

# Senate Policy Committee Hearing

Lebanon Valley College

May 31, 2007

(Senator Corman, Chairman - Senators Browne, Brubaker, Eichelberger, Folmer, Gordner, Ori, Pippy, Regola, Tomlinson, Vance)

Good morning, Senator Corman and members of the Senate Policy Committee. My name is Ken Schaefer.

I am a retired business-owner/CEO and once-upon-a-time CPA with Price Waterhouse & Co. from St. Louis, MO, currently residing in Lebanon County. I am also the Chairman of a very small PAC named Vote For Integrity.

I wish to express my appreciation for the opportunity to testify to the people of PA through some of their elected representatives.

My testimony this afternoon is directed at an unusual opportunity that the Senate of this Commonwealth has in connection with the Governor's proposed Budget for 2007-08. This is a positive opportunity, which should enable the Senate to offer the taxpayers of Pennsylvania *real savings* resulting from *common sense* spending reforms, while at the same time producing results for the people on some of the better features of the Governor's proposed Budget.

Others have convincingly testified this morning regarding the significant increases in spending that have occurred during the past four years. Such increases have produced little in the way of tangible benefits for the average citizens of our State.

As a result of such aggressive program growth, the State is now approaching the \$60 billion level of spending from all sources - - - \$27.3 billion in proposed General Fund spending alone. As the Policy Committee is aware, to support this increased spending, the Governor is proposing to increase or impose additional taxes in *seven principal areas*.

This is not a new modus operandi for the Governor; it is the only way of governing he has ever known. *Tax and spend is the mantra of this high-cost, metropolitan-area politician who has fed at the public trough for most of his adult life*. But this time he has gone too far.

Commencing with the overwhelming rejection of the misguided Act 1 referendum, which the Governor previously touted as part of his unprecedented property tax relief, the taxpayers .....and hopefully the press..... have now seen that the *Emperor has no clothes*. Also, if the Committee will forgive the mixed metaphor, the taxpayers seem to be telling the Governor that *his slip is showing* regarding his proposals to increase the State sales tax a full percentage point, leasing the

PA Turnpike, *one of the state's crown jewels*, and imposing new taxes on oil and gas production and employers of all sizes throughout the state.

As others have persuasively testified this morning, these tax increases are not only *not necessary* to produce the desired results, they would be *counterproductive*. The last thing Pennsylvanians need is additional taxes, when so big a chunk of current tax revenues is spent relatively unproductively.

My first recommendation to the Senate Policy Committee is that the State formally adopt zero-based budgeting techniques focused on *real-world* results or *outcomes desired to be achieved*. These are proven techniques and made to order for analyzing the continued *justification and efficacy* of governmental programs which have been layered upon layer over the years and infested and protected by patronage managers and employees and their powerful political sponsors.

Undoubtedly, it is now too late to try and use this process for the 2007-08 Budget; however, the Senate could introduce legislation to require all administrations to utilize this process, with the General Assembly's full participation, commencing with the 2008-09 Budget. Meaningful Budget Hearings (not "Dog and Pony" Shows) would have to begin early in the year to enable the intensive, meaningful examinations of current spending and proposals for future funding of necessary functions and programs.

My second recommendation to the Policy Committee is to faithfully endorse and defend Senator Scarnati's commitment to only pass a budget for 2007-08 that does not include any new or increased levels of taxation and holds any increase in aggregate spending to a de minimus amount (less than the actual rate of inflation). Such an endorsement and commitment by the Senate Policy Committee and ultimately a majority of the Senate, will require abandoning the previous "Business As Usual" approach involving Rendell Inc. buying votes for his programs (remember Act 71) and then cutting the final deal with the leadership of the House and Senate.

I believe that the Senate has the unusual opportunity to provide the voters with the best of both worlds: genuine spending reforms combined with making significant headway towards achieving the best features of the Governor's proposed programs.

As my principal example, I will use the Governor's proposal to spend significant amounts of money to upgrade the State's infrastructure, including mass transit in Philadelphia and Pittsburgh. There appears to be significant justification for the additional spending, as the Governor's Commission reported last year.

Accordingly, I recommend that the State's retail liquor operations be sold to private interests utilizing a competitive bidding process and that the net proceeds from such sale, *estimated by the Commonwealth Foundation to be approximately \$1.7 billion*, together with the net savings realized from *initial* cost reduction measures, be dedicated to necessary infrastructure programs. Since the Senate Policy Committee has already held a hearing on the possibility of selling the State's retail liquor operations, I will not dwell on this obvious and common

sense way to raise a significant amount of cash. Examples of several cost reduction measures are as follows:

- (1) Reduce and/or eliminate as many “professional service fee-type payments” (for example: consultants, attorneys, including bond counsels, lobbyists, political or public relations advisors, brokers, investment advisors, advertising advisors, program developers, etc., etc.) as possible and eliminate the continuation of all such services being provided under no-bid arrangements (It is estimated that *if all nonessential soft costs* are eliminated or significantly reduced, that the annual savings would approach \$100 million, based on \$60 billion of total annual spending [1/6th of 1% of \$60 billion])
- (2) Repeal The Prevailing Wage Act of 1961 which in effect requires the highest cost labor to be utilized on state-funded projects ( this measure alone could conceivable save the state some *\$340 million dollars annually [20%]* on \$1.7 billion of annual infrastructure spending);
- (3) Require the Governor to eliminate and clean-up all patronage positions and related patronage-type costs in SEPTA and the Pittsburgh transit authority before these agencies are eligible for any *additional* state funding. I am aware that some here may have been told that SEPTA is as clean as a whistle. The burden of proof for that representation should be on the claimant. Many legislators know where these patronage bodies and costs are buried and *you can provide great service to the taxpayers and to the citizens that rely on necessary mass transit services by helping to eliminate such waste and freeing the funds for productive endeavors.*
- (4) Eliminate or significantly reduce the amount of funds currently budgeted for the administrative function of the State System Of Higher Education. This *administrative overhead function*, headed by Chancellor Hample, one of the highest paid State employees, is believed to be budgeted to spend approximately \$10 million in 2007-08. These administrative staff personnel do not teach a single child, produce a single textbook or provide a single classroom for our State’s higher education needs. Any essential functions currently being performed by this group could possibly be performed either by the State General Services Department, Department of Education personnel, or pushed down to the State College level where the services are actually required. Reducing up to \$10 million, may seem like chump change out of a \$60 billion Budget, but to paraphrase a much quoted admonishment by the distinguished former Senator Everett Dirksen of Illinois .....”a million here, a million there and before you know it, you’re talking about real money”
- (5) Critically evaluate, using a desired productivity standard, the *common sense* need for the currently approximately 84,000 State employees subject to Executive Department control and their compensation and benefit programs with a *commitment* to bringing any excessive levels of employment and related excessive compensation and benefits in line with comparable private sector levels of productivity and cost. The Governor recently bragged about

reducing the number of Executive Department employees by 2,811 over four years without reducing services. Putting this rather miniscule accomplishment in context, he averaged a reduction of approximately 700 employees per year, or approximately .8% per year of the approximately 84,000 workforce. Meaningful reductions would start at the 10% level (which could lead to annual savings in compensation and benefits in the range of \$400 million or more) and grow from there. Few restructurings by large corporations have been completed without increasing productivity by at least 10%. And this is a continuous process. Such an undertaking can only be done over time and will not reach its full potential until zero-based budgeting can be completely and *effectively implemented*.

If effectively carried-out, without regard to political favoritism and with the best interests of the taxpayers in mind, the illustrative cost reduction measures should enable the state to eliminate, on a going forward basis, at least \$500 million of the projected actual General Fund spending for the current fiscal year, plus realize net cash proceeds from the sale of the state's liquor operations of an estimated \$1.7 billion. These funds, to be realized in the first year of a multi-year spending reform effort, can be applied to necessary and presumably politically popular spending for the State's infrastructure.

The foregoing will undoubtedly be politically difficult, but what is the Governor going to say? His own Commission *independently* concluded that substantial additional funds are required to maintain and improve the State's vital infrastructure.

Will he say he would rather raise taxes, or forego the necessary infrastructure projects, than repeal the Prevailing Wage Act because he wants to continue to pay unnecessarily high contract prices to bridge and highway contractors?

Will he say he would rather raise taxes, or forego the necessary infrastructure projects, than eliminate or reduce excessive or unnecessary fees paid to politically connected lawyers and consultants, etc?

Will he say he would rather raise taxes, or forego the necessary infrastructure projects, than cleaning up the patronage-ridden and inefficient mass transit authorities and streamlining SSHE administrative overhead?

Will he say he would rather keep the state in the retail liquor business and raise taxes, or forego the necessary infrastructure projects, than realize perhaps \$1.7 billion for sorely needed infrastructure projects?

The Governor will not like these proposals, but the voting taxpayers would love them. Common sense leverage is with the voters if the Senate and the press will present these alternatives to the people and the press will give the Senate advocates for such change as much of a "bully pulpit" as they traditionally give the Governor.

The foregoing is not pie in the sky. The following Exhibit for the Committee's evaluation is one very small actual example; a summary of approximately \$12.4 million of proposed "soft cost" spending taken from the "Governor's Budget In

Brief” booklet for 2007-08 under the Long Term Living classification (Page 22). If \$12.4 million of such highly questionable soft costs are inadvertently touted by the administration in just one small area (assisted living) of a \$60 billion budget, what will a thorough evaluation and justification program for the entire Budget reveal?

In closing, let me suggest to the Policy Committee that the General Assembly is, in many ways, a prisoner of several vast entrenched bureaucracies, which swim in a \$60-billion whirlpool of taxpayers money, supported by an over \$100 million per year lobbying industry and its principal enablers, all working to make sure that legislators elected to serve the best interests of the voters, actually serve the narrow special interests of those able to accumulate the most power to the detriment of the common good. To break out of this vortex of power and influence will require political courage, determination and the perseverance to prevail against the well-established institutional forces that have largely created the situation we collectively face today.

This completes my testimony, I would be happy to try and answer any questions members of the Committee may have.

Thank you.

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## Exhibit

The following “soft costs” are reported as budgeted under the Long Term Living classification on Page 22 of the Governor’s 2007-08 “Budget In Brief” booklet:

**\$1.5 million** to implement a comprehensive public "education and information campaign";

**\$4.7 million** to strategically encourage the appropriate distribution of nursing home beds while developing alternative service delivery options to meet the diverse long-term living needs of PA's citizens;

**\$1.5 million** to create a network of agencies in another Link site;

**\$433,000** to establish a centralized quality management structure;

**\$1 million** to implement an automated tool that simplifies the process for assessing and planning to meet the consumer's needs and speeds the connection to appropriate services;

**\$325,000** to improve data analytic capacity to allow more efficient program analysis and performance tracking;

**\$3 million** for education to help all employees working in the system perform efficiently.

The forgoing approximately **\$12.4 million** of budgeted spending is described in *mind-numbing bureaucrateas* as spending that does not appear to provide one more employee helping those in need, or one more physical facility to serve those in need. This is an extremely minor example. The Budget as a whole is replete with examples such as the foregoing, the aggregate cost of which is probably in the hundreds of millions of dollars.

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