



2009-10 Budget Hearings

The Senate Appropriations Committee recently wrapped up its second week of public hearings on the state budget for the 2009-10 Fiscal Year. The Appropriations Committee heard detailed reports from several cabinet secretaries and other officials over the four-day period from March 2 through March 5. This special report provides day-by-day highlights from those hearings.

*Monday,
March 2, 2009*

DEPARTMENT OF PUBLIC WELFARE

1 p.m.

During the hearing with Department of Public Welfare Secretary Estelle Richman, Senate Appropriations Committee Chairman Jake Corman, 34th District, and several members of the Committee expressed concerns about the Governor's proposed \$20 million cut in funding to hospitals.

Senator Jane Orie, 40th District, asked why hospitals were singled out for reductions in the Governor's budget proposal. Senator Corman asked for a breakdown of how the Governor's proposed cut in funding to hospitals would affect individual facilities. Senator Stewart Greenleaf, 12th District, voiced concerns about the cuts due to the



Senator John Gordner (R-27) discusses the use of federal stimulus dollars with DPW Secretary Estelle Richman.

importance of health care to the state's economy.

Senator Lisa Baker, 20th District, criticized the proposed cuts to critical access hospitals, pointing out that some rural residents would have to travel up to an hour to receive services. Senator John Pippy, 37th District, urged the Department to ensure that any funding cuts would be shared equally among all hospitals that serve similar areas. Senator John Gordner, 27th District, urged the Secretary to consider restoring the cuts to hospitals with federal "stimulus" dollars.

Senator Corman expressed concerns that the Governor's proposed 2-percent tax on managed care organizations would increase the cost of health insurance premiums.

Senator Pat Vance, 31st District, pointed out that the Department had received its first

payment from the federal economic "stimulus" program and asked what conditions were placed on the money by the federal government. Senator Pat Browne, 16th District, asked how much the Department would receive from the federal "stimulus" package for Medical Assistance and questioned if the entire amount would be needed to support the program. Senator Orie expressed concerns that some of the strings attached to the federal funding would have negative consequences for Medical Assistance recipients.

Senator John Gordner, 27th District, asked how the Department would respond to the recent Auditor General's report that 14 percent of Medical Assistance recipients were not eligible for the program. Senator Mike Brubaker, 36th District, asked if the Department would support tighter oversight of the Medical Assistance program to ensure that all recipients are eligible.

Senator Mary Jo White, 21st District, asked if the Department would support legislation that would provide assistance to grandparents who are raising grandchildren. Senator White also asked for information on how the Department would ensure that this program would not be abused by parents.

Senator Greenleaf and Senator Vance expressed concerns about the cuts to mental health pro-

grams. Senator Corman asked if the 2-percent cut for community mental health programs would be an across-the-board cut, or if any programs would be excluded from the reduction.

**Tuesday,
March 3, 2009**

DEPARTMENT OF EDUCATION (K-12)

10 a.m.



Senator John Pippy (R-37) comments on the challenges of funding growing special education programs.

Senate Appropriations Committee Chairman Senator Jake Corman, 34th District, questioned the Administration's scrapping of its pledge to keep in an education "lock box" the \$300 million in planned state Basic Education Subsidy funding that was supplanted by federal "stimulus" dollars.

State Education Secretary Gerald L. Zahorchak said the state had other budget needs to be addressed. Senator Corman noted that the "stimulus" funds last for only two years, leaving the state to pick up the tab for \$1.5 billion to meet costing-out study obliga-

tions, in addition to billions of dollars in new costs for welfare and pension obligations. "The economy will not grow that much," Senator Corman said. He called on the Administration to prepare a minimum five-year plan to transition from "stimulus" money.

Senator Corman also requested the Secretary provide the Committee with three areas of information: the process of measuring results of various education programs; details of a proposed change in the cyberschool funding formula; and all information related to the decision to close the Scranton State School for the Deaf.

Senator Lisa Baker, 20th District, noted the presence of students from the Scranton State School for the Deaf and challenged the Administration's decision to close the school. Secretary Zahorchak said talk of closing the school spanned two Administrations. He said services could be provided through Intermediate Units and that most states educate deaf students with private schools. Senator Baker said parents deserved more notice than a letter and that the school submitted a cost-savings plan a year ago, but never heard back from the Department.

Senator John Rafferty, 44th District, asked if the Administration offered a plan to cap school district administrators and other cost-saving moves before proposing a consolidation of school districts. The Senator said the Legislature could have drafted such measures as an interim step before consolidation. Senator Rafferty said he is drafting legislation to secure additional property tax relief funding for Southeastern Pennsylvania.

Senator Mary Jo White, 21st District, noted that the Administration is forging ahead with a \$22 million plan to supply laptops in schools despite the findings of a federal study that showed no difference between students supplied with school laptops and those who were not. The Secretary said other studies showed computers made teachers and students more "engaged." Senator White asked that the Department provide those studies.

Senator White questioned why the Administration scrapped the Science in Motion program, which provides science education to 180 school districts for \$2.4 million in favor of Science: It's Elementary, which reaches only 141 schools at a cost of \$13.6 million.

Senator Lloyd Smucker, 13th District, asked for a breakdown of federal "stimulus" dollars in the education budget. Secretary Zahorchak said the state will receive \$1.9 billion to use over two years with 81 percent to be used for direct education. The first year includes \$779 million, fully funding the recommendations of the costing-out study, the Secretary said.

Senator Pat Vance, 31st District, asked how the Commonwealth could sustain education funding, without a tax increase, after the "stimulus" money runs out in two years. The Secretary insisted it could be achieved with revenues supplied by a healthy economy. When Senator Vance asked if there were studies that showed school district consolidation saved money in the long run, the Secretary suggested she look at other states with county school districts, their test scores and their costs-per-student.

When asked about the request for more money for Pre-K Counts, the Secretary cited a report that showed a spinoff of \$2.10 for every dollar spent on pre-kindergarten education.

Senator Mike Brubaker, 36th District, noted that the state covers 16 percent of local special education costs regardless of the number of special education students in each district. He asked if the Department would work with him to develop a pro-rated formula. The Secretary said he would, but insisted that more pre-K programs will ultimately reduce the number of special education students and costs. Senator Brubaker asked about oversight of federal “stimulus” dollars for education. The Secretary said it’s mostly formula driven, with monitored Title I programs receiving the bulk of the funds. Senator Brubaker asked if Pennsylvania ever funded 50 percent of local education costs. Secretary Zahorchak said the state provides about 44 percent and the 50-percent goal never existed in practice.

Following up on earlier concerns, Senator Jane Orié, 40th District, noted that federal “stimulus” funds will run out in two years, and after the current Governor and Education Secretary leave office, the Legislature will be left trying to close the funding gap. Senator Orié noted that while other states are holding the line on new spending in tough economic times, Pennsylvania’s Department of Education is embarking on new programs such as Graduation Competency Assessments.

Senator Orié said it was hard to believe that 56,000 Pennsylvania graduates last year were “not competent” to graduate. She also

criticized the Secretary for not acting sooner, noting that he has been Deputy Secretary or Secretary since 2002 and could have compared local assessments to PSSA scores sooner.

On the school district consolidation proposal, Senator John Pippy, 37th District, asked how the Administration came up with 100 districts as a goal. The Secretary said they started with the concept of county-based districts, but that the number was not as important as the process. He said the Legislature would come up with an optimal size for districts and draw new district lines. Senator Pippy noted that he chairs the Legislative Budget and Finance Committee, which already conducted a similar study.

Senator Robert Tomlinson, 6th District, said the Department acknowledged two years ago that many students are identified as “special ed” who should not have been and asked if that has been corrected. Senator Tomlinson noted that the two-year “stimulus” funding will provide some relief, but that the special education funding formula remains faulty and needs to be fixed.

Senator Stewart Greenleaf, 12th District, told the Secretary that the Basic Education Subsidy formula is not fair, noting that seven of the school districts in his district are receiving a 2-percent increase in funding, with the state funding share totaling only 15.3 percent. While his districts are gaining students, other districts that are losing students have state revenues accounting for up to 75 percent of their funding. The Secretary said that it costs more to educate poor children and students who don’t speak English.

On special education funding, Senator Greenleaf said each new special education student can cost a school district \$200,000, with the federal government never coming through with promised funding. He asked why the state does not take over funding. Secretary Zahorchak said the funding formula deserves more discussion.

DEPARTMENT OF EDUCATION (HIGHER EDUCATION)

1 p.m.



Senator John Rafferty (R-44) comments on the growth and importance of community colleges across the Commonwealth.

Senate Appropriations Chairman Senator Jake Corman, 34th District, questioned the Administration’s commitment to higher education during the afternoon budget hearing with state Education Secretary Gerald L. Zahorchak.

Senator Corman pointed out that since Governor Rendell took office, the education budget has grown more than 43 percent. However, the State System of Higher Education has received a funding increase of just 10 percent during the Governor’s

tenure and state-related universities have suffered an overall funding reduction under the current Administration.

Responding to a question from Senator Mike Brubaker, 36th District, Secretary Zahorchak said that if the Governor's expanded gaming proposal receives legislative approval, video poker machines could be in bars and taverns by this fall. Senator John Rafferty, 44th District, voiced concerns that the Administration's expanded gaming proposal would not be in place in time to provide any assistance to students who are counting on additional state assistance this year.

Senator Lloyd Smucker, 13th District, cited a proposed 20-percent reduction in funding to the Thaddeus Stevens School of Technology and asked why funding would be cut for a proven educational institution while other unproven programs receive an increase.

Senator Mary Jo White, 21st District, asked if the Department of Education has held hearings on the costing-out study and expressed concerns about the increased cost of transporting students to schools in rural areas.

Senator Lisa Baker, 20th District, echoed Senator White's concerns about the cost of transporting students in rural districts and urged the Department to put a mechanism in place to help rural school districts with transportation costs.

Senator Pat Vance, 31st District, asked why student achievement hasn't seen a dramatic improvement in light of the steep increases in education spending.

Senator Stewart Greenleaf, 12th District, expressed concerns that many senior citizens in his

district would be exposed to further property tax increases based on the Administration's basic education funding formula.

Senator Mike Waugh, 28th District, asked the Department to improve the process for school design and construction to reduce costs to taxpayers.

Following up on her questions about Graduation Competency Assessments from the morning's hearing, Senator Jane Orié, 40th District, cited a recent report by Achieve, Inc. in which the organization distanced itself from graduation tests. Senator Orié pointed out that the Governor is a member of the Achieve, Inc. Board of Directors.

Appropriations Committee Chairman Senator Corman pointed out the Administration's practice of masking the true size of the state budget by cutting vital line items that the General Assembly would be expected to restore. Senator Corman and several committee members repeated requests for the Administration to submit a budget that is a more honest reflection of the Administration's spending priorities.

PENNSYLVANIA STATE POLICE

3:15 p.m.

Members of the Senate Appropriations Committee explored a variety of public safety issues during the afternoon budget hearing with Pennsylvania State Police Commissioner Colonel Frank E. Pawlowski.

Senator John Rafferty, 44th District and Chairman of the Senate Law and Justice Committee, commended the State Police on its investigation of a series of arson cases in Coatesville. He



Senator Pat Browne (R-16) questions the decision-making process of the State Police with regard to I-78 during winter storms, even in the aftermath of the Valentine's Day Storm of 2007.

then asked about the efforts by the State Police to close down certain barracks during overnight hours. "Public safety must be preserved and to me, public safety means those barracks are kept open 24-7," Senator Rafferty said.

Noting that of Pennsylvania's 2,573 municipalities, 1,714 utilize the Pennsylvania State Police as their primary police force, Senator Rafferty asked how the Legislature can ensure that the State Police maintains a sufficient complement of troopers. Senator Rafferty said he is reintroducing legislation to recoup money from fines from municipalities that use the State Police as their primary police force and return that revenue to the State Police.

Appropriations Committee Vice Chairman Robert Tomlinson, 6th District, asked whether the Commissioner supported the legalization of video poker machines in Pennsylvania. Colonel Pawlowski said he supported the proposal primarily because the State Police currently spends a lot of time and resources prosecuting video poker cases.

Senator Mary Jo White, 21st District, expressed concerns about the prosecution of video poker violations “It bothers me that there are 1,700 illegal machines out there and we are not doing anything about it,” she said. Senator White also asked about the State Police use of state vehicles and asked for a list of violations at casinos.

Senator Stewart Greenleaf, 12th District, asked about the expungement of minor offenses, such as disorderly conduct and retail theft, from juvenile records. Noting Pennsylvania’s Megan’s Law, Senator Greenleaf noted that about 10,000 people are currently listed on the website as sex offenders and 350 are listed as violent sexual predators. He added that special emphasis should be placed on those individuals listed as violent sexual predators.

Senator Lloyd Smucker, 13th District, asked whether the statewide radio system, now under development, is meeting the needs of the State Police. Commissioner Pawlowski said the State Police are using a dual radio system, with the old radio network serving as a backup to the new 800 megahertz network.

Senator Mike Brubaker, 36th District, discussed safety issues related to farm equipment on roads and asked how the State Police response time compares to that of local jurisdictions. Senator Brubaker asked what percentage of the State Police complement is dedicated to service on the Pennsylvania Turnpike.

Senator Lisa Baker, 20th District, requested an update on the efforts by PEMA and the State Police to develop “Fusion Centers” criminal/terrorism intelligence centers. Senator Baker followed up by asking how the state agen-

cies could coordinate those efforts with privately-owned facilities.

Senator Pat Vance, 31st District, asked what impact a proposed 23-percent reduction in funding would have on the State Police fingerprint identification program and on employment background checks. Senator Vance also asked about educational requirements for State Police cadets.

Senator Mike Waugh, 28th District, requested information on a proposed 30-percent increase in funding for the commercial vehicle enforcement unit. Senator Waugh also asked about the staffing and funding for the Fire Marshal and mounted patrol units.

Noting a goal of reducing crime by 10 percent, Senator Pat Browne, 16th District, asked if the State Police was able to meet that objective. Senator Browne asked about the State Police protocols for highway management during inclement weather. Colonel Pawlowski said Interstate 78 again experienced problems during a heavy snowstorm on Monday. Senator Browne said he saw no improvement in the state’s response since the infamous “Valentine’s Day” blizzard. “It’s the same result every time,” Senator Browne said.

**Wednesday,
March 4, 2009**

**DEPARTMENT OF
CONSERVATION AND
NATURAL RESOURCES**

10 a.m.

Senator Mary Jo White, 21st District, who chairs the Senate Environmental Resources and Energy Committee, asked De-

Natural Resources (DCNR) Secretary Michael DiBerardinis for an update on Marcellus Shale field leases. The Secretary said 74,000 acres of land have brought in \$190 million in leases, or about \$2,500 per acre. (The Secretary later cautioned that gas prices have declined and that the average lease is now between \$300 and \$900 per acre.) As for remaining property, Secretary DiBerardinis said 666,000 acres of state-owned land remain available for drilling, of which the state controls surface and subsurface rights on 370,000 acres. An additional 180,000 acres are set aside for wildlife habitat.

Senator White noted that the Governor’s proposed budget is balanced with a severance tax on drilling, which hasn’t passed the Legislature. She said that while the greatest revenues to the state will come from future royalties on drilling, lease payments can be collected immediately.

The Senator asked for an update on Act 129, which authorized the hiring of consultants on carbon sequestration. Secretary DiBerardinis said bids have gone out. On the reported increase in DCNR fee revenue, the Secretary said it was due to small hikes in fees for camping and cabin rentals.

Senator White noted that Growing Greener legislation enacted in 2005 included a \$90 million block grant for counties to use at their discretion. Secretary DiBerardinis said he was apprehensive with that approach at first, but it has worked well, with most counties using the funds to disperse community grants. Senator White also urged DCNR to reconsider the moratorium on cell towers on DCNR property, pointing out that some rural

areas have “dead zones” for cell phone reception, which affect tourism and public safety.

Senator Lloyd Smucker, 13th District, asked the Secretary to provide a written breakdown of DCNR land in the Marcellus Shale field and wondered why land had been set aside for non-use. The Secretary said the Department is trying to maintain the 100-year forest growth cycle that is the national standard. Regarding future leases, the Secretary reported that DCNR expects to secure leases on additional acres over the next nine months.

The de-funding of Heritage Regions was a concern for Senator Mike Brubaker, 36th District, and several other Appropriations Committee members. The Secretary said DCNR contributed \$1.9 million to the 12 designated areas and encouraged them to apply for grants to help weather the budget cuts. Senator Brubaker also noted the removal of funds for the PA Map program, which is producing digitized maps of the state. The Secretary said he hopes federal “stimulus” dollars will free up state funds to keep the \$6 million program operating.

On the de-funding of Heritage Regions, Senator John Rafferty, 44th District, asked if that means that Heritage sites will receive priority when applying for Growing Greener or Key '93 funds. Senator Rafferty said Heritage sites teach conservation and attract tourism and economic development and should be a priority in funding decisions.

Senator Lisa Baker, 20th District, said rural Heritage sites rely on state funds for operating revenue, and without funding they will find it difficult to keep

their doors open. Senator Baker said those sites should receive priority funding over larger sites. She then asked about the maintenance backlog in state parks. The Secretary said there are always infrastructure needs, but the Administration has invested \$418 million in those projects.

Senator Pat Vance, 31st District, asked if DCNR’s projected \$15 million drop in realty transfer tax revenue for the Key '93 Fund was realistic. Deputy Secretary James Grace said it was. On Heritage Parks, Senator Vance urged DCNR to spread the “pain” of funding cuts equally.

Beyond securing leases, DCNR must ensure the safety of drilling in the Marcellus Shale field, said Senate Appropriations Committee Vice Chairman Senator Robert Tomlinson, 6th District. He inquired about safety issues regarding gathering lines, the load on the lines, and who oversees safety. The Secretary said there are few existing pipelines in Eastern Pennsylvania, so most will have to be built with a host of companies handling the work.

Noting that the Lehigh River Gorge has produced numerous economic benefits, Senator Stewart Greenleaf, 12th District, urged DCNR to continue supporting whitewater recreation. The Senator also expressed support for the Rails-to-Trails initiative. Deputy Secretary Cindy Dunn said the Department works with PennDOT to support local efforts and they are trying to better integrate the trails with surrounding landscapes to expand the economic benefit to “trail towns” and “river towns.”

Senator Jake Corman, 34th District and Chairman of the Senate Appropriations Committee, asked for an update on the

development of a state park Nature Inn in his district. The Secretary said the lodge will be similar to a bed and breakfast. Ground-breaking was in the fall, with a scheduled opening in the spring of 2010.

DEPARTMENT OF AGING

1 p.m.



Senator Lisa Baker (R-20) comments on the importance of qualified caregivers in the Commonwealth.

Members of the Senate Appropriations Committee questioned Acting Secretary of Aging John Michael Hall on a number of issues, including a proposal to combine the Department of Aging with the Department of Public Welfare and the impact of casinos on lottery revenues.

Citing waiting lists in a number of counties, Senate Appropriations Committee Chairman Senator Jake Corman, 34th District, and Senator Stewart Greenleaf, 12th District, asked Acting Secretary Hall if there is sufficient funding to provide nutritional services to seniors who want to remain in their homes and what could be done to reach more people in need.

Senator Pat Vance, 31st District and Chairman of the Senate Aging and Youth Committee,

wanted assurances that Area Agencies on Aging would continue to have a strong role in the expanded Department. Under questioning by Senator Lloyd Smucker, 13th District, Acting Secretary Hall said the merger would result in cost savings and improved delivery of services.

Senator John Rafferty, 44th District, said he is concerned about the impact of gaming on lottery revenues and the services that senior citizens receive from lottery funds. He added that the Governor's plan to legalize and tax video poker machines could mean fewer dollars spent on the lottery.

"It seems to me that we keep going after the same dollar, and I think we have to realize that this is a cautionary wind," Senator Rafferty said. "There's just so much water in the well." He urged the Department to study the impact of expanded gambling and how it would impact lottery funding.

Senator John Gordner, 27th District, also urged further study of the issue, citing a study which found that lottery revenues are down in counties where there are casinos and in adjoining counties.

Those concerns were echoed by Senator Jane Orié, 40th District, who said "I hope that you will look and see if gambling is going to detrimentally impact the services that we provide to seniors." Senator Orié also urged the Department to look at ways that technology can be used to provide better health care.

Noting that more people are taking advantage of home and community care, Senator Lisa Baker, 20th District, wanted to know if the Department has sufficient funding and workforce to

support seniors who choose to remain in their homes. She also urged the Department to work closely with the veterans' homes to coordinate care of veterans.

DEPARTMENT OF TRANSPORTATION

2:30 p.m.



Senator Stewart Greenleaf (R-12) comments on the need to rethink the way mass transit and regional rail lines are structured to better suit the expansion of suburban areas.

Members of the Senate Appropriations Committee questioned plans for using \$1.026 billion in federal "stimulus" funds and other transportation issues during the afternoon budget hearing with Secretary of Transportation Allen D. Biehler.

Senate Appropriations Committee Chairman Senator Jake Corman, 34th District, asked if there is a sunset date for the proposal to lease the Pennsylvania Turnpike.

Senator Robert Wonderling, 24th District and Chairman of the Senate Transportation Committee, said the General Assembly has worked in a bipartisan and bicameral manner with Secretary Biehler to determine how to maximize the use of the one-time federal "stimulus" funding. Senator

Wonderling added that legislators are working with PennDOT to speed up transportation projects.

Senator Pat Vance, 31st District, asked Secretary Biehler how much input PennDOT has in the Shared Ride program. Senator Vance asked if a proposed 4-percent growth in Motor License Fund revenues is unrealistic considering the current economic climate.

Noting traffic problems on Interstate 78 during Monday's snowstorm, Senator Pat Browne, 16th District, chided PennDOT for a recurring failure to make proactive decisions "to save people from being injured and inconvenienced." Senator Browne said the state's gas tax is not a sustainable source for funding road and bridge projects.

Senator John Rafferty, 44th District, asked if PennDOT is assessing all possible alternatives for efficiently using its funding. Specifically, Senator Rafferty wanted to know if PennDOT was considering any consolidation initiatives.

Senator Mary Jo White, 21st District, asked whether it was worthwhile for Pennsylvania to reapply for tolling Interstate 80 since the original application was rejected by the federal government. Senator White also asked why interest has waned in public-private partnerships for transportation projects. She also stated her solid opposition to mileage-based taxes.

Senator Lisa Baker, 20th District, complimented PennDOT for its work on the Marshall's Creek Bypass project in Monroe County. Senator Baker said 100 bridges in her senatorial district are closed and urged PennDOT to focus on reopening those

spans. She asked if PennDOT has plans to close driver's licensing centers.

Senator Lloyd Smucker, 13th District, asked about PennDOT's plans to spend \$1.026 billion in federal "stimulus" money.

Senator John Gordner, 27th District, asked about the implementation of Real ID in Pennsylvania. Senator Gordner also asked for a response to a letter regarding project labor agreements involving the Pennsylvania Turnpike.

Senate Appropriations Committee Vice Chairman Senator Robert Tomlinson asked if the federal "stimulus" money provided funding for the Interstate 95/Pennsylvania Turnpike Interchange project. He said that project is essential to relieve traffic congestion in the area.

Senator Stewart Greenleaf, 12th District, agreed that traffic congestion is a major issue in Southeastern Pennsylvania. He said that pressure could be relieved by expanding and interconnecting passenger/light rail service in the suburban Philadelphia region.

Senator Mike Waugh, 28th District, noted a 134-percent increase in funding for the Rail Freight Assistance program for Fiscal Year 2009-10 and asked how the money would be used. Senator Waugh urged PennDOT to push public-private partnerships. He asked if any federal "stimulus" funding would be available to address congestion caused by Baltimore and Washington, D.C. commuters.

Senator John Pippy, 37th District, asked if PennDOT is looking at ways to improve efficiency in mass transit as a way to better utilize funding for those services. He also asked if PennDOT is con-

sidering tax breaks for the use of biofuels.

Senator Corman, asking a question on behalf of Senator Mike Brubaker, 36th District, inquired whether PennDOT is open to working with farmers to develop rules and regulations to improve safety on rural roads.

Senator Corman said a ruling regarding prevailing wage is negatively impacting the ability of communities to use liquid fuels funding. He asked if PennDOT is working to address that issue. Senator Corman suggested redirecting money currently allocated to mass transit for licensing of transit vehicles to local communities to pave roads.

**Thursday,
March 5, 2009**

SERS/PSERS

10 a.m.

Appropriations Committee Chairman Senator Jake Corman, 34th District, outlined the recent history that led to the current challenges facing state pensions. In the early part of the decade, the Public School Employees' Retirement System (PSERS) and State Employees' Retirement System (SERS) were fully funded, allowing Act 9 to increase benefits with increases in contribution rates.

The recession that followed the 9/11 attacks brought about Act 40, which deferred some costs until 2012, with the calculated risk that market returns would cover the costs. The approach was working until the recent recession. PSERS and SERS officials agreed with the assessment.

Senator Corman said the pension funds should qualify for a one-time infusion of federal



Senator Jake Corman, chair of the Senate Appropriations Committee, asks members of the SERS/PSERS board about the impact of one-time Federal "Stimulus" monies would have on the looming pension spike.

"stimulus" funds, although the Governor is using it for new spending. He asked the boards to submit to the Senate Appropriations Committee an estimate of how much "stimulus" aid would be needed to have an impact on the projected spike in employer contributions.

Senator Pat Browne, 16th District and Chairman of the Senate Finance Committee, asked SERS and PSERS officials for their latest financial figures. SERS Executive Director Leonard Knepp said SERS started 2008 with \$35 billion in assets and ended the year with \$24 billion. He said the system projects a 28-percent spike in employer pension obligations in 2012 if the system meets returns of 8.5 percent. He said SERS is focusing on conserving assets and maintaining liquidity and will meet its \$2.5 billion in pension obligations this year.

PSERS Executive Director Jeffrey Clay said the system started 2008 with \$67.4 billion in assets and ended the year with \$45.4 billion, a 29.7-percent negative return. It paid out \$4.5 billion in benefits. School districts are fac-

ing a 29-percent spike in contributions in 2012. He said there are limited options, including increasing employer contributions. He said increasing employee contributions would have minimal immediate impact, since that would only apply to new employees. As for increasing investment returns, they would have to reach 35-percent returns over three years to eliminate the liability.

Senator John Rafferty, 44th District, asked PSERS to justify \$800,000 in employee incentives and bonuses approved in August 2007 even as market returns were declining. Executive Director Clay said the board has offered incentive compensation since the mid-1990s to produce growth on returns and attract and retain professionals. He said the payments were terminated in December 2008.

Senator Rafferty said the employees should return the bonuses and noted that with massive layoffs in the financial markets, many professionals would take a job without incentives. He added that many government retirees are demanding a Cost of Living Adjustment. Executive Director Clay said such a spending decision is the role of the Legislature. SERS Chairman Nick Maiale said his system could not afford it.

Incentive compensation was also a concern of Senator Jane Orié, 40th District, who said the public is already upset about Wall Street firms using federal bailout money inappropriately. She said PSERS needs to “get in touch with reality” and stop the bonuses. When asked which law compounded the challenge facing the systems more, Act 9 or Act 40, officials from both systems agreed it was Act 40. Sena-

tor Orié asked about a meeting the Governor set up between SERS and the owners of two Philadelphia newspapers to consider bailing out the struggling outlets. Chairman Maiale said they listened, but did not act on anything. He told Senator Orié that the Governor has occasionally scheduled similar meetings with struggling entities if it was “an economic concern” of the Commonwealth.

Senator Pat Vance, 31st District, asked what the combination of retirees living longer and the state hiring freeze will have on the unfunded liabilities. Executive Director Clay of PSERS said it will make the situation worse as the number of people paying into the system goes down. Senator Vance asked what percentage of investments was in hedge funds. SERS members said they make up 19 percent of total investments, down 18 percent. PSERS Chief Investment Officer Allan Van Nord said the system has 9 percent of its market funds in such “nontraditional” investments.

Senator Lloyd Smucker, 13th District, said school districts are very concerned about the 2012 spike in their contributions to PSERS, which will have a significant impact on education and property taxes. He said the system and the Legislature must work to mitigate the spikes in the short term and prevent a recurrence over the long term. Senator Smucker said the state Treasurer had mentioned several possible ideas, including taking out bonds to offset some of the immediate costs. Executive Director Clay said that would be relatively risky and could affect the Commonwealth’s bond rating.

Appropriations Committee Vice Chairman Senator Robert Tomlinson, 6th District, said he felt sorry for teachers who retired when salaries were much lower than they currently are and asked how the last COLA was funded. Executive Director Clay said the system essentially borrowed \$1.3 billion from itself, with an 8.5-percent interest rate over 10 years. He also told Senator Tomlinson that Pennsylvania is the only state to offer employees the option of a lump-sum payment upon retirement. He said 88 percent of PSERS members take a lump sum and often roll it into another retirement plan.

Senator Mike Brubaker, 36th District, asked the PSERS and SERS representatives if they had financial expertise. Two of the six did not. Three of six indicated they had no investment expertise. Asked for a breakdown of market returns, PSERS officials reported 13.8-percent yields in calendar year 2007, and a negative 29.7-percent yield in 2008. SERS reported returns of 17.2 percent in 2007 and a negative yield of 28.6 percent in 2008.

Senator Brubaker noted that the systems need a 35-percent return over three years to stave off a spike in employer contribution rates, which is not realistic. “We have to take action. The sooner the better,” he said.

When Senator Brubaker asked if the systems had learned any lessons from the economic downturn, PSERS Chief Investment Officer Van Nord said they were reducing their market exposure and increasing their cash position. SERS officials reported they were already working on such changes before the market declined.

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

1 p.m.



Senator Pat Vance (R-31) questions the Administration's decision to cut successful existing tourism and community development programs.

Members of the Senate Appropriations Committee questioned the Administration's cuts in funding for tourism and economic development programs during the afternoon budget hearing with Department of Community and Economic Development Acting Secretary George Cornelius.

Noting a 40-percent cut in funding for tourism programs, Senator Mary Jo White, 21st District, asked if those reductions indicated a change of priorities on the part of the Administration. "It seems shortsighted to me to take our number two industry and cut its funding by 40 percent," Senator White said. She expressed concerns about the Administration's minimal repayments on a \$100 million loan from the Underground Storage Tank Indemnification Fund (USTIF).

Senator John Rafferty, 44th District, noted the elimination of state funding for accredited zoos and other programs and commented that the Administration

expects the Legislature to restore the funding. "We go through this exercise every year," said Senator Rafferty. He asked if DCED checks tax delinquency files before awarding grants.

Senator Pat Vance, 31st District, expressed concerns about reductions in funding for tourism and other worthwhile programs while providing money for new initiatives. Senator Vance asked if DCED considers the cost-per-job under the state's film tax credit program.

Senator Lisa Baker, 20th District, asked for an explanation of the cuts in tourism funding. She said it appeared that the funding was shifted from Pennsylvania's rural areas to urban centers, especially Philadelphia. Senator Baker also asked for an update on the allocation of local share dollars to communities with casinos. Senator Baker wanted an explanation for the cuts in funding to economic development programs with a track history of proven success.

Senator Pat Browne, 16th District, requested an update on the consolidated earned income tax program. Senator Browne asked if the cuts in economic development programs mark a "change in strategy" by DCED. Senator Browne questioned the practice of awarding state money to companies that move within Pennsylvania.

Senator Mike Brubaker, 36th District, questioned a 25-percent cut in a tax credit under the Neighborhood Assistance Program that benefits local food banks. Senator Brubaker noted a practice under which third parties are being used to secure grants, charging a commission, and sending the balance to the ultimate recipient.

Senator Mike Waugh, 28th District, also supported restoration of state funding for tourism programs. Senator Waugh asked what grant programs were available under DCED to upgrade municipal wastewater treatment plants. He also wanted to know if grants under the H2O PA program would be need-based.

Senator Stewart Greenleaf, 12th District, requested an update on the awarding of grants under the H2O PA program. Senator Greenleaf asked if the Department matches applications it receives against the list of all available grant programs.

Appropriations Committee Chairman Senator Jake Corman, 34th District, wanted to know if DCED was involved in the development of Marcellus Shale natural gas extraction in the state. "This is a once in a lifetime opportunity for job growth in Pennsylvania," Senator Corman said. Senator Corman asked whether Pennsylvania would be better off if it eliminated state economic development programs and reduced taxes. Senator Corman said the Appropriations Committee would be looking for an analysis of the programs under DCED.

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