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# FROM HERE

In a budget year that's sure to be fraught with politicking, can the governor and Legislature close a \$3 billion structural deficit — before the fiscal year closes?

**REPORT BY  
SAM JANESCH**  
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# TO THERE



### WHO'S NEWS



Mary Isenhour moves to Gov. Tom Wolf's campaign team in this week's listing of appointments, nominations and staff announcements. **PAGE 5**

### THE INTERVIEW



Rep. Stan Saylor, chairman of the House Appropriations Committee, is setting a new course for budget hearings this year. **PAGE 10**

### POLITICAL HISTORY



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# WOLF'S BIGGEST

**G**ov. Tom Wolf faces an arduous task in not only fixing the state's massive fiscal woes by restructuring and streamlining government in this year's budget, but also in negotiating that plan with several Republican lawmakers considering going for his job at the same time.

Political observers and fiscal experts on both sides of the aisle say alleviating the roughly \$3 billion structural deficit without new tax revenues or significant program cuts is likely impossible.

And in a politically charged year before the 2018 gubernatorial race, the governor's re-election bid will only increase the chances this year's budget ends up dragging out somewhere between the hastened agreement in 2016's important election year and the modern-day-historic stalemate the year before.

"It's going to be front and center," Millersville University professor of government and political affairs Charles Greenawalt said of the gubernatorial race. "I think that election will touch everything that goes on in the next two years."

And while J.J. Abbott, the governor's spokesman, told The Caucus the spending plan will "balance the budget in a responsible way without making broad cuts to programs like education," at least one review has found that restructuring state government elsewhere has come up with little savings in the end.

## GUBERNATORIAL RACE

**T**wo years after the Democrat from York became governor, the primaries for his re-election are barely more than a year away.

He does not have any Democratic challengers so far — but Republican Sen. Scott Wagner, R-York County, is a declared candidate, and Senate Majority Leader Jake Corman, R-Centre County, is considering it. At least two top GOP House leaders have hinted at the possibility of running.

The political dynamic in this year's budget debate will be strong and inescapable.

"The numbers are just as bad as the budget two years ago," President Pro Tempore Joseph Scarnati, R-Jefferson County, told The Caucus in a January interview. "You add into that the political dynamic of people running for re-election, running for governor. I think it could set up a difficult budget process."

Chris Borick, a professor of political science at Muhlenberg College, said the dynamic of the gubernatorial race will present its own strategic concerns for both the governor and the Republican legislative leaders considering running for the office.

Republicans won't want to give Wolf any victories by letting his agenda pass, but they won't want to be seen in the eyes of the public as the roadblocks to

progress, either.

What that sets up, Borick and others agree, is another budget agreement potentially long after the June 30 deadline.

"There's a lot of us preparing for a budget impasse," said Anne Gingerich, executive director of the Pennsylvania Association of Nonprofit Organizations.

Gingerich said most if not all of the 3,200 nonprofits that receive government contracts and grants in the state were negatively impacted by the 2015-16 stalemate that left many without funds for nine months.

A survey of 176 nonprofits conducted in part by PANO last spring found that 135 organizations had borrowed at combined \$171.9 million to continue operations. And 45 organizations needed to pay back a collective \$532,000 in interest.

As a result, 18 percent reported receiving a negative credit rating — something that will only be exacerbated in the case of another prolonged stalemate.

Gingerich said this time, PANO is communicating more at this stage with other affected groups that rely on state funds, from the United Way of Pennsylvania to the County Commissioners Association of Pennsylvania.

"If all of us can agree that we're going to go together to our lawmakers and request a timely budget, that's something we can agree on," she said.

## CONSOLIDATION CHALLENGE

**W**olf has vowed to work with leaders on a 2017-18 budget that "will challenge the status quo" after two years of sales- and income-tax proposals that caused uproars in the conservative corners of the Capitol.

Potentially anchoring that status-quo-altering work will be his plan to combine the departments of Human Services, Health, Aging and Drug and Alcohol Programs into one Department of Health and Human Services.

The move is intended to streamline and improve services, the administration said, while also saving money by "breaking down silos" and putting all the state's resources for similar and overlapping health programs in one place.

Sarah Galbally, Wolf's policy and planning secretary, released scant details on where exactly the cost-cutting measures will come from before the governor's budget address. But by previously announcing thousands of unfilled state jobs will be eliminated,

## House Appropriations chair: I'll use subpoenas in hearings

REP. STAN SAYLOR, THE NEW CHAIRMAN of the House Appropriations Committee, said he will, if necessary, use subpoenas for information from Gov. Tom Wolf's administration during budget hearings that begin later this month. (See the Q&A with Saylor on page 10.)

Cabinet officials will be told ahead of time to bring as many people and documents to hearings as needed, so they don't say they will provide answers — after the hearing — as has frequently happened over the years under governors of both parties, Saylor told The Caucus.

Historically, that has sometimes meant waiting weeks, he said.

"If we don't get cooperation, I will issue subpoenas," said Saylor, R-York County.

"This isn't about Tom Wolf being a Democrat," said Saylor, elected in 1992 and formerly House majority whip. "My hope is the governor cares about transparency as much as the General Assembly cares about transparency."

At issue is the budget proposal Wolf delivered to a joint session of the General Assembly on Tuesday. J.J. Abbott, Wolf's press secretary, said the governor's Cabinet and staff "will continue to provide the General Assembly with information in the transparent, forthright and expeditious way that we have for the last two years. We hope for this to be a serious, collaborative process."

## SUBPOENA USE RARE

The appropriations committee has had subpoena power, but the use of subpoenas is "very rare," said Stephen Miskin, spokesman for House Republicans.

"I don't remember subpoenas on routine budget matters" in recent history, said G. Terry Madonna, director of the Center for Politics and Public Affairs at Franklin & Marshall College. "It could set the stage for a very contentious budget process."

Saylor said he was unaware of the last time the committee issued a subpoena.

## 'WE EXPECT ANSWERS'

Saylor's approach to hearings is not just about subpoenas and demands for information. It's about a new strategy to give members more information and more time to ask follow-up questions, he said.

He is paring down time spent on some agencies to focus on those the

public is most affected by, such as Health and Human Services and the Department of Education.

"We expect answers before the hearing is over," Saylor said.

If the matter is complicated, Saylor said, Cabinet secretaries still have the resources to get quick answers with an entire agency at their disposal.

Saylor said he believes most disputes over availability of certain information could be resolved at most within 24 hours. But he wants all information supplied by an agency official in person — not on a document delivered later.

"These hearings are televised (by Pennsylvania Cable Network)," Saylor said. "Taxpayers deserve to hear the answers publicly, not in a document delivered three weeks or six weeks later."

Asked if an administration appeal of a subpoena to Commonwealth Court could delay or block receipt of information for weeks anyway, Saylor said, "It may." But he reiterated the issue is transparency.

"Legislators have been frustrated by secretaries under various governors not having the answers," said Miskin. "They get very frustrated when they get stalled."

Asked if Saylor would potentially use subpoenas primarily for documents, as opposed to attempting to compel testimony of certain officials if necessary, Miskin said Saylor is after "the information."

"Our intention is to do public answers, period," Saylor said when asked if officials will be brought back to deliver the answers.

"I think all governors, Democrat and Republican, have not given the General Assembly the respect it deserves," Saylor said.

Senate Republican leadership officials could not be reached to determine if a similar approach is planned, though some senators have talked about the need for members to have more time for thorough questioning.

Rep. Joe Markosek, of Allegheny County and ranking Democrat on Appropriations, said members of both parties on the panel "deserve timely information."

But he said he believes administration officials "will be very forthcoming" because of the severity of the budget deficit.

Saylor projects the deficit to be as high as \$1 billion. —Brad Bumsted + Paula Knudsen





# BATTLE YET

the administration contended layoffs will be minimal in the merging of the departments.

“The devil’s always in the details,” said Tom Herman, president of SEIU Local 668. About half of its nearly 20,000 members work for the state in the health and human service departments.

Herman said his union has proposed similar consolidations in the past. He said Wolf’s merger could be beneficial in removing firewalls currently preventing the sharing of data between the departments -- a move Herman suspects will save millions.

Other cost savings could come by reducing managerial positions and shifting those people into other places, he said.

A challenge going forward will be where to cut costs as each agency fights to maintain funding for its programs, said Greenawalt, the Millersville professor who was the Senate director of

policy and research from 1985 to 1992.

“Every agency tries to protect its own turf ... Every organization tries to save itself,” Greenawalt said.

Nathan Benefield, vice president of the Commonwealth Foundation, said Wolf’s proposal is in principle a good idea and something the conservative-leaning organization would support. But it may be difficult for the consolidation to contribute heavily to the amount of cost-savings the state needs, he said.

The foundation hasn’t done a cost-savings analysis on the merger of those departments, though Benefield said he expects it “will be in the millions, not in the billions.”

“I’m not sure it alone is going to be enough to kind of bridge the projections” of the deficit, Benefield said. “Even with consolidations a lot of the program spending will stay the same as it was.”

Marc Stier, director of the left-leaning Pennsylvania Budget and Policy

Center, said something similar.

“I’m as curious as everyone else is to see how many dollars the governor can wring out of this consolidation without reducing services,” Stier said. “It’s hard for me to believe it gets us close to solving the structural deficit.”

The plan represents a significant change of strategy for the governor, who announced weeks before his address that he would not seek any sales or income tax increases as he did in the last two years.

Borick, of Muhlenberg College, said Wolf went for a “grand bargain” in his first budget address, a major reform of fiscal policy that led to a historic delay in the budget process.

“Last year (in his second budget) it was what I could best describe as a cycle of duct tape and wire to hold it together during a presidential-election cycle where there was no grandiose vision of budget reform,” Borick said.

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“The numbers are just as bad as the budget two years ago. You add into that the political dynamic of people running for re-election, running for governor. I think it could set up a difficult budget process.”

SEN. JOSEPH SCARNATI,  
PRESIDENT PRO TEMPORE,  
R-JEFFERSON COUNTY

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# SEASON OF CONTENDERS

## Four gubernatorial hopefuls in the Legislature could make tough bargaining

The state budget process will be complicated this year by the political aspirations of a handful of lawmakers, not to mention Gov. Tom Wolf himself. The governor has already said he's seeking re-election in 2018, and has moved some of his key advisers over to his campaign. His budget address certainly can be seen as the opening of next year's gubernatorial race. At least four Republican members of the Legislature are either running or considering a run. Most of the attention has focused on Sen. Scott Wagner, a self-made millionaire and businessman who is already running and has loaned his campaign \$4 million. Three others are considering a run, including House Speaker Mike Turzai and House Majority Leader Dave Reed, and Senate Majority Leader Jake Corman.



**SCOTT WAGNER**  
YORK COUNTY



**MIKE TURZAI**  
ALLEGHENY COUNTY



**JAKE CORMAN**  
CENTRE COUNTY



**DAVE REED**  
INDIANA COUNTY

CONTINUED FROM PAGE 7

Borick said he's skeptical that the budget woes can be solved on the expenditure side in year three of the Wolf administration.

And remaking government into a more efficient machine isn't easy, he said. It's a continually introduced idea — a major reorganization of state government — but one Borick can't remember anyone ever actually carrying out.

But the administration's challenge will not be to just convince the experts and public outside the Capitol that their restructuring will save enough money to be worth it. There's considerable doubt in the Legislature.

"If I put five newspapers together and I don't reduce anything (staff/expenses), you don't save money," said House Appropriations Chairman Stan Saylor, R-York County.

### HOW WE GOT HERE

Matthew Knittel, director of the Independent Fiscal Office, said his office is projecting a roughly \$3 billion structural deficit between this fiscal year and the next one.

The fiscal picture doesn't look good now, but it also wasn't rosy when this year's budget was passed.

The IFO projected a \$266 million shortfall when the budget was passed in July — in part because the Legislature failed to pass a bill authorizing Internet gaming (expected to bring in \$100 million in this year's budget) and in part because of a more pessimistic outlook on the impact of liquor code changes, Knittel said.

But to understand the deficit as it stands today, it is helpful to look back on the 2008-09 recession.

According to the state's fiscal office, the Great Recession left the state with 7.3 percent less in tax revenue for the fiscal year 2008-09. That was far greater than previous recessions — 1.6 percent less tax revenue in 1991-92 and 2.6 percent less in 2000-01. Meanwhile, the economic recovery was "mild and inconsistent" compared to the stronger recoveries earlier.

And while the state found itself with a \$1.1 billion surplus by the end of 2010-11 — fueled by \$7 billion in federal stimulus along with state reserves, revenue increases and cost-savings measures — the outlook after that was bleak.

Federal stimulus funds stopped for the fiscal year 2011-12, and the state was left with significant pension, Medical Assistance and debt obligations, according to IFO.

As Govs. Corbett and Wolf railed against one-time revenue streams when they entered office, new sources of recurring revenue were few.

"The reliance on fund balances and nonrecurring measures has allowed

policymakers to defer solutions to the long-term structural imbalance," an IFO report from 2014 states.

One form of recurring revenue Wolf has promised to propose, again, in his budget is a severance tax on natural gas drillers. A recent IFO report revealed the current impact fee in place for drillers brought in \$174.6 million for the state in 2016 -- about \$13 million less than the year before.

Jenn Kocher, a spokeswoman for the Senate Republicans, said the GOP caucus' lack of an appetite for a severance tax has not changed. Republicans claim taxing gas as prices have fallen in the last two years would cannibalize the drilling industry in the state.

"That seems like it's going to be dead on arrival," Benefield, of the Commonwealth Foundation, said of a natural-gas severance tax proposal.

### THE CONSOLIDATION PLAN

Saving money by consolidating state agencies has proven difficult, according to the National Conference of State Legislatures.

Post-recession, between 2009 and 2011, 19 states eliminated or consolidated agencies and in general they did not result in substantial savings for the state budgets, according to a report by the NCSL.

Since then, others have seemed to take on the task mostly in the name of streamlining services for citizens — just as Wolf's administration advertised.

In Texas, five of the state's health and human service agencies combined into one last year.

In Mississippi, a proposal to consolidate three of the state health departments was introduced last week.

In Oklahoma, three tourism-related departments were considered for consolidation into one in 2014, but officials opted instead to share employees and services without passing the merger as a statute, according to reports.

Pennsylvania's own history has been one mostly of expanding bureaucracy, many interviewed by The Caucus said for this story.

At least one current agency, the Department of Community and Economic Development, was formed by combining two different ones. Act 58 of 1996 formed DCED by joining the Department of Commerce and the Department of Community Affairs.

The act includes similar language as that which the Wolf administration has already expressed for its own merger: The purpose was to begin "providing for the more efficient delivery of local services" and set up a "one-stop" agency to carry out similar tasks.

Wolf has also proposed merging the departments of Corrections and Probation and Parole, which he said last year would save at least \$10 million.





## Why state police tap motor the license fund

THE PENNSYLVANIA CONSTITUTION explicitly states all gasoline taxes and motor license fees collected will be “used solely for construction, reconstruction, maintenance and repair of and safety on public highways and bridges and costs and expenses incident thereto.”

So, as the Pennsylvania State Police budget continues to draw from these fees year after year to make up its \$1 billion budget, many have said state government is breaking its own rule.

“It’s like one of the dirty little secrets of the budget for years and years and years,” said Robert Latham, who has testified on the issue in his role as executive vice president of Associated Pennsylvania Constructors.

About 24 percent of the Pennsylvania State Police budget comes from the state’s General Fund. The rest comes from the Motor License Fund, which has used gas tax increases in three of the last four years, under Act 89 of 2013, to repair Pennsylvania’s roads and bridges.

Latham said it was of some comfort that language was inserted in the fiscal code last year to cap the amount of the

Motor License Fund going to the state police at \$802 million for this current fiscal year and the next one.

Starting in 2018-19 the code calls for weaning the State Police off the money and ultimately make the general fund responsible for a majority of the police bill for the first time in 2021-22, according to projections from the Democratic House Appropriations Committee.

A decade from now, the Motor License Fund would still constitute \$500 million of the police bill, while the general fund portion would be \$1.3 billion, according to projections.

But that still leaves legislators without a plan on where that extra general fund money will come from — especially as the state police budget is expected to grow steadily.

“We’d like to see something done more quickly,” said Latham, noting that part of the challenge will just be to hold members to that plan instead of changing the code once again.

Continuing to pit PennDOT against the State Police “doesn’t make any sense,” Latham said.

### COST-SAVINGS WELL-RECEIVED

**W**olf, a former businessman-turned-politician, announced several other cost-savings initiatives on his way to balancing his budget, some of which he previewed publicly in the weeks leading up to today.

Closing the State Correctional Institute Pittsburgh by the end of June will save \$81 million, the administration said. Moving three investment funds — the State Workers’ Insurance Fund, Workers’ Compensation Security Fund and Underground Storage Tank Indemnification Fund — to be managed in-house will save \$5.6 million.

It is not clear how much would be saved through the consolidation of Information Technology and Human Resources services, and the elimination of thousands of unfilled state jobs. A stay on all new and renewed leases unless authorized by the Department of General Services was also announced.

Kocher, the Senate Republicans

spokeswoman, said the steps the governor has announced already to streamline government and cut costs have been positive.

As far as the Republican Senate caucus is concerned, Kocher said, “These are things that we have said (before). We don’t ever want to turn to taxpayers first. In previous years that was the governor’s first stop.”

What does this mean for the minimal five months of budget negotiations that at times turned into a nasty war-of-words in those previous years?

For now at least, it “goes a long way in easing things — at least that’s the hope,” Kocher said.

As for Senate Republicans’ thoughts on the consolidations, Kocher would only say the caucus is looking forward to the details and wants to ensure the process is transparent and not rushed.

Minority Leader Sen. Jay Costa said the Democratic caucus’ priority will be to ensure services from any department are delivered in an “efficient and appropriate manner.”

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