to date?

2 EXECUTIVE DIRECTOR SVITKO: So we
3 don't run the RFP. The Department of General
4 Services is running the RFP, but we --
5 obviously, we serve as the subject matter experts
6 on that committee.

7 REPRESENTATIVE WHEELAND: Did you get
8 a bill from them?

9 EXECUTIVE DIRECTOR SVITKO: No. We
10 don't -- we don't pay for that service.

11 REPRESENTATIVE WHEELAND: Who does?

12 EXECUTIVE DIRECTOR SVITKO: So I think
13 that's part of the Department of General
14 Service's budget. I presume -- again, we don't
15 run that -- the RFP.

16 REPRESENTATIVE WHEELAND: Thank you
17 very much, Mr. Chairman.

18 MAJORITY CHAIRMAN SAYLOR:
19 Representative Krueger.

20 REPRESENTATIVE KRUEGER: Thank you,
21 Mr. Chairman. Thank you, everyone, for joining
22 us here today. I really appreciate your time,
23 especially since you're the first panel to come
24 before us over the course of three weeks of
25 hearings.

1 I, like some of my colleagues, also
2 want to ask some questions about taxes, and in
3 particular, tax fairness. We want to support
4 Pennsylvania families. And one of the ways we
5 can do that is to make sure that everybody is
6 paying their fair share of taxes, which means
7 that our tax system has to be as balanced as
8 possible. The Governor has proposed a business
9 tax cut this year that will level the playing
10 field for businesses, in particular for
11 Pennsylvania-based businesses, who I think we
12 should support as much as we can because they are
13 our local job creators.

14 Can you talk about how the Governor's
15 combined tax reporting proposal would improve tax
16 fairness here in Pennsylvania?

17 SECRETARY HASSELL: Thank you. Yes.
18 As you indicated, the Governor's proposal to
19 reform this CNI is designed to level the playing
20 field for Pennsylvania businesses that are
21 subject to that tax. Our current system is one
22 that does precisely what the experts tell us
23 should not be done, which is to impose a high
24 rate on a narrow base. And the Governor's
25 proposal is to broaden the base and to

1 significantly lower the rate over a series of
2 steps, getting us down to 5.99 percent over a
3 period of years. That would put us in line with
4 most other States that impose a corporate net
5 income tax. The majority of other States that
6 tax businesses this way do so on a combined base.
7 And the primary impact of those kinds of changes
8 is that the smaller Pennsylvania-based businesses
9 that don't generally have the opportunity to take
10 advantage of sophisticated tax planning will
11 benefit from the lower rate while the larger
12 businesses that may be planning their tax down to
13 zero will begin to pay something.

14 And that adds to the fairness of the
15 system and also puts us at a place where the 9.99
16 percent rate is not an impediment to businesses
17 looking to locate a facility. So we wouldn't
18 have that sticker shock effect of the very high
19 rate.

20 REPRESENTATIVE KRUEGER: And I
21 appreciate the work that the Governor is doing to
22 lower the rate for our small businesses.

23 Follow-up question. Any time we make
24 a change like this, there are winners and losers.
25 Can you give us some information about who would

1 be paying a lower tax than they are now versus a
2 higher tax? And is there any impact across
3 industry? Are there any industries that would
4 benefit from this or be paying higher taxes than
5 they are now?

6 DEPUTY SECRETARY GILL: We looked at
7 that on a revenue neutral rate. And when that is
8 implemented, only five percent of corporations
9 would see their liabilities increase. And of
10 course as the rate goes down, that would also go
11 down. Small Pennsylvania -- smaller
12 Pennsylvania-based businesses would benefit
13 completely from the rate cut and would see an
14 immediate benefit.

15 The majority of corporations would
16 still owe zero under both. As far as industries,
17 I'm not sure of an industry-wide difference. The
18 most -- the largest effect is seen in that
19 smaller PA-based businesses see a benefit from
20 the rate cut, where larger out-of-state
21 corporations would see their liabilities
22 increase. Many of them because they go from
23 paying zero to actually then paying some
24 corporate net income tax.

25 REPRESENTATIVE KRUEGER: Thank you.

1 And as a member of this Committee for
2 four years now, every budget hearing, I ask what
3 we're doing to support the Pennsylvania-based
4 businesses that are headquartered here, whose
5 profits are reinvested locally, who employ local
6 Pennsylvanians. This is one of the best
7 proposals we've seen so far to really lower their
8 tax rate and level the playing field. So I
9 appreciate you joining us here today.

10 SECRETARY HASSELL: Thank you.

11 MAJORITY CHAIRMAN SAYLOR:

12 Representative Brown.

13 REPRESENTATIVE BROWN: Thank you,
14 Mr. Chairman. And thank you, Mr. Secretary.
15 Good morning. Thank you all for being here.

16 As a Representative for the Pocono
17 Mountains, very, very strong area of travel,
18 tourism. Act 109 required online booking agents,
19 Travelocity, Airbnb, Expedia, several of them --
20 I feel bad I'm not giving everyone the
21 advertising they deserve -- but must, you know,
22 they collect and remit both state and local
23 taxes, and that's based on the accommodation that
24 is charged for the room or sleeping
25 accommodations. So they are then remitted and

1 then put into the Tourism Promotion Fund.

2 Do you have any idea at this point
3 what has been collected to date, and what we
4 anticipate to be collected for 2019-20, and then
5 for '20-21, as well?

6 And then, as a follow-up to that, what
7 is the Department doing and the procedure to
8 ensure that those taxes are being collected? And
9 also, if an individual is using Airbnb, how do
10 they have the confidence that those taxes are
11 being collected and they are following the rule
12 of law, so to speak?

13 DEPUTY SECRETARY GILL: So I'll have
14 to get the official number, but I believe we're
15 on track to collect around \$5 million this year
16 for the Tourism Fund. And I will get you a more
17 precise number.

18 As far as compliance goes, we have
19 been working with the industry, helping them to
20 register to get set up, to understand the
21 responsibilities. We put out extensive guidance
22 on our website and also had phone calls and
23 meetings with taxpayers that had questions. As
24 far as the billing goes, it should be apparent on
25 the bill that they are paying the State and local

1 taxes.

2 I haven't looked at a bill in a while,
3 but I believe Airbnb, you can see it if you go
4 into book. And of course, like any other
5 taxpayer, they would be open to audit or review,
6 a desk review, if we felt that there was a
7 compliance issue.

8 REPRESENTATIVE BROWN: So to me it
9 seems still that it's a little bit not strong
10 enough for the follow-up on ensuring that these
11 are being collected and, you know, remitted.
12 Those schedule of audits or that system that you
13 just mentioned, do you have any sort of schedule
14 that you are currently implementing to -- it
15 seems like there's a lot of work still here to be
16 done, based on the response?

17 DEPUTY SECRETARY GILL: Well, we
18 believe we have most of the large taxpayers
19 registered and they are remitting. They are
20 collecting and remitting. So we're not sure if
21 there is a compliance issue or not with these
22 taxpayers. They are registered. They are
23 remitting. And it would just be like any other
24 taxpayer if they would fall into a review cycle.

25 REPRESENTATIVE BROWN: Okay. I'm

1 still -- I still would like even more information
2 on that if you can follow up with the Committee.
3 I think it needs to be a little bit more
4 detailed.

5 But as far as the individual utilizing
6 an Airbnb, you're saying it would show up on the
7 bill and they would have that confidence that it
8 was being collected if they were using Airbnb for
9 their home, they would be able to see this?

10 DEPUTY SECRETARY GILL: I believe if
11 you rent from Airbnb, it's on the bill. I would
12 have to go back to my last vacation and take a
13 look, but I think it is on there.

14 REPRESENTATIVE BROWN: Okay. I'd like
15 to be sure. I know there's a lot of utilization
16 happening within Pennsylvania, but especially up
17 in the Pocono Mountains and I think this is some
18 detailed information we may need.

19 Thank you.

20 MAJORITY CHAIRMAN SAYLOR:
21 Representative McCarter.

22 REPRESENTATIVE MCCARTER: Thank you
23 very much, Mr. Chairman. And again, thank you
24 for being here today.

25 I'd like to ask a couple of questions

1 related to tax credits as outlined in the budget.
2 And if we could go specifically, first of all, to
3 the shell cracker plant tax credit. And as I
4 understand it, the tax credit or the expenditure,
5 I should say, tax expenditure for the
6 Commonwealth for the coming year, would be \$17.1
7 million in '20-21, and thereafter \$49.6 million
8 in '21-22, and \$65 million each year thereafter
9 until 2042; is that accurate?

10 DEPUTY SECRETARY GILL: I believe so.
11 I'd have to look in the budget, but that sounds
12 right.

13 REPRESENTATIVE MCCARTER: Okay. That
14 comes, therefore, over \$1 billion -- well over
15 \$1 billion between now and 2042, the loss of
16 revenue basically to the State as a result of
17 those tax credits.

18 Could you also comment then on
19 HB 1100 -- which is passed in the House and the
20 Senate, at the present moment, and theoretically,
21 going to the Governor soon -- what the impact on
22 taxation would be for that process going forward,
23 if that does become law?

24 SECRETARY HASSELL: Yes. So HB 1100
25 sets up a tax credit that I believe subsidizes

1 the production of fertilizer and ammonia with 47
2 cents per thousand cubic feet of natural gas
3 that's used in a manufacturing plant. And of
4 course, at this point, we don't know how many
5 companies would want to take advantage of such a
6 credit, nor how big those plants would be. So
7 it's difficult to know. In our fiscal analysis,
8 we used some information about what a typical
9 plant of that nature, how big such a typical
10 plant would be, and estimated \$22 million in tax
11 credits annually for the plant. And --

12 REPRESENTATIVE MCCARTER: I'm sorry.
13 Is that for one plant?

14 SECRETARY HASSELL: Yes.

15 REPRESENTATIVE MCCARTER: For one?

16 SECRETARY HASSELL: Correct, yes.

17 In the legislation, as I understand
18 it, there is no cap, there's no limitation on how
19 much of these credits could be used. And because
20 the credits would be salable, they can go to
21 other taxpayers and reduce other revenues, other
22 taxpayers who are paying their taxes. So it does
23 cause a concern about the fiscal impact of the
24 plan going forward, lasting for 30 years with a
25 very large subsidy for an unclear gain, frankly,

1 with a number of jobs created that would be
2 relatively limited.

3 REPRESENTATIVE MCCARTER: So the
4 minimum amount, though, from describing a \$22
5 million a year for six years, that would be over
6 \$600 million?

7 SECRETARY HASSELL: That's correct.

8 REPRESENTATIVE MCCARTER: That would
9 be for just one facility?

10 SECRETARY HASSELL: Yes, that's
11 correct.

12 REPRESENTATIVE MCCARTER: So if there
13 were multiple facilities, you could multiply that
14 by \$600 million; is that correct?

15 SECRETARY HASSELL: That's correct,
16 yes.

17 REPRESENTATIVE MCCARTER: Okay. If I
18 could follow up on one other area, too, quickly,
19 if I still have time. The area dealing with the
20 winners and losers out of the combined reporting,
21 and as just stated, I think it was that there
22 would be roughly 95 percent of all businesses in
23 Pennsylvania would stay neutral or basically have
24 lower taxation, and only 5 percent.

25 within that 5 percent, can you comment

1 as to the petro-chemical industries as to how
2 they would gain or lose as a result of this
3 change in combined reporting?

4 DEPUTY SECRETARY GILL: No, I'm not
5 sure we can do that.

6 REPRESENTATIVE MCCARTER: Okay. You
7 don't keep data on that area or --

8 DEPUTY SECRETARY GILL: I can look and
9 get back to you on that.

10 REPRESENTATIVE MCCARTER: Okay. Thank
11 you very much. I appreciate that.

12 Thank you.

13 MAJORITY CHAIRMAN SAYLOR:
14 Representative Struzzi.

15 REPRESENTATIVE STRUZZI: Thank you,
16 Mr. Chairman. Good morning.

17 SECRETARY HASSELL: Good morning.

18 REPRESENTATIVE STRUZZI: When the
19 Governor presented his budget on February 4th, I
20 believe he said quite adamantly that there were
21 no new taxes in this year's budget, yet in the
22 same breath, we talk again about Restore PA,
23 which is in essence a new tax, a severance tax on
24 the natural gas industry. Basically, to take
25 money from the severance tax, roughly about \$360

1 million, leverage that for new debt service to
2 the tune of about \$4.5 billion to fund Restore
3 PA, which is a magic elixir to be the cure-all to
4 all of our issues that we have in Pennsylvania.

5 I don't think anybody disputes that we
6 have infrastructure needs, transportation needs,
7 et cetera. But my question is, looking at the
8 numbers that were submitted, I believe, the
9 severance tax is expected to generate about \$700
10 million annually, with \$360 million going to the
11 debt service. Where then, or what is the plan
12 for the additional \$340 million that would
13 supposedly be generated by the severance tax?

14 SECRETARY HASSELL: Well, let me say a
15 couple of things. As I understand it, the
16 Restore PA proposal is technically not part of
17 the budget, but it is the Governor's proposal.
18 And this severance tax, because of -- because of
19 the way that the commodities markets fluctuate,
20 are going to be -- are going to be somewhat
21 volatile. But the proposal is crafted so that
22 not all of the funds that are generated by the
23 severance tax are needed to service the debt.
24 That's a cautious approach to that.

25 And if your question is, where does

1 the rest of the money go, I'm not in charge of
2 the spending side, and would refer you to the
3 Budget Secretary.

4 REPRESENTATIVE STRUZZI: Okay. Well,
5 thank you. We'll save that question then for
6 them when we have the opportunity.

7 Just as a quick follow-up though, you
8 know, I've -- I'm from Indian County. We hear,
9 you know, how the natural gas industry right now
10 is struggling. Say by chance, we do move forward
11 with this severance tax and Restore PA occurs and
12 we take on that \$4.5 billion in debt and then
13 because of the severance tax or other factors, we
14 lose our natural gas industry to other States or
15 businesses close. Who then is responsible for
16 that \$360 million annual to pay for that debt
17 service?

18 SECRETARY HASSELL: I would suggest,
19 respectfully, that we look at the success that
20 other States have had in this area. One example
21 is the State of Texas that creates -- collects
22 billions of dollars in severance tax from its
23 homegrown industries, both in oil and gas. And I
24 saw recently where the Texas producers of oil and
25 gas had put out a press release touting the fact

1 that they had provided billions of dollars that
2 were used for Texas schools and infrastructure.
3 It seems to me that, given the way that States do
4 impose these kinds of taxes and it -- the world
5 has not ended, that some of those concerns are
6 probably overblown.

7 REPRESENTATIVE STRUZZI: Okay. I
8 think we can have a debate on energy another day,
9 but I don't believe the State of Texas has an
10 impact fee, which we also have. So that would be
11 the difference, I think. But thank you for your
12 testimony.

13 That's all I have for now.

14 MAJORITY CHAIRMAN SAYLOR:
15 Representative Cephas.

16 REPRESENTATIVE CEPHAS: Thank you,
17 Chairman. And thank you for joining us to kick
18 off, as my colleague said, three weeks of
19 hearings for our budget.

20 My first line of questioning is in
21 reference to your collection rates. Can you talk
22 briefly about your collection and compliance
23 rates for each of the taxes that we levy here in
24 Pennsylvania? And also, talk about some -- if
25 you have new and best practices in investing in

1 technology to expand that collection.

2 SECRETARY HASSELL: So your question
3 about collection rates is -- goes to how much of
4 the available tax revenue is actually collected?

5 REPRESENTATIVE CEPHAS: Yes.

6 SECRETARY HASSELL: I'm not sure that
7 we have estimates of that. Clearly, not every
8 dollar of tax that's technically owed under the
9 statute is collected. And we -- we do our best
10 to make best use of the resources available to us
11 in order to maximize our ability to collect that
12 revenue, but I'm sure that there is -- there's
13 still a significant amount of the tax gap, if you
14 will, tax that's technically owed and not
15 collected, but I don't know numbers to give you.

16 REPRESENTATIVE CEPHAS: So is there a
17 strategy with your Department to look further
18 into that and to see what type of innovation
19 again, what type of best practices around the
20 country we can look at to increase that
21 collection? Because when we talk about tax
22 fairness, when taxes aren't collected from one
23 portion of a tax, it then is adding pressure to
24 the other segment, the other population to
25 essentially cover what that gap is.

1 So if you can look into that and send
2 the Committee some information as to, again, what
3 investments we are making to increase our
4 collection, that would be great.

5 SECRETARY HASSELL: Sure. So a couple
6 of thoughts on that score is that the Department
7 has made some significant strides in the last few
8 years in order to reorganize our staff and to
9 make better use of the people and the resources
10 that are available to us. We have just, this
11 month, completed a reorganization that, in one
12 part, makes changes in our field staff in order
13 to avoid having staff who are dedicated to a
14 particular tax type, and instead have people who
15 are available to be cross-trained and handle all
16 of the different types of taxes that the
17 Commonwealth handles.

18 We have done that throughout the
19 Department of Revenue. Typically, all of our
20 Bureaus have been organized around a particular
21 tax type. There has been a Bureau of Corporation
22 Taxes and a Bureau of Business Trust Fund Taxes a
23 Bureau of Motor Fuels. Those -- those
24 organizational changes have been put in place so
25 that now we have people who are able to do the

1 same jobs across multiple types of taxes and
2 specialize in a particular area. And again, the
3 idea is that those changes will -- will make our
4 staff more efficient and more effective at what
5 they do.

6 Another change that's happened
7 recently is legislation that's passed recently,
8 that gave the Department some new tools to
9 require collection. It was a bill that limited
10 the collection period for overdue taxes to 10
11 years, but in order to make that work, gave the
12 Department some collection tools to extend the
13 criminal statute of limitations by an additional
14 year, and to put in place what we referred to as
15 FIDM -- it's Financial Institution Data Match --
16 to allow us to locate the bank accounts of
17 debtors to the Commonwealth so that we're able to
18 do a bank attachment where appropriate, to
19 enforce collection sooner rather than later.

20 So those are some things that we've
21 been working on to improve our collections.

22 REPRESENTATIVE CEPHAS: Great. And I
23 appreciate that. Again, it's critical for us to
24 look at best practices and innovative ways to
25 collect more on our taxes that are owed to the

1 Commonwealth because, again, when we are not
2 collecting, we potentially are shifting the
3 burden on other residents. So I appreciate that.

4 Thank you.

5 SECRETARY HASSELL: Thank you.

6 MAJORITY CHAIRMAN SAYLOR:

7 Representative Owlett.

8 REPRESENTATIVE OWLETT: Over here.

9 I'm going to continue on the
10 collection theme here. A number of us have heard
11 of some positive sales tax audits and some maybe
12 not so positive experiences for our small
13 businesses. How do you pick who to audit in the
14 Commonwealth?

15 SECRETARY HASSELL: The Audit Bureau
16 uses a set of data analysis tools to identify and
17 score cases that might be suitable for an audit.
18 And it's difficult to summarize exactly how that
19 works, but they are looking to identify good
20 cases here it's possible that there is some tax
21 avoidance, so that we're not wasting anybody's
22 time. That is the -- the main goal is to make
23 sure that if we're going to do an audit, that we
24 do it efficiently and gather the data that we
25 need. And then, you know, get out of their

1 business as quickly as possible.

2 REPRESENTATIVE OWLETT: So how many,
3 over the last three years, how many sales tax
4 audits have you guys done?

5 SECRETARY HASSELL: That number -- I
6 don't know the exact figure, but it's on the
7 order of 2500 sales tax audits per year.

8 REPRESENTATIVE OWLETT: And could we
9 get the figure of how much has been brought in in
10 additional revenue?

11 Does that go to just the Department's
12 fund, or like where does the money go when
13 additional funds are received from those audits?

14 SECRETARY HASSELL: The money goes
15 where the tax revenue would normally go. So if
16 we're talking about sales tax, it would go in the
17 General Fund. And if they're doing a motor fuels
18 audit, then that goes in the Motor License Fund.
19 Right. In terms of total dollars, I know that we
20 do track the amount of revenue that our auditors
21 assess in those audits. And last year, that
22 number exceeded \$500 million in assessments.

23 REPRESENTATIVE OWLETT: Okay. Would
24 it be able -- would you be able to provide us
25 with maybe a county by county breakdown of where

1 some of these audits across the Commonwealth have
2 been taking place? We don't need to know names
3 of the businesses, but it would be great to be
4 able to see on a map maybe where, this past year,
5 where these audits were and how many in each
6 county.

7 would that be something you could
8 provide the Committee?

9 SECRETARY HASSELL: Within the limits
10 of confidentiality, I'm sure we can provide
11 something. Let us look at that.

12 REPRESENTATIVE OWLETT: Yeah, we don't
13 need to know names. I totally get that.

14 SECRETARY HASSELL: Right.

15 REPRESENTATIVE OWLETT: I want to talk
16 a little bit about the tax-exempt piece of the
17 audits for farmers, non-profits. Where's the
18 burden of proof of when a product is liable for
19 sales tax or not? Is that on the consumer or is
20 that on the retailer?

21 SECRETARY HASSELL: The retailer is
22 expected to, in general, know what's taxable and
23 what's not and how to collect the State sales
24 tax. In the circumstance you mentioned about
25 tax-exempt transactions, typically, what has

1 happened is an exempt organization will have an
2 exemption certificate --

3 REPRESENTATIVE OWLETT: Right.

4 SECRETARY HASSELL: -- and they
5 present that to the retailer. And the retailer
6 should have some idea, at least, of whether it's
7 reasonable that they could be using the item
8 that's being purchased in an exempt purpose.

9 REPRESENTATIVE OWLETT: Right.

10 SECRETARY HASSELL: But that would be,
11 typically, how these things work. The retailer,
12 in general, should understand what the tax base
13 is.

14 REPRESENTATIVE OWLETT: So in the
15 midst of an audit then, if something -- if a tax
16 was not collected, who's responsible for that
17 tax? would it be -- in a tax-exempt situation
18 where it may be a gray area.

19 SECRETARY HASSELL: I guess it depends
20 on the circumstances, but if the audit is of
21 their retailer, and there's some question about
22 whether the retailer has applied the tax
23 appropriately, then the retailer may be assessed
24 for tax that should have been collected and was
25 not.

1 REPRESENTATIVE OWLETT: So would it --
2 would we ever go for looking at the person who's
3 purchasing the product? Do you ever audit those
4 individuals, or is it strictly just the
5 retailers?

6 SECRETARY HASSELL: That does happen.
7 It's a little -- it's less frequent, simply
8 because for a -- for an individual, the dollars
9 at stake are likely to be very small.

10 REPRESENTATIVE OWLETT: Right.

11 SECRETARY HASSELL: So it's not an
12 efficient way to do it, but yes, we try to look
13 at both sides of that equation.

14 REPRESENTATIVE OWLETT: We've just had
15 some issues and some situations come up where
16 ATVs, for example, may be used for farming
17 purposes, and coming back and trying to say, no,
18 they're not. So those are some of the gray areas
19 that we could use some clarity on, and our small
20 businesses are asking for. They just want to
21 know.

22 Thank you. Appreciate it.

23 SECRETARY HASSELL: All right.

24 MAJORITY CHAIRMAN SAYLOR:

25 Representative Sanchez.

1 REPRESENTATIVE SANCHEZ: Thank you,
2 Mr. Chairman. Thank you to the Secretaries and
3 Deputy Secretaries for being here today. I'm
4 back here in the -- kind of in a corner here.

5 You touched upon the strategic
6 reorganization and some of the collections in a
7 more holistic way, at least as far as it related
8 to the collections, cross-training the Revenue
9 agents so that they know about different tax
10 collection in different areas.

11 Can you give us a sense of what that
12 looks like to the taxpayer or the representative
13 of the taxpayer, like a practitioner, like a
14 certified public accountant or an attorney, what
15 that looks like as far as is it, you start with a
16 secure portal and you see all of the taxes in the
17 tax situation or, you know, do you -- is it a
18 telephone system and then you get to a Revenue
19 agent or face-to-face contact? Just kind of walk
20 us through that if that information is available.

21 SECRETARY HASSELL: Sure. It probably
22 depends on the circumstance, but many questions
23 start with our Customer Experience Center, which
24 is the new combined call center for the
25 Department. Previously, we had separate call

1 centers for -- one for incoming calls to provide
2 customer service and a separate system, a
3 separate office that would handle outgoing calls
4 for collection purposes. As part of our
5 reorganization, we have combined those call
6 centers.

7 And it -- the purpose there is largely
8 to provide flexibility, so that we have one
9 manager who is able to, as people are
10 cross-trained across the different areas, to be
11 able to shift resources when the incoming call
12 volume is high, you can put more people on those
13 incoming calls and provide the service that's
14 necessary. And when that activity is lower, then
15 that's not necessary.

16 So that's been a major step forward.
17 And we think that this year, this tax season and
18 rebate season, we're hoping that that will be
19 visible in terms of the much better customer
20 service that we're able to provide. And I'm
21 sorry -- the rest of your question had to do with
22 professionals, accountants and attorneys who
23 might be contacting the Department. One of the
24 things that we have also done recently is to
25 create a scheduled call-back facility, so that a

1 tax professional doesn't need to sit on the phone
2 waiting for 20 minutes or whatever it is to get
3 through to speak to an agent. They're able to go
4 on our website and schedule a call-back with
5 someone from the call center to say, you know,
6 please call me at 3:00 or whatever it is about an
7 issue. And that's much more efficient for them
8 and for us. So just this year, we have rolled
9 that out to all of the tax professionals
10 involved.

11 REPRESENTATIVE SANCHEZ: That's great.
12 Thank you very much.

13 REPRESENTATIVE DUNBAR: Thank you,
14 Representative.

15 Next will be Representative Lawrence.

16 REPRESENTATIVE LAWRENCE: Thank you,
17 Mr. Chairman. And thank you for being here
18 today, everyone.

19 Recent news reports have drawn
20 attention to a large and very important
21 Pennsylvania Lottery contract currently out for
22 bid. The RFP proposes a 10-year contract with an
23 option for two two-year extensions, includes
24 scratch off tickets, machines, kiosks, daily
25 number drawings, and significant reporting

1 lottery technology. An ABC-27 report quoted a
2 Department of General Services spokesman, stating
3 that the 10-year contract will likely generate
4 \$45 billion in sales and \$9 billion in profits.

5 Press reports indicate two companies
6 are competing for the contract, Scientific Gaming
7 and IGT. Scientific Gaming has a long
8 relationship with the Pennsylvania Lottery, but
9 press reports indicate the company is over \$8
10 billion in debt. Its liabilities are nearly
11 quadruple its market value.

12 IGT is based in Brittain with
13 ownership controlled by an Italian investor
14 group. According to a recent Boston Globe
15 article, IGT has 1100 employees in their Rhode
16 Island U.S. offices with 330 employees making
17 over \$150,000 per year. The 20-year no bid
18 contract between IGT and the Rhode Island Lottery
19 has raised concerns from both sides of the aisle
20 in that State and has been called a backroom,
21 ill-advised, sweetheart deal.

22 A PennLive article indicates that the
23 contract we're talking about here in Pennsylvania
24 could be worth \$800 million to the winning
25 bidder. That's a lot of money. With this kind

1 of money at stake, it's no surprise that the
2 Auditor General has announced that he will be
3 looking at this deal. I'm sure the management at
4 the Lottery has been sharpening their pencils,
5 but the Lottery has spent significant resources
6 with outside consultants regarding this deal. A
7 \$859,000 contract went to a New Jersey-based
8 gambling consultant and nearly half a million
9 dollars to a San Francisco-based consulting firm.
10 This \$1.3 million came directly out of the
11 Lottery Fund, which is supposed to be going to
12 provide services for needy Pennsylvania seniors.

13 My first question is this, the Office
14 of General Counsel has attorneys on staff who can
15 provide guidance on procurement and contracts.
16 Did the lottery look to these State-paid
17 resources before spending over a million dollars
18 on outside consultants from New Jersey and San
19 Francisco?

20 EXECUTIVE DIRECTOR SVITKO: Yes. So
21 again, as I mentioned earlier, we don't run the
22 procurement, but I know that we've exhausted all
23 internal resources, and we always do, before
24 turning to consultants. But there are
25 consultants in the industry, outside of the

1 industry, that specialize in these huge, really
2 complex secure systems, right. So they
3 specialize in the procurement. So we had one
4 contract -- and I failed to mention this earlier
5 when -- and I apologize -- but we had one
6 contract with a company that helped us gather the
7 requirements. So internally, working within the
8 Lottery and our staff to figure out what we want
9 to ask for, and that was very early in the
10 process.

11 It's important to remember that this
12 contract is humongous. And as a matter of fact,
13 it's the biggest technology -- my understanding
14 -- it's the biggest technology contract the
15 Commonwealth has. It's a big complex system. So
16 we had one consultant to come in to help us with
17 requirements gathering and then another that
18 specializes in big government procurements. And
19 while we collectively, the Commonwealth, have
20 experience in running our procurements, it's good
21 to have consultants come in from outside to help
22 us, again, given the scale and the importance of
23 these contracts, help us make sure that they are
24 fair for all bidders.

25 REPRESENTATIVE LAWRENCE: So given the

1 discussion in the press about the significant
2 legal and fiscal challenges facing both apparent
3 bidders for this contract, what assurances can
4 you provide this Committee and the people of
5 Pennsylvania that the bid process for this
6 contract, with it's possible \$800 million payday
7 for the winning bidder, will be free from the
8 types of controversy and lawsuits that we've seen
9 in other States and in other instances here in
10 Pennsylvania?

11 EXECUTIVE DIRECTOR SVITKO: So that's
12 a -- the procurement will be run, or is being
13 run, again, by the Department of General
14 Services, but is being run by -- in accordance
15 with the law, the procurement laws that govern
16 these kind of things. The reason we brought
17 those consultants on board was to help us to the
18 best of our ability make sure that these
19 procurements were fair to all bidders and
20 ultimately would result in the best deal for the
21 Commonwealth.

22 REPRESENTATIVE LAWRENCE: So let me
23 ask you this question, right. Ten years is a
24 long time for a contract, especially given the
25 dynamic nature of technology changing and gaming

1 laws. I mean, 10 years ago, Apple hadn't even
2 introduced the iPad. Things change quickly.

3 Should the State really be entering
4 into a 10-year contract for the Lottery? Doesn't
5 it make more sense to evaluate these large,
6 complex, and very valuable contracts more
7 frequently?

8 EXECUTIVE DIRECTOR SVITKO: These --
9 it's a fair question. These contracts and the
10 systems that come as a result of them are
11 incredibly complex. And the implementation
12 process, the process by which we change from our
13 previous system to the next system is incredibly
14 disruptive and, therefore, has a lot of risk to
15 us and to retailers and, ultimately, our
16 beneficiaries, older Pennsylvanians. And so the
17 length of the contract is, I would argue, in
18 direct proportion to the complexity of it, and
19 the cost and risk of those transitions whenever
20 we have to go through them.

21 REPRESENTATIVE LAWRENCE: Thank you.
22 Thank you, Mr. Chairman.

23 MAJORITY CHAIRMAN SAYLOR: All right.
24 Representative Topper.

25 REPRESENTATIVE TOPPER: Good morning,

1 Mr. Secretary. Panelists, over here to your
2 right.

3 First of all, I want to comment, your
4 answer to Representative Struzzi earlier. I'm
5 very, very happy that the Department, and perhaps
6 the administration, is looking to Texas for our
7 fiscal and tax policy. I'm all for that, and I
8 think that's a great idea.

9 For the tobacco taxes, recently, we
10 passed a law that made the age 21, that you could
11 purchase tobacco products, the government also
12 followed suit, as well, in December. And
13 originally, when we were looking at that
14 legislation, it was estimated from the Department
15 a decline in tax revenues of about \$44.5 million,
16 about a 4 -- a little bit over a 4-percent
17 decline in '20-21, but the budget estimate looks
18 like a little bit over 10-percent reduction in
19 revenue, about a little bit over \$93 million.

20 Can you provide us with why there was
21 the discrepancy between when the bill was being
22 looked at and the current budget estimates?

23 DEPUTY SECRETARY GILL: Well, a couple
24 of things happened. As you noted, after our bill
25 passed, the Federal government, in December, very

1 quickly increased the age to 21. And the bill
2 that was passed here did have some exemptions for
3 military under 21. The Federal law does not.

4 As far as the difference in estimates,
5 I'm going to need to get back to you. I suspect
6 it has to do with the timing of each bill. I
7 believe the State bill would have taken effect in
8 July. The Federal bill took place pretty much
9 immediately. We got a lot -- yes, we got a lot
10 of phone calls in December from retailers who
11 were trying to figure out what to do, and we had
12 to tell them it was a Federal law. You know, we
13 tried to help as we could. So I'm going to have
14 to get back to you on the specifics of the two
15 estimates.

16 REPRESENTATIVE TOPPER: Okay. Because
17 that's a fairly significant difference between
18 the two. I've always been someone who believes
19 that, you know, you go back to the well too often
20 and the well can go dry. And we've always liked
21 to hit cigarette taxes in this Commonwealth as
22 kind of an easy way to tax and tax, but I think
23 looking at your projections, you're looking at
24 declining approximately 9 percent a year, which
25 is -- I mean, that really will significantly

1 reduce the amount of taxes that we take.

2 Do you agree that -- I mean, on this
3 trend, eventually, the cigarette tax will be
4 almost de minimis in terms of what we are able to
5 get. I mean, that's predicting basically one in
6 three smokers will no longer be smoking in
7 '24-25. Do you see that projection occurring, or
8 do you think this is going to be a -- it's going
9 to be 9 percent for a few years and then level
10 out?

11 SECRETARY HASSELL: The cigarette tax
12 revenue has been, at a constant tax rate, has
13 been declining for many years. And you're right
14 that that -- that that rate is accelerating. And
15 just from the fiscal perspective, we do need to
16 pay attention to that declining tax base.

17 REPRESENTATIVE TOPPER: Okay. Thank
18 you, Mr. Chairman.

19 MAJORITY CHAIRMAN SAYLOR:
20 Representatives James.

21 REPRESENTATIVE JAMES: I'm over here
22 to your right. Good morning. Thank you,
23 Mr. Chairman. Ladies and gentlemen, thank you.

24 You began to actually answer my
25 question, even before I asked it a short time

1 ago. So let me return to a different management
2 prerogative, please, and that of personnel. You
3 -- well, actually, there are two programs afoot,
4 one called Reorganization Plan and Focus on Lean,
5 the other called the Modernization Project, which
6 those are excellent terms. They suggest
7 downsizing as an order, or at least rightsizing,
8 and cross-training of staff would be one of our
9 tools.

10 My question goes like this, if those
11 two programs were implemented, or implemented
12 over a year ago, according to your own numbers
13 here, we've actually increased your staff by 29
14 positions at some cost to the taxpayer and so
15 forth. So going forward, even though you are
16 under your authorized staffing, do you anticipate
17 continuing to add warm bodies to your complement,
18 or do you see downsizing as the way to go?

19 SECRETARY HASSELL: If you're
20 referring to the authorized complement numbers,
21 that number looks higher because we converted
22 some wage positions to salaried positions, but
23 that -- there would be no net change, however, in
24 the authorized number of people who are employed.
25 Overall, the Department's complement is down

1 significantly from where it has been some years
2 ago. And one of the purposes of going down this
3 road, as I've been describing the modernization
4 and the reorganization of the Department as
5 precisely to be ready, expecting that over time
6 probably that trend will continue and we need to
7 be as efficient as we can be in order to be ready
8 for that day.

9 REPRESENTATIVE JAMES: Okay. Thank
10 you very much. I yield the rest of my time.

11 MAJORITY CHAIRMAN SAYLOR:
12 Representative Grove.

13 REPRESENTATIVE GROVE: I appreciate
14 your time, Lee.

15 Mr. Secretary, good to see you. Good
16 morning.

17 First, to piggy-back on personnel
18 costs, your State funds within your budget
19 presentation shows 11.93-percent increase in
20 personnel costs and State funds.

21 Is that contractual -- contractually
22 driven?

23 SECRETARY HASSELL: Are you able to
24 answer this, Christin?

25 DEPUTY SECRETARY HEIDINGSFELDER: Yes,

1 it's a combination of two things. One, our
2 filled complement at the budget request was much
3 higher than the filled complement at the time of
4 the re-budget for the current year. So it's not
5 a change in the number of authorized positions.
6 It's just that we have more positions filled as
7 well as contractual increases and benefit
8 increases.

9 REPRESENTATIVE GROVE: What are your
10 continued growth for contract year after year for
11 the next -- well, how long was the contract? Was
12 it a three-year contract that the Governor signed
13 with union employees?

14 DEPUTY SECRETARY HEIDINGSFELDER: I'd
15 have to get back to you. It's either three or
16 four years.

17 REPRESENTATIVE GROVE: Are we going to
18 see 11-percent growth in that line item moving
19 forward? Is it going to be less, because
20 11-percent growth is a very high number?

21 DEPUTY SECRETARY HEIDINGSFELDER: I
22 don't know. I'd have to get back to you on that.
23 I don't know.

24 REPRESENTATIVE GROVE: Okay.

25 SECRETARY HASSELL: To the extent that

1 it's driven by temporary changes and actually
2 filling positions that are currently vacant, then
3 I wouldn't expect that number to continue --

4 REPRESENTATIVE GROVE: But we still
5 have the contract, correct?

6 SECRETARY HASSELL: Yes, that's
7 correct.

8 REPRESENTATIVE GROVE: That increases
9 every year. I mean, for anything 11-percent
10 growth when we have, you know, 3 to 4-percent
11 revenue growth is far exceeding our ability to
12 pay --

13 SECRETARY HASSELL: I understand.

14 REPRESENTATIVE GROVE: -- you know,
15 apply that over, I mean, personnel costs.

16 Fixed costs, 153-percent increase,
17 \$528,000 to \$1.3 million. What's that?

18 DEPUTY SECRETARY HEIDINGSFELDER: Can
19 we go back to the 11-percent growth?

20 REPRESENTATIVE GROVE: Yeah.

21 DEPUTY SECRETARY HEIDINGSFELDER: I
22 show that our GGO personnel budget increased by 7
23 percent, not 11 percent. So maybe we can
24 exchange numbers and clarify that.

25 REPRESENTATIVE GROVE: No, no. It's

1 11.93 percent.

2 DEPUTY SECRETARY HEIDINGSFELDER: I
3 can see that far.

4 REPRESENTATIVE GROVE: \$10.4 million
5 dollars.

6 DEPUTY SECRETARY HEIDINGSFELDER:
7 Okay. Is that in total or for our --

8 REPRESENTATIVE GROVE: That is
9 personnel, GGO, SAP 10208, 2019-2020 budgeted,
10 \$97.678 million, change budgeted versus a
11 million, \$10.4 million, 11.93 percent --

12 DEPUTY SECRETARY HEIDINGSFELDER:
13 Okay.

14 REPRESENTATIVE GROVE: -- in State
15 funds.

16 SECRETARY HASSELL: So we'll look at
17 that and get back to you.

18 DEPUTY SECRETARY HEIDINGSFELDER:
19 Yeah, we'll take a look.

20 REPRESENTATIVE GROVE: I mean, you
21 have a decrease in, quote, other funds, negative
22 3.5, which is negative 24. So your overall under
23 personnel is 6.82, but your State fund total is
24 11.93-percent growth.

25 DEPUTY SECRETARY HEIDINGSFELDER:

1 Okay. I think that the difference there, if you
2 look at the total, we also redistributed our
3 augmentation, our other funds that you mentioned,
4 between personnel and operating. So our total
5 personnel costs only went up by 7 percent. We
6 had reallocated where we apply augmentation funds
7 from personnel to operating because personnel
8 costs are a very fixed cost, and operating can
9 vary along with the uncertainty of augmentation
10 funding sources.

11 So the total cost for personnel only
12 went up by 7 percent. It's just that we shifted
13 the allocation of State funds and augmentation
14 funds between those two.

15 REPRESENTATIVE GROVE: Okay.

16 DEPUTY SECRETARY HEIDINGSFELDER:
17 Does that make sense?

18 REPRESENTATIVE GROVE: That makes
19 sense. Seven is still high.

20 Fixed assets, State funds -- did you
21 again shift augmentation because -- well, it's
22 not a big drop, but you have an \$807,000-increase
23 in fixed assets, as well.

24 What's -- what do you consider fixed
25 assets?

1 DEPUTY SECRETARY HEIDINGSFELDER:
2 Fixed assets are commodities that exceed
3 \$5,000.00 per item. So sometimes things switch
4 between operating and fixed assets, depending on
5 costs.

6 REPRESENTATIVE GROVE: Computers,
7 cars, handguns?

8 DEPUTY SECRETARY HEIDINGSFELDER: We
9 don't buy --

10 REPRESENTATIVE GROVE: Just kidding.

11 DEPUTY SECRETARY HEIDINGSFELDER:
12 Handguns.

13 REPRESENTATIVE GROVE: Just kidding.

14 SECRETARY HASSELL: No handguns.

15 REPRESENTATIVE GROVE: That's a
16 different agency. All right.

17 Within your contract for
18 modernization, the total is \$42.2 million,
19 correct?

20 I was going through the contract last
21 night, all 502 pages of part one, you have 40 --
22 \$44.2 million. That was the total for years one
23 through five.

24 SECRETARY HASSELL: And you're talking
25 about the total payment to Fast Enterprises?

1 REPRESENTATIVE GROVE: Yep.

2 SECRETARY HASSELL: Is that what
3 you're looking at?

4 REPRESENTATIVE GROVE: Yep.

5 SECRETARY HASSELL: Yes. So in the
6 current year, \$10.2 million.

7 REPRESENTATIVE GROVE: Okay. But the
8 total for the project for five years is \$44.2
9 million?

10 SECRETARY HASSELL: That looks
11 correct. I don't have that specific number,
12 but --

13 REPRESENTATIVE GROVE: Okay. I was
14 looking through the contract. And then there's
15 this years six through 10 on maintenance fees and
16 applications support, which totals \$42.5 million.
17 Have you signed that contract yet? Is
18 that a proposal by them, or can you just explain
19 that?

20 SECRETARY HASSELL: Sure. So after
21 the success of the first two rollouts of the Fast
22 system, we did sign a contract extension with
23 them that takes the total to 10 years and allows
24 us to get all of our tax system implemented into
25 what we're calling Path, the new integrated

1 system. And that will take in the business taxes
2 and bring it all into one common system. And in
3 the long run, that will -- that reduce our costs
4 because, in the absence of that contract
5 extension, we would have been paying for
6 maintenance and upgrades for two different
7 systems with very high price tags.

8 This contract extension allows us to
9 get on one platform with one set of maintenance
10 expenditures that should be both better and
11 cheaper in the long run.

12 REPRESENTATIVE GROVE: So should that
13 contract have been listed at \$87.7 million
14 instead of the \$44.2?

15 Because what's posted on the
16 E-contract website is \$44.2 for years one through
17 five, but you have years six through 10, if you
18 sign that contract for the maintenance and
19 application support, that's another \$42 million.
20 So the total should be \$84.71 million?

21 SECRETARY HASSELL: I can't speak to
22 what's --

23 REPRESENTATIVE GROVE: Yes or no?

24 SECRETARY HASSELL: Well, I can't
25 speak to what's on their website, but yes, we did

1 sign that contract extension.

2 REPRESENTATIVE GROVE: All right.

3 SECRETARY HASSELL: So that is in
4 place.

5 REPRESENTATIVE GROVE: All right. So
6 it's \$84.71 over 10 years?

7 SECRETARY HASSELL: Yes.

8 REPRESENTATIVE GROVE: Okay.

9 MAJORITY CHAIRMAN SAYLOR: Very good.

10 REPRESENTATIVE GROVE: Thank you.

11 MAJORITY CHAIRMAN SAYLOR:

12 Representative Ortitay.

13 REPRESENTATIVE ORTITAY: Thank you,
14 Mr. Chair.

15 I want to start right off the bat, in
16 your view, are peer-to-peer rental vehicle
17 transactions subject to a bunch of taxes: the
18 State sales taxes, the \$2.00 a day public
19 assistance vehicle rental tax, the \$8.00 a day
20 rental tax that occurs at the Philly Airport?

21 SECRETARY HASSELL: So peer-to-peer --
22 I'm sorry, I'm not familiar with this.

23 REPRESENTATIVE ORTITAY: It's like
24 Zip. Out in Pittsburgh, I guess it's Zip car.
25 There's a few of those, but a lot of people are

1 renting other people's car. Just wondering if
2 we're collecting sales tax on those.

3 SECRETARY HASSELL: I believe that the
4 answer is yes, but the General Assembly amended
5 the statute in order to reduce the \$2.00 fee, so
6 that it's, in effect, prorated for shorter trips,
7 to make it less burdensome on those shorter
8 trips.

9 REPRESENTATIVE ORTITAY: And who's
10 responsible for remitting that tax, is it the
11 company, the individual?

12 SECRETARY HASSELL: It is the company.

13 REPRESENTATIVE ORTITAY: Okay.
14 Perfect. All right.

15 Mr. Secretary, I want to go into your
16 testimony a little bit and talk about some of
17 your focus on Lean. On page 2, second paragraph,
18 you talk about the merger of your inbound and
19 outbound call centers. I was wondering if you
20 could quantify if there was a cost savings there
21 right now. How much did it cost you to merge
22 everything together, as far as programs,
23 staffing, all of that?

24 If you could quantify some costs and
25 maybe some cost savings there if there was any to

1 realize.

2 SECRETARY HASSELL: I don't -- I don't
3 know a specific number for cost, but I would say
4 that the cost of those kinds of reorganizational
5 changes are not large. I mean, we're mostly
6 talking about maybe moving people from one floor
7 to another within Strawberry Square or something
8 like that. Those are not large numbers.

9 The benefit, I think, is already
10 visible, in terms of the wait time on our phones
11 as people are trying to reach the Department and
12 we have -- prior to these changes, we came out of
13 a period where there was a tremendous amount of
14 frustration among taxpayers who were trying to
15 reach the Department and they would very often
16 get a busy signal. And if they did get through
17 and get into the queue, then they might be
18 waiting 20 or 25 minutes, A very long time.

19 REPRESENTATIVE ORTITAY: Right. And I
20 understand that. And I'm sure that helps them
21 get what they need, but it's just, in the long
22 run, are you expecting any cost savings out of
23 it?

24 I know we all want better service
25 among our government departments and agencies,

1 and that's important, too. But just, when we're
2 talking about Lean, to me, I'm looking at
3 financially bringing cost savings back to the
4 taxpayer, as well. And I didn't know long term
5 if you're projecting any tax savings with that
6 program or that merger.

7 SECRETARY HASSELL: Not off the top of
8 my head, Representative. I think we have -- a
9 number of the Lean innovations that we've put
10 into place have tackled areas where we have
11 problems with backlogs and staff unable to keep
12 up with the work that they're assigned. And once
13 we make these kinds of changes, then they're
14 actually able to do their job more effectively
15 and to keep up with the incoming work.

16 REPRESENTATIVE ORTITAY: Okay. I'm --

17 SECRETARY HASSELL: It probably
18 doesn't reflect itself in the budget savings.

19 REPRESENTATIVE ORTITAY: All right.
20 So any costs that you had doing that merger, you
21 were able to absorb into your current year budget
22 without any problems. Now, on the next page of
23 your testimony, on page 3 at the top, you discuss
24 the three new bureaus that you created, basically
25 merging a few of them together.

1 And then you say you created a number
2 of efficiencies. Basically the same question as
3 the first: what kind of efficiencies, how much
4 money did you save, projected to save, and was
5 there any cost to the taxpayer about that?

6 SECRETARY HASSELL: I -- again, I
7 can't think off the top of my head about specific
8 savings within our budget. These are changes
9 that I -- I think the answer is the same, that
10 we'll allow our staff to do their jobs more
11 efficiently and avoid situations where we have
12 backlogs or where we're providing poor service to
13 taxpayers.

14 REPRESENTATIVE ORTITAY: Okay. So in
15 these cases, you're defining efficiency as better
16 service at the same dollar amount, essentially.
17 And I'm just trying to drill down to it
18 financially. I'm not say that's a good thing or
19 a bad thing, just trying -- and then, in the
20 second to last paragraph on page 3, you talk
21 about the Lean projects that the employees have
22 recommended. You said there's 100 Lean projects
23 that have either been completed or underway
24 throughout the Department.

25 Have any of those projects resulted in

1 any measurable cost savings to your department.

2 DEPUTY SECRETARY HEIDINGSFELDER:

3 Just to clarify, our Department has reduced
4 complement by well over 300 positions in the last
5 10 years. So the lack of any type of Lean or
6 efficiency projects or measures were our customer
7 service has declined because of those complement
8 reductions. So these efforts that we're
9 undergoing now with reorganizing and with Lean
10 projects are simply to improve customer service
11 with the reduced staff that we've already
12 realized.

13 REPRESENTATIVE ORTITAY: And I
14 appreciate that. I guess, you know, I'm glad
15 we're providing better service, but we are tasked
16 every year with putting together an annual
17 budget. And when we're looking at numbers and
18 when I hear Lean and more efficiencies, I think
19 financially. I think dollars. Again, I'm glad
20 we're providing better service. I think it was
21 much needed.

22 And if Mr. Chairman will allow me just
23 one more quick question? Nope. All right.

24 Well maybe I'll get around round, but
25 thank you. Thank you.

1 MAJORITY CHAIRMAN SAYLOR:

2 Representative Heffley.

3 REPRESENTATIVE HEFFLEY: Thank you,
4 Mr. Chairman.

5 And just real quick, to follow up on
6 Representative Lawrence's question earlier on the
7 Lottery. When are you looking at issuing the
8 RFP? It's been about three years now.

9 when is that going to come out?

10 EXECUTIVE DIRECTOR SVITKO: So the RFP
11 was issued. And now the responses have been
12 received and we are in the evaluation phase.

13 REPRESENTATIVE HEFFLEY: Okay. And
14 right now, there's currently one vendor that
15 provides all of the services for Lottery,
16 correct?

17 EXECUTIVE DIRECTOR SVITKO: Correct.

18 REPRESENTATIVE HEFFLEY: Okay. I
19 guess in light of recent articles and kind of the
20 relationship between the Lottery and that vendor,
21 how can -- how can we be confident and be sure
22 that the interests of the PA senior citizens that
23 rely on this funding are going to be the utmost
24 and number one priority?

25 Is there any deemed conflict with sort

1 of a lot of back and forth between the employment
2 folks that work for the vendor and the Lottery,
3 as well? Is there any conflict in that? I know
4 the Auditor General had recently stated he was
5 going to look into how the RFP and how that
6 process was being done.

7 what can we do to ensure our senior
8 citizens and the taxpayers in this Commonwealth
9 that rely on those Lottery Funds that there's no
10 conflict because there just seems like a lot of
11 coziness there.

12 EXECUTIVE DIRECTOR SVITKO: So one
13 thing we can and do do is allow the Department of
14 General Services to run that procurement. Right.
15 It's not run by the Lottery. We are obviously
16 the subject matter experts, but we don't run the
17 process.

18 The other thing we've done already was
19 to hire that external consultant that specializes
20 in big government procurements to come in and
21 ensure that those procurements are being run
22 fairly.

23 REPRESENTATIVE HEFFLEY: It just seems
24 like this has been a long time without a long
25 outstanding relationship with this one particular

1 vendor, and I think it's just important that we
2 ensure that the number one priority in the
3 Lottery in everything going forward is that that
4 revenue continues to come in. We obviously have
5 an aging population. The revenue has been
6 growing, which is good.

7 There's been, you know, obviously
8 shifts to Keno and iGames and a lot of other
9 things that are coming down the line and I just
10 want to ensure that we're keeping a watchful eye
11 on how those contracts are awarded and ensuring
12 that the number one priority is the senior
13 citizens of Pennsylvania.

14 EXECUTIVE DIRECTOR SVITKO:

15 Representative, I can assure you that the fact
16 that we benefit older Pennsylvanians is something
17 that the -- and the employees at the Lottery and
18 all of us are incredibly proud of and passionate
19 about, and it's something that we talk about a
20 lot inside our walls. And so benefitting older
21 Pennsylvanians is always, first and foremost, at
22 the top of our minds in our everyday efforts.

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

25 MAJORITY CHAIRMAN SAYLOR:

1 Representative Hahn.

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

4 I kind of want to keep on the same
5 line with the Lottery. So I want to go back to
6 the skills games. So I'm concerned about the
7 stability of the programs in the Lottery Fund, as
8 well. So I think you had mentioned there was a
9 \$200 million loss, you feel it's a loss that the
10 skill machines are taking from the Lottery Fund;
11 is that what I understood?

12 EXECUTIVE DIRECTOR SVITKO: That's
13 right. At the current penetration rate, the
14 number of machines -- and it's, again, there's
15 about -- there's over 7,000 machines right now,
16 just in Pennsylvania Lottery retailers. So
17 that's in over 2,500 retailers, about 25 percent
18 of our network have at least one machine. And
19 given -- given that penetration rate, we estimate
20 \$200 million in lost scratch off sales every
21 year.

22 REPRESENTATIVE HAHN: So you've
23 actually seen a loss in those facilities.

24 EXECUTIVE DIRECTOR SVITKO: There's no
25 -- yes.

1 REPRESENTATIVE HAHN: Okay.

2 EXECUTIVE DIRECTOR SVITKO: We have.

3 REPRESENTATIVE HAHN: So it's
4 estimated, but I mean, you've actually seen the
5 decrease in sales. And it was mentioned that the
6 skills pay in \$3.1 million, but that's going to
7 the General Fund then. That's not going to the
8 Lottery Fund; is that correct? Because that's
9 going in a sales tax.

10 EXECUTIVE DIRECTOR SVITKO: It's my
11 understanding that there's no benefit to
12 Pennsylvania seniors from -- in the Lottery Fund
13 from those machines.

14 REPRESENTATIVE HAHN: Okay. And I
15 know I have a bill that makes them illegal. And
16 then the question is, can we somehow regulate
17 them and bring them back in for clubs or
18 whatever.

19 Is that something you would want to
20 support if you felt it was coming to bring in
21 more revenue, to bring them back in as regulated
22 machines?

23 EXECUTIVE DIRECTOR SVITKO: So I think
24 regulating is a risky endeavor because there is a
25 lot of gaming in Pennsylvania. All of, you know,

1 all -- and I'm talking about the legal options
2 right now. And they haven't all been rolled out
3 yet. Right. And so until that happens, until
4 we're all able to understand and, you know,
5 analytically prove the impact of each one of
6 those as having on the other legal form of
7 gaming, until we're in that position, I think
8 adding more gaming is absolutely a risk. It's a
9 risk not only to the Lottery, but to all of the
10 legal sanctioned, already-proved gaming options
11 available.

12 REPRESENTATIVE HAHN: And you
13 mentioned earlier you feel, along with all of the
14 other departments, that you feel that the skills
15 games are illegal.

16 what are you doing, along with the
17 other departments, to protect the Lottery Fund
18 from that?

19 EXECUTIVE DIRECTOR SVITKO: So we're
20 not an enforcement agency. And so we really
21 can't do anything about those machines. What we
22 are doing is everything we can do to be
23 convenient for retailers to sell and players to
24 play, relevant to a whole new audience of Lottery
25 players, ubiquitous -- we want to be everywhere

1 people are looking for entertainment; we want to
2 be there -- and modern. We're embracing
3 technology and using it to grow our sales and
4 profits for older Pennsylvanians.

5 REPRESENTATIVE HAHN: And I know you
6 have a lot of advertising. We see Gus on TV all
7 the time about buying the lottery tickets, the
8 instant tickets. So is that helping with your
9 sales? Do you feel that's bringing sales back
10 up?

11 EXECUTIVE DIRECTOR SVITKO:
12 Absolutely. Advertising works. It's the same
13 reason that Pepsi and coke and Frito-Lay and all
14 of these humongous consumer package goods
15 companies advertise, right, they spend a ton of
16 money on advertising because in a crowded market
17 you have to maintain top of mind awareness. And
18 if people don't think about you -- well, if they
19 don't see you, they're not going to think about
20 you.

21 REPRESENTATIVE HAHN: But it's not
22 making up the \$200 million that we're losing,
23 that you feel we're losing?

24 EXECUTIVE DIRECTOR SVITKO: No. We
25 are losing \$200 million. And again, a year ago,

1 that revenue impact was \$100 million -- \$115
2 million. It's now over \$200 million. If nothing
3 is done a year from now, it's going to be still
4 dramatically worse.

5 REPRESENTATIVE HAHN: Okay. Thank
6 you.

7 Thank you, Mr. Chairman.

8 MAJORITY CHAIRMAN SAYLOR:
9 Representative Samuelson.

10 REPRESENTATIVE SAMUELSON: Thank you,
11 Mr. Chairman. And thank you for the opportunity
12 to be here on behalf of the Aging and Older Adult
13 Services Committee, along with my colleague, the
14 majority chair.

15 Discussion of the Lottery, I want to
16 ask about the overall profits on the Lottery, but
17 I do know that our Lottery has one of the most
18 efficient managements in our government. I
19 believe in past years the administrative cost is
20 about 2 percent of the overall budget, so that's
21 appreciated.

22 I also recall a debate we had about
23 seven years ago when a prior Governor wanted to
24 privatize the entire management of the Lottery
25 and was talking about having a contract with a

1 firm in London and a consultant from Chicago,
2 with an upper limit of \$30 million for that
3 contract. Thankfully, that stopped and did not
4 happen, and our Lottery continues to be managed
5 right here in our State government.

6 I also do know a couple of the
7 speakers have talked about the Auditor General's
8 interest, and I do want to concur. Auditor
9 General Eugene Depasquale is a -- runs a very
10 good operation and that audit is certainly
11 welcome.

12 My question is on the overall profits.
13 I know the sales were \$4.5 billion dollars last
14 year. And the testimony from the Secretary said
15 that the amount of profit benefitting older
16 Pennsylvanians is more than \$1 billion for eight
17 years in a row. You just answered Representative
18 Hahn's question about the challenges from the
19 so-called skills games.

20 How is that number, was it down
21 slightly? I think it was \$1.1 billion last year.
22 Am I remembering correctly?

23 EXECUTIVE DIRECTOR SVITKO: That's
24 right. We generated \$1.4 billion worth of
25 profit. This year, we expect to generate less.

1 And there's a couple reasons for that.

2 First and foremost, last year, we had
3 humongous multistate jackpots. So we had
4 Powerball and Mega Millions, jackpots, and those
5 huge jackpots drive sales. But also, the skill
6 machines. Skill machines have continued to
7 impact, especially scratch off tickets and
8 scratch off tickets comprise 70 percent of our
9 \$4.5 billion worth of sales. And they are a
10 growth product year after year after year. We're
11 generating high single digits worth of growth the
12 last few years.

13 We are continuing to see that impact
14 of those illegal skill machines, and to the tune
15 of about 7 percent. So if you take off that 7
16 percent of sales, scratch off tickets are not
17 growing the way they have been in past years.
18 And looking forward, the budget years and in the
19 out years, you'd see that we project even less
20 growth in the scratch off. Matter of fact, we
21 project zero growth in the scratch off tickets
22 because of that skill impact.

23 REPRESENTATIVE SAMUELSON: Okay. And
24 I want to follow up -- I know the Lottery Funds
25 senior programs in Pennsylvania since the 1970s.

1 And currently, the Lottery Funds the Property Tax
2 Rent/Rebate, prescription drug programs,
3 transportation programs, and our Area Agencies on
4 Aging all across Pennsylvania. I do want to ask
5 about the Property Tax Rent/Rebate follow-up
6 earlier in the discussion between the Secretary
7 and Representative Gainey about the number of
8 people benefitting from the Property Tax
9 Rent/Rebate.

10 Every single legislator up here, in
11 our offices, we help people with the Property Tax
12 Rent/Rebate. Last year, my office got up to --
13 I think it was 999 folks that we helped with the
14 rebate. I want to commend the Department.
15 You've made some changes in the program book to
16 highlight the income limits. You've always
17 distributed the booklets early. I think they
18 went out January 15th this year. So already, my
19 office has helped 217 people with the rebate.
20 It's ahead of the pace from last year.

21 The question though is, at these
22 budget hearings just a few years ago, there were
23 605,000 people benefitting. Now, it's down near
24 about 550,000. You talked about bracket creep as
25 people's incomes go up even by a small amount,

1 then they lose the ability to qualify. I know
2 there's been a small social security increase 10
3 of the last 13 years and that contribute to the
4 number falling. So I'm a firm believer that we
5 should adjust these limits. It's been 13 years.
6 The last time the income limits went up was
7 January of 2007.

8 Thirteen years is a long time, and I
9 think it's high time the legislature pass
10 legislation to raise those income limits for
11 homeowners and renters. So I wanted to reinforce
12 that point. I know you said as long as the
13 income limits remain fixed, the number of the
14 folks will continue to decline. Well, that's on
15 us. We should pass legislation to raise those
16 income limits.

17 One question though, when people are
18 notified that they've successfully filled out the
19 application, in past years, I think they got a
20 phone call. Is that -- and is that phone call
21 not asking for them to give information over the
22 phone, is it just notifying them? You know there
23 are a lot of scammers out there who are calling
24 and asking for personal information, asking for
25 social security numbers.

1 How does the Department distinguish
2 their phone call notifying folks of an
3 application from all the scammers that are trying
4 to get seniors to give up their personal
5 information?

6 SECRETARY HASSELL: Right. And that's
7 a great question, Representative. The Department
8 does make use of an automatic dialer in order to
9 inform people who have filed an application for a
10 rebate to let them know that it's been received.
11 And --

12 REPRESENTATIVE SAMUELSON: You don't
13 have to submit your own Social Security number
14 when you get that automatic call, do you?

15 SECRETARY HASSELL: No.

16 REPRESENTATIVE SAMUELSON: Thank you.

17 SECRETARY HASSELL: That is correct.
18 There is no information needed. It's simply an
19 informational call out to them to let them know
20 the status of their application.

21 MAJORITY CHAIRMAN SAYLOR:
22 Representative Peifer.

23 REPRESENTATIVE PEIFER: Thank you,
24 chairman. Thank you, Secretary, for being here.
25 You know, there's been a lot of talk

1 today about combined reporting and the Governor's
2 proposal and what you can do through your
3 Department in determining what the numbers would
4 look like. And you know, we've had many hearings
5 here over the years about combined reporting and,
6 you know, the effects on business, you know, what
7 we should do to provide a better economic climate
8 for businesses, that would attract businesses
9 here. And we've always heard that 9.99 percent
10 rate is very unattractive to businesses to stay
11 here, to relocate here, and we want just the
12 opposite.

13 So we're all intrigued by the concept
14 of reducing that rate, but it just seems like
15 we're not able to circle the wagons on this
16 concept. You gave us great information today on
17 your consolidated estimates that are being filed,
18 which gives you projected numbers. The IFO takes
19 a more statistical approach to their numbers,
20 which are somewhat different, that we're trying
21 to work through.

22 But has anyone actually sat down with
23 the business leaders and talked to them in this
24 Commonwealth and said, does this help you or does
25 this hurt you?

1 SECRETARY HASSELL: We talk with
2 business people frequently. And I'm just
3 speaking for myself at this point, this is a
4 frequent topic of conversation and questions
5 coming to the Department. And for that matter, I
6 know that the administration as a whole -- this
7 has been something that the Governor has been
8 interested in for many years and believes would
9 be a good thing for the Pennsylvania economy.
10 And I know he's talked to many business leaders
11 about this.

12 REPRESENTATIVE PEIFER: When was the
13 last time we actually had a study on combined
14 reporting for maybe an outside group that can
15 analyze -- on the business side, we have great
16 multistate tax professionals that could probably
17 answer many questions here.

18 Have we ever had an analysis from the
19 outside on what this proposal looks like, as far
20 as gaining some type of like revenue neutrality
21 going forward?

22 DEPUTY SECRETARY GILL: There have
23 been a lot of studies done that are not PA
24 specific. Most of them have to use publicly
25 available data, which is what the IFO did. And

1 the shortcomings with that are that they're using
2 cash collections netted refunds from the Census
3 Bureau. The data is broken down by fiscal year
4 instead of tax year, and they cannot break out
5 liabilities versus cash.

6 So when we look at a State's cash
7 collections for a fiscal year, it does not match
8 tax liabilities for a year. So the most precise
9 way to do it is to use another State's data,
10 which is what Revenue did. We used Minnesota
11 data. We've done this three times. Our
12 neighbors to the east, New Jersey, have recently
13 enacted combined reporting and we intend to ask
14 them for their data to do a different study. So
15 to my knowledge, I'm not sure anyone has done a
16 study such as we have using actual tax return
17 data.

18 REPRESENTATIVE PEIFER: Yeah, and I
19 see that from the IFO report. I mean, it looks
20 like New York and New Jersey already do combined,
21 although Maryland is separate reporting. So you
22 know, my concern is it sounds like a great
23 concept, but it's been here a long time and we
24 just don't seem to have movement to the point
25 where, you know, our -- you know, somewhere we're

1 not connecting and somewhere, somehow we just
2 need to find a place where we can move forward if
3 that's the right -- if that's the right approach.
4 My concern is that we're not hearing from the
5 entire business community and whether it's
6 favorable.

7 Now, I did hear someone say that 95
8 percent of businesses would pay less. Well,
9 that's the first time I heard that.

10 SECRETARY HASSELL: The same or less.

11 REPRESENTATIVE PEIFER: The same or
12 less. So my concern is for the other five
13 percent who are paying a lot more maybe in that
14 situation or wouldn't, you know, would that --
15 would something like this drive them out of the
16 Commonwealth because it's such a key economic
17 issue for them?

18 DEPUTY SECRETARY GILL: I -- I don't
19 believe so, because a majority of States now have
20 combined reporting. So if they were to leave
21 Pennsylvania and go to another State, the odds
22 are there that that state would also have the
23 same combined reporting regime.

24 REPRESENTATIVE PEIFER: Do we ever do
25 exit interviews with businesses that would be

1 leaving the Commonwealth? There's an e-mail
2 chain that we receive from a colleague from
3 central PA who discussed, shortly, a business
4 leaving the Commonwealth. And when you read
5 those, it's painful. Right. It's painful for
6 all of us to see a quality name leaving our
7 wonderful Commonwealth going somewhere else.

8 Do we ever have exit interviews with
9 the Department of Revenue with these leaders
10 asking them why?

11 SECRETARY HASSELL: I can't say that
12 that's something that we have done. But just
13 stepping away from the tax issue for a moment,
14 something that the administration is very
15 interested in, and I think has -- I've heard a
16 significant amount of interest from the business
17 community as well as members is to work on
18 workforce development and making sure that
19 companies that want to hire in Pennsylvania are
20 actually able to find the employees that they
21 need. And that's outside of my area of
22 expertise, but as I hear those conversations, I
23 know that that's been an area of mutual interest
24 between the administration, the business
25 community, and labor unions across the board,

1 that that's something that we can all work on
2 together in order to improve the business climate
3 in Pennsylvania.

4 REPRESENTATIVE PEIFER: Yeah, I think
5 that's something that, you know, many of our
6 businesses do when they lose key employees and I
7 think that that's something we should do with our
8 business climate. And again, it's just not,
9 obviously, Revenue. I mean, you've got Labor &
10 Industry. You've got, you know, many, many
11 different entities in the Commonwealth, you know.
12 But when we lose really good companies in the
13 Commonwealth, that's really painful to all of us.

14 So thank you, Secretary.

15 Thank you, Chairman.

16 MAJORITY CHAIRMAN SAYLOR:

17 Representative Bradford.

18 REPRESENTATIVE BRADFORD: Thank you,
19 Chairman Saylor.

20 And actually, I'm glad to follow
21 Representative Peifer. I was actually going to
22 ask some similar questions about combined
23 reporting. And I would just begin by saying
24 something that I think actually triggers a memory
25 I have. A County commissioner once told me when

1 they do a reassessment, a revenue neutral
2 reassessment in the county, no one remembers if
3 you cut their taxes. Everyone whose taxes go up
4 very much remember. And everybody in the middle
5 believes you probably got screwed in that
6 transaction somehow, too, and they're not fully
7 happy with it either.

8 And it reminds me, to do --

9 SECRETARY HASSELL: We are very
10 familiar with this phenomenon.

11 REPRESENTATIVE BRADFORD: Yeah. So
12 when you hear that 95 to 5, can you give me an
13 idea, having looked at actual returns, what that
14 5 percent looks like? What effective rate are
15 these folks paying?

16 DEPUTY SECRETARY GILL: I don't know
17 that I can speak to an effective rate. I will
18 say that under separate company, many of them are
19 paying zero. And so the switch is from going to
20 zero to having a positive combined income that
21 they would pay something. So even with a rate
22 cut, these folks would be paying more because
23 currently many of them are not paying anything.

24 REPRESENTATIVE BRADFORD: And I think
25 that's kind of my concern in this. If you're

1 paying zero, your problem with combined reporting
2 isn't fundamentally with fairness. Your problem
3 is you just don't want to pay anything. You've
4 got a pretty good deal going under the current
5 system. And I agree very much with what
6 Representative Peifer said. We need to create
7 some trust. And this issue has been banging
8 around there forever, but I think there's a
9 concept that even my most conservative friends
10 would agree, which actually I think was the basis
11 of the Federal tax cuts in 2017.

12 I know you had mentioned the Tax Cuts
13 and Job Act, but the idea that when we can
14 broaden the base, that allows us to lower rates.
15 And that is an idea that should be able to get
16 bipartisan support. And when you have folks that
17 are likely paying zero in taxes, if we can get
18 them to pay something, it strikes me that this is
19 a great way, frankly, not in a revenue positive
20 way -- because when I look at your proposal, yes,
21 in year one, it brings in \$240 dollars. And I
22 heard some skepticism, but I would encourage
23 folks to look all the way down into the out
24 years.

25 This is truly a business tax cut that

1 the Governor is proposing, and not just the rate.
2 The rate is a big stop sign right now to the
3 business community. Many of us on the
4 progressive side realize that 9.99 is not
5 something we want to be tethered to as a
6 Commonwealth, but when you're talking about
7 dropping from 8.99 to next year 8.29, to '23
8 going to 7.9, to '24 going to 6.99, 2025, you go
9 to 5.99, but in real dollars to the -- real
10 revenue dollars to the Commonwealth, you're
11 actually negative a half a billion dollars in the
12 out years.

13 So this is not only a cut in the rate,
14 this is not only something the business community
15 should welcome, this is something that is a true
16 in dollar and cents way a tax cut; is that a fair
17 assessment?

18 SECRETARY HASSELL: That is absolutely
19 right over the long term. And the model, of
20 course, for that gradual decline is for the
21 successful effort to get rid of the capital stock
22 tax, which as you know occurred over several
23 administrations of both parties, and was finally
24 completed on Tom Wolf's watch --

25 REPRESENTATIVE BRADFORD: Right.

1 SECRETARY HASSELL: -- in 2015.

2 REPRESENTATIVE BRADFORD: And my
3 concern is, to go back to that 95 to 5 split is
4 you're never going to convince that 5 percent
5 that this is a good idea, because if you're
6 getting away with a free lunch, paying anything
7 is a substantial increase in your tax liability.

8 And I feel as though, there's people
9 of goodwill -- Mike being one of them -- who
10 would engage on this issue, but we need to get
11 beyond just kicking the tires on this and
12 actually say, what do we need to do to get that
13 rate down from 9.99. And I think the Governor's
14 proposal gets us to finally close the Delaware
15 loophole. It's revenue positive in year one, and
16 that's great for this budget year, but we should
17 be mindful that it is a -- it has a revenue cost
18 in the out years.

19 Another thing I just wanted to also
20 follow up with, and this skips around a little
21 bit, is minimum wage. Again, sometimes I think
22 we fail to take the good news that's in front of
23 us. I was kidding the Chairman earlier, but if
24 you get a 42 to 7 vote in the Senate, that's a
25 pretty rare thing these days. I think it might

1 be -- they saw the numbers in a way that made
2 them willing to grab onto this proposal. We
3 would bring in \$133 million in new sales and use
4 and PIT in year one, with a cost of \$10 million,
5 in order to give almost a million Pennsylvanians
6 a raise under a -- under a minimum wage increase
7 in Pennsylvania.

8 It just strikes me -- and I get it,
9 people want more studies, and we can study this
10 to death, but anecdotally, New York has a
11 4-percent unemployment rate. They have a \$13.00
12 minimum wage. Maryland has a 3.5 unemployment
13 rate; they're at \$10.10 now, I believe. New
14 Jersey is at 3.5-percent unemployment; they're at
15 \$10.10. Delaware is 3.9-percent unemployment,
16 and they're at \$8.75. And even Ohio at 4.2
17 percent is at \$8.70.

18 So we can look for more studies, but
19 the numbers in our neighboring States are obvious
20 that a minimum wage increase is not going to be
21 this blowout of our unemployment rate. In fact,
22 it's something that our neighbors States show us
23 is not only sustainable, it's a way to give a
24 million Pennsylvanians a raise, bring revenue
25 into the Commonwealth. I don't know if we need

1 more studies. I fear that what we need is some
2 political courage to do these things. And with
3 that, I will yield back my already-expired time.

4 So thank you, Chairman.

5 MAJORITY CHAIRMAN SAYLOR: well,
6 first of all, I have to disagree with my
7 colleague that we didn't really hear the answers
8 today to the question of \$133 million. What we
9 hear today was a lot of I don't know, I don't
10 have the information, I'll get back to you. So
11 Mr. Secretary, I'm going to ask you to come back
12 at another time. We will give you a list of
13 questions that were not answered today. We'll
14 have those questions at least the day before we
15 have the next hearing.

16 I think there's a disconnect. I have
17 great respect for you, Mr. Secretary, but I
18 believe there's a disconnect between the
19 administration and their policies and the
20 Department of Revenue that you don't have answers
21 to a lot of these questions. And I think that
22 the Committee and the taxpayers of Pennsylvania
23 deserve to have some straight answers. If we're
24 going to enact any of these policies, we really
25 do have to know. The last thing we want to do,

1 at least on the House side, is to pass a budget,
2 then the revenues don't match up to the forecast.

3 So we really need to know the
4 formulas. We really need to know what exactly to
5 expect in next year's budget. We've had a lot of
6 surprises in the current year's budget that
7 didn't live up to promises made by the
8 administration. So I'm going to ask you to come
9 back. We'll get those questions over to you at
10 that time. And then we'll reschedule with your
11 office to come back here.

12 But I do think it's important that as
13 we start analyzing this budget, revenue is
14 critical. This Governor is proposing \$2 billion
15 more in spending, a huge increase over last year,
16 and about \$5.5 billion in new borrowing. And
17 this budget could really get blown out of
18 proportion if we don't have the right revenue
19 figures.

20 Right now, the IFO, including the
21 administration, believe that the surplus is going
22 to be between \$240 and \$300 million. That
23 doesn't cover everything that the Governor is
24 proposing. So we really need to drill down into
25 these numbers that you can give us, as we will

1 talk to the IFO today, so that we will know where
2 we're headed. But I appreciate your time today
3 and that of your staff, and we'll be in contact.

4 Thank you very much.

5 SECRETARY HASSELL: Thank you,
6 Mr. Chairman.

7 MAJORITY CHAIRMAN SAYLOR: The
8 Committee will reconvene at 1:15.

9 (Whereupon, the hearing concluded.)
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C E R T I F I C A T E

I hereby certify that the proceedings 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.

Tracy L. Markle

Tracy L. Markle, Court Reporter